

CHARTER COMMUNICATIONS INC /MO/

Form S-1/A

February 01, 2005

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As filed with the Securities and Exchange Commission on February 1, 2005

Registration No. 333-121136

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Charter Communications, Inc.

(Exact name of registrant as specified in its Charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

4841
*(Primary Standard Industrial
Classification Code Number)*

43-1857213
*(I.R.S. Employer
Identification Number)*

**12405 POWERSCOURT DRIVE
ST. LOUIS, MISSOURI 63131
(314) 965-0555**

*(Address, including zip code, and telephone number, including area code,
of registrant principal executive offices)*

Curtis S. Shaw, Esq.

Executive Vice President, General Counsel and Secretary

**12405 Powerscourt Drive
St. Louis, Missouri 63131
(314) 965-0555**

*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 1, 2005

PROSPECTUS

150,000,000 Shares

Charter Communications, Inc.

Class A Common Stock

\$ _____ per share

The shares of our Class A common stock offered hereby are shares that we will loan to Citigroup Global Markets Limited, as borrower, through Citigroup Global Markets Inc., as agent, pursuant to a share lending agreement.

Our Class A common stock is quoted on the Nasdaq National Market under the symbol CHTR. The last reported sale price of our Class A common stock on the Nasdaq National Market on January 28, 2005 was \$1.65 per share.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$	\$

Under the share lending agreement, we will receive a loan fee of \$.001 for each share that we lend. We have been advised by Citigroup Global Markets Limited that it, or its affiliates, intend(s) to use the proceeds from the sales of the shares of our Class A common stock offered pursuant to this prospectus to facilitate transactions by which investors in our 5.875% convertible senior notes due 2009 issued on November 22, 2004 will hedge their investments in the 5.875% convertible notes. See Share Lending Agreement and Underwriting on pages 179 and 181, respectively, of this prospectus. We will not receive any of the proceeds from the sale of the shares of Class A common stock in this offering.

The underwriter expects to deliver the shares to purchasers on or about _____, 2005.

Citigroup

, 2005

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, regarding, among other things, our plans, strategies and prospects, both business and financial. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Many of the forward-looking statements contained in this prospectus may be identified by the use of forward-looking words such as believe, expect, anticipate, should, planned, will, may, intend, estimate and potential, among others. Important factors that results to differ materially from the forward-looking statements we make in this prospectus are set forth in this prospectus and in other reports or documents that we file from time to time with the Securities and Exchange Commission, or SEC, and include, but are not limited to:

our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed data, telephony and other services and to maintain a stable customer base, particularly in the face of increasingly aggressive competition from other service providers;

the availability of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash flows from operating activities, further borrowings or other sources;

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our ability to comply with all covenants in our indentures and credit facilities, any violation of which would result in a violation of the applicable facility or indenture and could trigger a default of other obligations under cross-default provisions;

our ability to repay or refinance debt as it becomes due;

any adverse consequences arising out of our restatement of our 2000, 2001 and 2002 financial statements;

the results of the pending grand jury investigation by the United States Attorney's Office for the Eastern District of Missouri, and our ability to reach a final approved settlement with respect to the putative class action, the unconsolidated state action, and derivative shareholders litigation against us on the terms of the memoranda of understanding described herein;

our ability to obtain programming at reasonable prices or to pass programming cost increases on to our customers;

general business conditions, economic uncertainty or slowdown; and

the effects of governmental regulation, including but not limited to local franchise taxing authorities, on our business.

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by this cautionary statement.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 to register the sale of the securities covered by this prospectus. This prospectus, which forms part of that registration statement, does not contain all the information included in the registration statement. For further information about us and the securities described in this prospectus, you should refer to the registration statement and its exhibits.

Our Class A common stock is quoted on the Nasdaq National Market under the symbol CHTR. We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy at prescribed rates any document we file at the SEC's public reference room at Room 1200, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC's website at www.sec.gov.

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SUMMARY

This summary contains a general discussion of our business, and summary financial information. It does not contain all the information that you should consider before making an investment decision regarding our Class A common stock. For a more complete understanding of an investment in our Class A common stock, you should read this entire prospectus. Unless otherwise noted, all business data in this summary is as of September 30, 2004.

Unless otherwise stated, the discussion in this prospectus of our business and operations includes the business and operations of Charter Communications, Inc. and its subsidiaries. Unless the context otherwise requires, the terms we, us and our refer to Charter Communications, Inc. and its direct and indirect subsidiaries on a consolidated basis. The term Charter refers to the issuer, Charter Communications, Inc.

Our Business

We are a broadband communications company operating in the United States, with approximately 6.3 million customers at September 30, 2004. Through our broadband network of coaxial and fiber optic cable, we offer our customers traditional cable video programming (analog and digital, which we refer to as video service), high-speed cable Internet access (which we refer to as high-speed data service), advanced broadband cable services (such as video on demand (VOD), high definition television service, and interactive television) and, in some of our markets, we offer telephone service (which we refer to as telephony). See Business Products and Services for further description of these terms, including customers.

At September 30, 2004, we served approximately 6.1 million analog video customers, of which approximately 2.7 million were also digital video customers. We also served approximately 1.8 million high-speed data customers (including approximately 205,000 who received only high-speed data services). We also provided telephony service to approximately 40,000 customers as of that date.

Our principal executive offices are located at Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131. Our telephone number is (314) 965-0555 and we have a website accessible at www.charter.com. The information posted or linked on our website is not part of this prospectus and you should rely solely on the information contained in this prospectus and the related documents to which we refer herein when deciding to make an investment in our Class A common stock.

Strategy

Our principal financial goal is to maximize our return on invested capital. To do so, we will focus on increasing revenues, growing our customer base, improving customer retention and enhancing customer satisfaction by providing reliable, high-quality service offerings, superior customer service and attractive bundled offerings.

Specifically, in the near term, we are focusing on:

generating significant improvements in the overall customer experience in such critical areas as service delivery, customer care, and new product offerings;

developing more sophisticated customer management capabilities through investment in our customer care and marketing infrastructure, improved segment-level marketing, and rigorous test and learn processes;

executing smart growth strategies for new services, including digital simulcast, VOD, telephony, and digital video recorder service (DVR);

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managing our operating costs by exercising discipline in capital and operational spending; and

identifying opportunities to continue to improve our balance sheet and liquidity.

We believe that our high-speed data service will continue to provide a substantial portion of our revenue growth in the near future. We also plan to continue to expand our marketing of high-speed data service to the business community, which we believe has shown an increasing interest in high-speed data service and private network services.

We believe we offer our customers an excellent choice of services through a variety of bundled packages, particularly with respect to our digital video and high-speed data services. Our digital platform enables us to offer a significant number and variety of channels, and we offer customers the opportunity to choose among groups of channel offerings, including premium channels, and to combine selected programming with other services such as high-speed data, high definition television (in selected markets) and VOD (in selected markets).

We have reduced the number of our customer contact centers from over 300 at December 31, 2000, to 36 at September 30, 2004. Our 14 largest customer contact centers now serve approximately 95% of our customers. We anticipate that this initiative will improve overall customer satisfaction while reducing costs. We believe that consolidation and standardization of call centers enable us to provide a more consistent experience for our customers and to improve sales through the use of better trained, more efficient and sales-oriented customer service representatives.

We continue to pursue opportunities to improve our balance sheet and liquidity. Our efforts in this regard have resulted in the completion of a number of transactions since September 2003, as follows:

the issuance and sale by our subsidiaries CCO Holdings, LLC and CCO Holdings Capital Corp. of \$550 million of senior floating rate notes in December 2004;

the November 2004 sale of the \$862.5 million of 5.875% convertible senior notes due 2009;

the sale of non-core cable systems for \$824 million, the proceeds of which we used to reduce our indebtedness;

the 2003 issuance by our subsidiaries, CCH II and Charter Holdings, of approximately \$1.6 billion of senior notes, which they exchanged in private transactions for approximately \$1.9 billion of outstanding indebtedness of Charter and Charter Holdings, resulting in a \$294 million reduction of our consolidated debt outstanding; and

the sale in April 2004 of \$1.5 billion of senior second lien notes by our subsidiary, Charter Communications Operating, LLC (Charter Operating), together with the concurrent refinancing of its credit facilities.

Going forward, we plan to continue to identify and pursue opportunities to improve our liquidity and reduce indebtedness in order to enhance the long-term strength of our balance sheet and our business.

Recent Events

Appointment of Robert P. May as Interim President and Chief Executive Officer

Effective on January 17, 2005, Carl E. Vogel resigned his position as President, Chief Executive Officer and a member of the Board of Directors of Charter and each of Charter's subsidiaries for which Mr. Vogel served as a director and officer. Robert P. May has been appointed as Interim President and Chief Executive Officer of Charter. Additionally, Mr. May was appointed to the Executive Committee of Charter's Board of Directors and will continue to serve on the Board's Strategic Planning Committee. He has also been appointed as an officer and director of Charter's subsidiaries for which Mr. Vogel was a director and officer.

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Charter’s Board of Directors has formed an Executive Search Committee to oversee Charter’s nationwide search for a permanent President and Chief Executive Officer.

Sale of CCO Holdings, LLC Senior Floating Rate Notes

On December 15, 2004, our subsidiaries, CCO Holdings, LLC and CCO Holdings Capital Corp., issued and sold \$550 million senior floating rate notes due 2010 in a private transaction to qualified institutional buyers in reliance on Rule 144A and outside the United States to non-U.S. persons in reliance on Regulation S. The notes have an annual interest rate of LIBOR plus 4.125%, reset and payable quarterly. The net proceeds from the sale of the notes will be used to pay down bank debt and for general corporate purposes.

Sale of 5.875% Convertible Senior Notes

On November 22, 2004, we issued \$862.5 million original principal amount of 5.875% Convertible Senior Notes due 2009, which are convertible into shares of our Class A common stock, par value \$.001 per share, at a rate of 413.2231 shares per \$1,000 principal amount of notes (or approximately \$2.42 per share), subject to adjustment in certain circumstances. In connection with the issuance of the notes, we agreed to file the registration statement containing this prospectus and also file a shelf registration statement covering resales of the notes and shares of Class A common stock issuable upon conversion of the notes. On December 23, 2004, we used a portion of the proceeds from the original sale of the notes to redeem our outstanding 5.75% convertible senior notes due 2005. We also used a portion of the proceeds from the original issuance of the notes to purchase certain U.S. government securities which were pledged as security for the notes and which we expect to use to fund the first six interest payments on the notes.

For additional terms of the notes and the arrangements governing the loan of shares of our Class A common stock covered by this prospectus, see *Share Lending Agreement* and *Description of Certain Indebtedness Outstanding Notes Charter Communications, Inc. Notes 5.875% Convertible Senior Notes due 2009*.

The Offering

Total shares of Class A common stock offered by us hereby	150,000,000 shares
Approximate number of shares of Class A common stock to be outstanding after the offering	454,890,987 shares (including the 150,000,000 shares offered hereby)
Nasdaq National Market Symbol	CHTR

The shares of our Class A common stock offered hereby are shares that we have loaned to Citigroup Global Markets Limited pursuant to a share lending agreement, dated as of November 22, 2004, which we refer to as the *share lending agreement*. Under the share lending agreement, we receive a loan fee of \$.001 per share. We will not receive any proceeds from this offering. See *Share Lending Agreement* and *Underwriting*.

Risk Factors

Investing in our Class A common stock involves substantial risk. See the *Risk Factors* section of this prospectus for a description of certain of the risks you should consider before investing in our Class A common stock.

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Organizational Structure

The chart below sets forth our organizational structure and that of our principal direct and indirect subsidiaries. The equity ownership, voting percentages and indebtedness amounts shown below are approximations as of September 30, 2004 on the pro forma basis described in Unaudited Pro Forma Consolidated Financial Statements and do not give effect to any exercise, conversion or exchange of then outstanding options, preferred stock, convertible notes and other convertible or exchangeable securities. See Recent Events.

- (1) Charter acts as the sole manager of Charter Holdco and its direct and indirect limited liability company subsidiaries.
- (2) These membership units are held by Charter Investment, Inc. and Vulcan Cable III Inc., each of which is 100% owned by Paul G. Allen, our Chairman and controlling shareholder. They are exchangeable at any time on a one-for-one basis for shares of Charter Class A common stock.
- (3) The percentages shown in this table reflect the issuance of the 150 million shares of Class A common stock offered hereby and the corresponding issuance of an equal number of mirror membership units by Charter Holdco to Charter. However, for accounting purposes, Charter's common equity interest in Charter Holdco will remain at 47%, and Paul G. Allen's ownership of Charter Holdco will remain at 53%. These percentages exclude the 150 million mirror membership units issued to Charter due to the required return of the issued mirror units upon return of the shares offered hereby pursuant to the Share Lending Agreement. See Share Lending Agreement.
- (4) Represents 100% of the preferred membership interests in CC VIII, LLC, a subsidiary of CC V Holdings, LLC. An issue has arisen regarding the ultimate ownership of such CC VIII, LLC membership interests following Mr. Allen's acquisition of those interests on June 6, 2003. See Certain Relations and Related Transactions Transactions Arising out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.
- (5) CC V Holdings, LLC, the issuer of \$113 million accreted value of senior discount notes, is a direct wholly owned subsidiary of CCO NR Holdings, LLC, and holds 100% of the common membership units of CC VIII, LLC. Mr. Allen through Charter Investment, Inc. holds 100% of the preferred membership units in CC VIII, LLC. CC VIII, LLC holds 100% of the equity of CC VIII Operating, LLC, which in turn holds 100% of the equity of a number of operating subsidiaries. One such operating subsidiary (CC Michigan, LLC) is a guarantor of the CC V Holdings senior discount notes.

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Summary Consolidated Financial Data

Charter is a holding company whose principal assets are a controlling common equity interest in Charter Communications Holding Company, LLC and mirror notes that are payable by Charter Communications Holding Company, LLC to Charter which have the same principal amount and terms as those of Charter's convertible senior notes. Charter Communications Holding Company, LLC is a holding company whose primary assets are equity interests in our cable operating subsidiaries and intercompany loan receivables. Charter consolidates Charter Communications Holding Company, LLC on the basis of voting control. Charter Communications Holding Company, LLC's limited liability agreement provides that so long as Charter's Class B common stock retains its special voting rights, Charter will maintain 100% voting interest in Charter Communications Holding Company, LLC. Voting control gives Charter full authority and control over the operations of Charter Communications Holding Company, LLC.

The following table presents summary financial and other data for Charter and its subsidiaries and has been derived from the audited consolidated financial statements of Charter and its subsidiaries for the three years ended December 31, 2003 and the unaudited consolidated financial statements of Charter and its subsidiaries for the nine months ended September 30, 2004. The consolidated financial statements of Charter and its subsidiaries for the years ended December 31, 2001 to 2003 have been audited by KPMG LLP, an independent registered public accounting firm. The pro forma data set forth below represent our unaudited pro forma consolidated financial statements after giving effect to the following transactions as if they occurred on January 1 of the respective period for the statement of operations data and other financial data and as of the last day of the respective period for the operating data and balance sheet data:

(1) the disposition of certain assets in October 2003 and in March and April 2004 and the use of proceeds in each case to pay down credit facilities;

(2) the issuance and sale of the CCH II senior notes in September 2003, the CCO Holdings senior notes in November 2003, the CCO Holdings senior floating rate notes in December 2004 and the Charter Operating senior second lien notes in April 2004 with proceeds used to refinance or repay outstanding debt and for general corporate purposes;

(3) an increase in amounts outstanding under the Charter Operating credit facilities in April 2004 and the use of such funds, together with the proceeds of the sale of the Charter Operating senior second lien notes, to refinance amounts outstanding under the credit facilities of our subsidiaries, CC VI Operating, CC VIII Operating and Falcon;

(4) the issuance and sale of \$863 million of 5.875% convertible senior notes in November 2004 with proceeds used for (i) the purchase of certain U.S. government securities pledged as security for the 5.875% convertible senior notes (and which we expect to use to fund the first six interest payments thereon), (ii) redemption of the outstanding 5.75% convertible senior notes due 2005 and (iii) general corporate purposes; and

(5) the issuance of the shares offered hereby pursuant to a share lending agreement.

The following information should be read in conjunction with Selected Historical Consolidated Financial Data, Capitalization, Unaudited Pro Forma Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations, Share Lending Agreement and the historical consolidated financial statements and related notes included elsewhere in this prospectus.

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	Year Ended December 31,				Nine Months Ended September 30,	
	2001 Actual	2002 Actual	2003 Actual	2003 Pro Forma(a)	2004 Actual	2004 Pro Forma(a)
(Dollars in millions, except per share, share and customer data)						
Statement of Operations Data:						
Revenues:						
Video	\$ 2,971	\$ 3,420	\$ 3,461	\$ 3,324	\$ 2,534	\$ 2,513
High-speed data	148	337	556	541	538	535
Advertising sales	197	302	263	255	205	204
Commercial	123	161	204	188	175	173
Other	368	346	335	322	249	247
Total revenues	3,807	4,566	4,819	4,630(b)	3,701	3,672(b)
Costs and Expenses:						
Operating (excluding depreciation and amortization)	1,486	1,807	1,952	1,881	1,552	1,540
Selling, general and administrative	826	963	940	914	735	731
Depreciation and amortization	2,683	1,436	1,453	1,413	1,105	1,099
(Gain) loss on sale of assets, net	10	3	5	26	(104)	1
Impairment of franchises		4,638			2,433	2,433
Option compensation expense (income), net	(5)	5	4	4	34	34
Special charges, net	18	36	21	21	100	100
Unfavorable contracts and other settlements			(72)	(72)		
Total costs and expenses	5,018	8,888	4,303	4,187	5,855	5,938
Income (loss) from operations	(1,211)	(4,322)	516	443	(2,154)	(2,266)
Interest expense, net	(1,310)	(1,503)	(1,557)	(1,719)	(1,227)	(1,286)
Gain (loss) on derivative instruments and hedging activities, net	(50)	(115)	65	65	48	48
Gain on debt exchange, net			267			
Loss on debt to equity conversions					(23)	(23)
Loss on extinguishment of debt					(21)	
Loss on equity investments	(54)	(3)	(3)	(3)		

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Other, net	(5)	(1)	(13)	(13)		
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,630)	(5,944)	(725)	(1,227)	(3,377)	(3,527)
Minority interest	1,461	3,176	377	377	24	24
Loss before income taxes and cumulative effect of accounting change	(1,169)	(2,768)	(348)	(850)	(3,353)	(3,503)
Income tax benefit	12	460	110	111	116	130
Loss before cumulative effect of accounting change	\$ (1,157)	\$ (2,308)	\$ (238)	\$ (739)	\$ (3,237)	\$ (3,373)
Loss per common share, basic and diluted(c)	\$ (4.30)	\$ (7.85)	\$ (0.82)	\$ (2.52)	\$ (10.82)	\$ (11.27)
Weighted-average common shares outstanding, basic and diluted	269,594,386	294,440,261	294,597,519	294,597,519	299,411,053	299,411,053

Other Financial Data:

Capital expenditures	\$ 2,913	\$ 2,167	\$ 854	\$ 835	\$ 639	\$ 637
Deficiencies of earnings to cover fixed charges(d)	\$ 2,630	\$ 5,944	\$ 725	\$ 1,227	\$ 3,377	\$ 3,527

	December 31,		September 30,
	2003 Actual	2003 Pro Forma	2004 Actual

Operating Data (end of period)(e):

Analog video customers	6,431,300	6,200,500	6,074,600
Digital video customers	2,671,900	2,588,600	2,688,900
Residential high-speed data customers	1,565,600	1,527,800	1,819,900
Telephony customers	24,900	24,900	40,200

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As of September 30,
2004****(Dollars in millions)****Balance Sheet Data (end of period):**

Cash and cash equivalents	\$ 355
Total assets	17,511
Accounts payable and accrued expenses	1,311
Long-term debt	18,878
Other long-term liabilities	695
Minority interest(f)	637
Shareholders' deficit	(4,079)

- (a) Actual revenues exceeded pro forma revenues for the year ended December 31, 2003 and the nine months ended September 30, 2004 by \$189 million and \$29 million, respectively. Pro forma loss before cumulative effect of accounting, net of tax exceeded actual loss before cumulative effect of accounting, net of tax by \$501 million and \$136 million for the year ended December 31, 2003 and the nine months ended September 30, 2004, respectively. The unaudited pro forma financial information required allocation of certain revenues and expenses and such information has been presented for comparative purposes and is not intended (a) to provide any indication of what our actual financial position or results of operations would have been had the transactions described above been completed on the dates indicated or (b) to project our results of operations for any future date.
- (b) Pro forma revenue by quarter is as follows:

	2003 Pro Forma Revenue	2004 Pro Forma Revenue
	(In millions)	
1st Quarter	\$ 1,130	\$ 1,185
2nd Quarter	1,168	1,239
3rd Quarter	1,159	1,248
Total through September 30	3,457	\$ 3,672
4th Quarter 2003	1,173	
Total 2003 pro forma revenue	\$ 4,630	

- (c) Loss per common share, basic and diluted, assumes none of the membership units of Charter Communications Holding Company, LLC are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Communications Holding Company, LLC that are automatically exchanged for Charter common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock-redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same.
- (d) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.
- (e) See **Business Products and Services** for definitions of the terms contained in this section.
- (f) Minority interest represents the percentage of Charter Communications Holding Company, LLC not owned by Charter, plus preferred membership interests in CC VIII, LLC, an indirect subsidiary of Charter Holdco. Paul G. Allen indirectly holds the preferred membership

units in CC VIII as a result of the exercise of a put right originally granted in connection with the Bresnan transaction in 2000. An issue has arisen regarding the ultimate ownership of the CC VIII membership interests following the consummation of the Bresnan put transaction on June 6, 2003. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Communications Holding Company, LLC. Because minority interest in Charter Communications Holding Company, LLC was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, Charter began to absorb substantially all losses before income taxes that otherwise would have been allocated to minority interest. As a result of negative equity at Charter Communications Holding Company, LLC, during the nine months ended September 30, 2004, no additional losses were allocated to minority interest, resulting in an approximate additional \$2.0 billion of net losses. Subject to any changes in Charter Communications Holding Company, LLC's capital structure, Charter will absorb substantially all future losses.

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RISK FACTORS

An investment in our Class A common stock entails the following risks. You should carefully consider these risk factors, as well as the other information contained in this prospectus, before making a decision to invest in our Class A common stock.

Risks Related to Significant Indebtedness of Us and Our Subsidiaries

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

We and our subsidiaries have a significant amount of debt and may (subject to applicable restrictions in their debt instruments) incur additional debt in the future. As of September 30, 2004, our total debt was approximately \$18.5 billion, and our shareholders' deficit was approximately \$4.1 billion. On the pro forma basis set forth in Summary Consolidated Financial Data, our total debt would have been approximately \$18.9 billion at September 30, 2004, and the deficiency of earnings to cover fixed charges for the nine-month period ended September 30, 2004 would have been approximately \$3.5 billion. In 2006 and beyond, significant amounts will become due under our remaining long-term debt obligations. The maturities of these obligations are set forth in Description of Certain Indebtedness.

We believe that as a result of our significant levels of debt and operating performance, our access to the debt markets could be limited. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not available to us from borrowings under our credit facilities or from other sources, 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. Further, if we are unable to refinance our debt, we could be forced to restructure our obligations or seek protection under the bankruptcy laws. If we were to raise capital through the issuance of additional equity or 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 on a timely basis or at all.

Our significant amount of debt could have other important consequences to you. For example, it will or could:

require us to dedicate a significant portion of our cash flow from operating activities to payments on our debt, which will reduce our funds available for working capital, capital expenditures and other general corporate expenses;

limit our flexibility in planning for, or reacting to, changes in our business, the cable and telecommunications industries and the economy at large;

place us at a disadvantage as compared to our competitors that have proportionately less debt;

make us vulnerable to interest rate increases, because a significant amount of our borrowings are, and will continue to be, at variable rates of interest;

expose us to increased interest expense as we refinance our existing lower interest rate instruments;

adversely affect our relationship with customers and suppliers;

limit our ability to borrow additional funds in the future; and

make it more difficult for us to satisfy our obligations to the holders of our notes and for our subsidiaries to satisfy their obligations to their lenders under their credit facilities and to their bondholders.

A default by one of our subsidiaries under its debt obligations could result in the acceleration of those obligations, the obligations of our other subsidiaries and our obligations under our convertible notes. If current debt levels increase, the related risks that we and you now face will intensify.

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The agreements and instruments governing our debt and the debt of our subsidiaries contain restrictions and limitations that could significantly affect our ability to operate our business and adversely affect you, as a shareholder.

The credit facilities of our subsidiaries and the indentures governing our and our subsidiaries' other debt contain a number of significant covenants that could adversely affect our ability to operate our business, and therefore could adversely affect our results of operations and the price of our Class A common stock. These covenants restrict our and our subsidiaries' ability to:

pay dividends or make other distributions;

receive distributions from our subsidiaries;

make certain investments or acquisitions;

enter into related party transactions;

dispose of assets or merge;

incur additional debt;

repurchase or redeem equity interests and debt;

grant liens; and

pledge assets.

Furthermore, the credit facilities of Charter Communications Operating, LLC (Charter Operating) require Charter Operating and its subsidiaries to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from our independent auditors. The ability to comply with these provisions may be affected by events beyond our control.

The breach of any covenants or obligations in the foregoing indentures or credit facilities could result in a default under the applicable debt agreement or instrument and could trigger acceleration of the related debt, which in turn could trigger defaults under other agreements governing our long-term indebtedness. In addition, the secured lenders under the Charter Operating credit facilities and the Charter Operating senior second-lien notes could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under those credit facilities, the indentures governing our convertible notes or our subsidiaries' debt could adversely affect our growth, our financial condition and our results of operations and our ability to make payments on our notes and the credit facilities and other debt of our subsidiaries. See Description of Certain Indebtedness.

We may not generate sufficient cash flow to fund our capital expenditures, ongoing operations and debt obligations.

Our ability to service our debt and our subsidiaries' debt and to fund our subsidiaries' planned capital expenditures and our subsidiaries' ongoing operations will depend on our ability to generate cash flow. Our ability to generate cash flow is dependent on many factors, including:

our future operating performance;

the demand for our products and services;

general economic conditions and conditions affecting customer and advertiser spending;

competition and our ability to stabilize customer losses; and

legal and regulatory factors affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow, we may not be able to repay our debt, operate our business, respond to competitive challenges or fund our other liquidity and capital needs. Additionally, franchise valuations performed in accordance with the

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requirements of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, are based on the projected cash flows derived by selling products and services to new customers in future periods. Declines in future cash flows could result in lower valuations which in turn may result in impairments to the franchise assets in our financial statements.

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

Our subsidiaries have historically relied on access to credit facilities in order to fund operations and to service parent company debt, and we expect such reliance to continue in the future. Unused availability under the Charter Operating credit facilities was approximately \$957 million as of September 30, 2004. However, our access to these funds is subject to our satisfaction of the covenants and conditions to borrowing in those facilities.

An event of default under the credit facilities or indentures, if not waived, could result in the acceleration of those debt obligations and, consequently, other debt obligations. Such acceleration could result in the exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments. In addition, an event of default under the credit facilities, such as the failure to maintain the applicable required financial ratios, would prevent additional borrowing under our subsidiary credit facilities, which could materially adversely affect our ability to operate our business and to make payments under our debt instruments.

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

We may not have the ability to raise the funds necessary to fulfill our obligations under our convertible senior notes and our subsidiaries senior notes, senior discount notes, senior floating rate notes and credit facilities following a change of control. Under the indentures governing our convertible senior notes, upon the occurrence of specified change of control events, we are required to offer to repurchase all of our outstanding 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 our 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 our subsidiaries notes would require the repayment of borrowings totaling \$17.7 billion at September 30, 2004 under those credit facilities and indentures. Because such credit facilities and notes are obligations of our subsidiaries, the credit facilities and our subsidiaries notes would have to be repaid by our subsidiaries before their assets could be available to us to repurchase our convertible senior notes. Our failure to make or complete a change of control offer would place us in default under our 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 our convertible senior notes and our subsidiaries notes.

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

Paul G. Allen and his affiliates have purchased equity, contributed funds and provided other financial support to Charter and Charter Communications Holding Company, LLC (Charter Holdco) in the past. However, Mr. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to us or any of our subsidiaries in the future.

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Risks Related to Our Business

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

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 longer-established relationships with regulatory authorities and customers. Increasing consolidation in the cable industry and the repeal of certain ownership rules may provide additional benefits to certain of our competitors, either through access to financing, resources or efficiencies of scale.

Our principal competitor for video services throughout our territory is direct broadcast satellite television services, or DBS, and, in markets where it is available, our principal competitor for data services is digital subscriber line service, or DSL. Competition from DBS, including intensive marketing efforts, aggressive pricing and the ability of DBS to provide certain services that we currently do not provide, has had an adverse impact on our ability to retain customers. Our major DBS competitors continue to offer a greater variety of channel packages than do we, and are especially competitive at the lower end pricing and have been intensively marketing their services. DBS has grown rapidly over the last several years and continues to do so. We have lost a significant number of customers to DBS competition, and will continue to face serious challenges from DBS providers.

Local telephone companies and electric utilities can offer video and other services in competition with us and they may increasingly do so in the future. For example, certain telephone companies have begun more extensive deployment of fiber in their networks that will enable them to begin providing video services, as well as telephony and Internet access services, to residential and business customers. We also face competition from free broadcast television and from other communications and entertainment media. Further loss of customers to DBS or other alternative video and data services could have a material negative impact on our business.

With respect to our high-speed data services, we face competition, including intensive marketing efforts and aggressive pricing, from telephone companies and other providers of dial-up and DSL. DSL service is competitive with high-speed data service over cable systems. Telephone companies (which already have telephone lines into the household, an existing customer base and other operational functions in place) and other companies offer DSL service. In addition, certain DBS providers are now providing two-way high-speed Internet access services, which are competing with our ability to provide bundled services to our customers.

In order to attract new customers, from time to time we make promotional offers, including offers of temporarily reduced-price or free service. These promotional programs result in significant advertising, programming and operating expenses, and also require us to make capital expenditures to acquire additional digital set-top terminals. Customers who subscribe to our services as a result of these offerings may not remain customers for any significant period of time following the end of the promotional period. A failure to retain existing customers and customers added through promotional offerings or to collect the amounts they owe us could have an adverse effect on our business and financial results.

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

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

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Our dispute with Paul G. Allen concerning the ownership of an interest in CC VIII, LLC could adversely impact the value of our common stock, our ability to repay our debt and our ability to obtain future financing.

As part of our acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, LLC, our indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (which we refer to collectively as the CC VIII interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (which we refer to as the Comcast sellers). Our controlling shareholder, Paul G. Allen, granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (which we refer to as the Comcast put right). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen has become the holder of the CC VIII interest, indirectly through an affiliate.

We are in a dispute with Mr. Allen as to whether he is entitled to retain the CC VIII interest, or whether he must exchange that interest for units of our subsidiary, Charter Holdco. The dispute concerns 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. The law firm that prepared the documents for the Bresnan transaction brought this matter to the attention of Charter and representatives of Mr. Allen in 2002. After subsequently conducting an investigation of the relevant facts and circumstances, a Special Committee of Charter's Board of Directors determined that a scrivener's error had occurred in February 2000 in connection with the preparation of the Bresnan transaction documents, resulting in the inadvertent deletion of a provision that would have required an automatic exchange of the CC VIII interest for 24,273,943 Charter Holdco membership units if the Comcast sellers exercised the Comcast put right and sold the CC VIII interest to Mr. Allen or his affiliates. Mr. Allen disagrees with the Special Committee's determinations and contends that the transaction is accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures. This dispute and related matters (including certain issues associated with the ultimate disposition of the interest in CC VIII) are more fully described in Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

If it is determined that Mr. Allen is entitled to retain the CC VIII interest, then our indirect interest in CC VIII would continue to exclude the value of Mr. Allen's interest in CC VIII, consistent with our current treatment of the CCVIII interest in our financial statements. As a result, the amounts available for repayment of our creditors, including creditors of our subsidiaries, would not include the value represented by Mr. Allen's CC VIII interest, and the value of our Class A common stock similarly would not reflect any value attributable to Mr. Allen's CC VIII interest. Further, such retained interest in CC VIII could reduce our borrowing capacity (due to a portion of the equity interest being held by a party other than Charter or a Charter subsidiary) or make it more difficult for us to secure financing for our CC VIII subsidiary due to concerns as to possible claims that could be asserted by Mr. Allen as the holder of a minority interest in CC VIII. In addition, if it is determined that Mr. Allen is entitled to retain the CC VIII interest, such retention could complicate efforts to sell our CC VIII subsidiary or its assets to a third party, and Mr. Allen could be entitled to receive a portion of the proceeds of such a sale, thereby reducing the amount of such proceeds that would otherwise be available to us and our security holders.

We are currently the subject of certain lawsuits and other legal matters, the unfavorable outcome of which could adversely affect our business and financial condition.

A number of putative federal class action lawsuits have been filed against us and certain of our former and present officers and directors alleging violations of securities laws. These actions have been consolidated for pretrial purposes. In addition, a number of other lawsuits have been filed against us in other jurisdictions. A shareholders derivative suit was filed in the U.S. District Court for the Eastern District of Missouri against us and our then current directors. Also, three shareholders derivative suits were

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filed in Missouri state court against us, our then current directors and our former independent auditor, which actions have been consolidated. The federal shareholders derivative suit and the consolidated derivative suit each allege that the individual defendants breached their fiduciary duties.

In August 2004, we entered into Memoranda of Understanding setting forth agreements in principal to settle and resolve the class actions and derivative suits described above on the terms set forth in the Memoranda. The settlements are subject to a number of conditions, including the parties' negotiation and execution of definitive settlement documents (including without limitation a stipulation of settlement and related papers), court approval of both settlements and certain payments by our insurance carriers. Accordingly, there can be no assurance that the settlements will become effective or that the actions will be resolved on the terms set forth in the Memoranda or at all. In the event that the settlements do not become final, the litigations would presumably resume.

In August 2002, we became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of our accounting and reporting practices focusing on how we reported customer numbers, and our reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office publicly stated in July 2003 that we are not a target of the investigation. We have also been advised by the U.S. Attorney's Office that no member of our board of directors is a target of the investigation. On July 24, 2003, a federal grand jury charged four of our former officers with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. All four of the former officers who were indicted have entered guilty pleas and are now awaiting sentencing. We are fully cooperating with the investigation.

On November 4, 2002, we received an informal, non-public inquiry from the staff of the SEC. The SEC issued a formal order of investigation dated January 23, 2003, and subsequently served document and testimony subpoenas on us and a number of our former employees. The investigation and subpoenas generally concerned our prior reports with respect to our determination of the number of customers and various of our accounting policies and practices including our capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. On July 27, 2004, the SEC reached a final agreement with us to settle the investigation. In the Settlement Agreement and Cease and Desist Order, we agreed to entry of an administrative order prohibiting any future violations of United States securities laws and requiring certain other remedial internal practices and public disclosures. We neither admitted nor denied any wrongdoing, and the SEC assessed no fine against us.

In October 2001, two customers, Nikki Nicholls and Geraldine M. Barber, filed a class action suit against Charter Holdco in South Carolina state court purportedly on behalf of a class of Charter Holdco's customers, alleging, among other things, that Charter Holdco improperly charged them a wire maintenance fee without request or permission. They also claimed that Charter Holdco improperly required them to rent analog and/or digital set-top terminals even though their television sets were cable ready. A substantively identical case was filed in the Superior Court of Athens - Clarke County, Georgia by Emma S. Tobar on March 26, 2002, alleging a nationwide class for these claims. Following mediation the parties reached a tentative settlement, subject to final documentation and court approval. On November 10, 2004, the court granted final approval of the settlement, rejecting the positions advanced by two objectors to the settlement. On December 13, 2004, the court entered a written order formally approving that settlement. On January 11, 2005, however, certain class members appealed the order entered by the Georgia court. Additionally, one of the objectors to this settlement recently filed a similar, but not identical, lawsuit.

Furthermore, we are also a party to, or otherwise involved in, other lawsuits, claims, proceedings and legal matters that have arisen in the ordinary course of conducting our business. In addition, our restatement of our 2000, 2001 and 2002 financial statements could lead to additional or expanded claims or investigations.

We cannot predict with certainty the ultimate outcome of any of the lawsuits, claims, investigations, proceedings and other legal matters to which we are a party to, or otherwise involved in, due to, among

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other things, (i) the inherent uncertainties of litigation, government investigations and proceedings and legal matters generally, (ii) the remaining conditions to the finalization of the settlements described above, (iii) the possibility of appeals and objections to the settlements described above, and (iv) the need for us to comply with, and/or otherwise implement, certain covenants, conditions, undertakings, procedures and other obligations that would be, or have been, imposed under the terms of the settlements and resolutions described above.

The termination of the settlements described above, an unfavorable outcome in any of the lawsuits pending against us, in any government investigation or proceeding or in any other legal matter, including those described above, or our failure to comply with or properly implement the terms of the settlements described above, could result in substantial potential liabilities and otherwise have a material adverse effect on our business, consolidated financial condition and results of operations, in our liquidity, our operations, and/or our ability to comply with any debt covenants. Further, these legal matters, and our actions in response to them, could result in substantial potential liabilities, additional defense and other costs, increase our indemnification obligations, divert management's attention, and/or adversely affect our ability to execute our business and financial strategies.

See Business Legal Proceedings for additional information concerning these and other litigation matters.

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

We have had a history of net losses and expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the interest costs we incur because of our high level of debt, the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties, and the amortization and impairment of our franchise intangibles. We expect that these expenses (other than amortization and impairment of franchises) will remain significant, and we expect to continue to report net losses for the foreseeable future. We reported losses before cumulative effect of accounting change of \$1.2 billion for 2001, \$2.3 billion for 2002, \$238 million for 2003 and \$181 million and \$3.2 billion for the nine months ended September 30, 2003 and 2004, respectively. Continued losses would reduce our cash available from operations to service our indebtedness, as well as limit our ability to finance our operations.

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

Programming has been, and is expected to continue to be, our largest operating expense item. In recent years, the cable industry has experienced a rapid escalation in the cost of programming, particularly sports programming. We expect this escalation to continue, and because of market and competitive factors, we may not be able to pass programming cost increases on to our customers. As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003) as of September 30, 2004, approximately 33% of our current programming contracts (computed based on programming expenditures) have expired or are scheduled to expire by the end of 2004, and approximately another 12% will expire by the end of 2005. There can be no assurance that these agreements will be renewed on favorable or comparable terms. The inability to fully pass programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins.

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

During the nine months ended September 30, 2004, we spent approximately \$639 million on capital expenditures. During 2004 we expect to spend approximately \$850 million to \$950 million on capital expenditures. The actual amount of our capital expenditures depends on the level of growth in high-speed data customers and in the delivery of other advanced services, as well as the cost of introducing any new services. We may need additional capital if there is accelerated growth in high-speed data customers or in

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the delivery of other advanced services. If we cannot obtain such capital from increases in our cash flow from operating activities, additional borrowings or other sources, our growth, financial condition and results of operations could suffer materially.

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

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

We may not be able to carry out our strategy to improve operating results by standardizing and streamlining operations and procedures.

In prior years, we experienced rapid growth through acquisitions of a number of cable operators and the rapid rebuild and rollout of advanced services. Our future success will depend in part on our ability to standardize and streamline our operations. The failure to implement a consistent corporate culture and management, operating or financial systems or procedures necessary to standardize and streamline our operations and effectively operate our enterprise could have a material adverse effect on our business, results of operations and financial condition.

The loss of any of our key executives could adversely affect our ability to manage our business.

Our success is substantially dependent upon the retention and the continued performance of our management team. The loss of the services of a significant portion of our management team could disrupt our operations and adversely affect our growth, financial condition and results of operations.

Malicious and abusive Internet practices could impair our high-speed data services.

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

We could be deemed an investment company under the Investment Company Act of 1940. This would impose significant restrictions on us and would be likely to have a material adverse impact on our growth, financial condition and results of operation.

Our principal assets are our equity interests in Charter Holdco and certain indebtedness of Charter Holdco. If our membership interest in Charter Holdco were to constitute less than 50% of the voting securities issued by Charter Holdco, then our interest in Charter Holdco could be deemed an investment security for purposes of the Investment Company Act. This may occur, for example, if a court determines that the Class B common stock is no longer entitled to special voting rights and, in accordance with the terms of the Charter Holdco limited liability company agreement, our membership units in Charter Holdco were to lose their special voting privileges. A determination that such interest was an investment security could cause us to be deemed to be an investment company under the Investment Company Act,

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unless an exemption from registration were available or we were to obtain an order of the Securities and Exchange Commission excluding or exempting us from registration under the Investment Company Act.

If anything were to happen which would cause us to be deemed an investment company, the Investment Company Act would impose significant restrictions on us, including severe limitations on our ability to borrow money, to issue additional capital stock and to transact business with affiliates. In addition, because our operations are very different from those of the typical registered investment company, regulation under the Investment Company Act could affect us in other ways that are extremely difficult to predict. In sum, if we were deemed to be an investment company it could become impractical for us to continue our business as currently conducted and our growth, our financial condition and our results of operations could suffer materially.

If a court determines that the Class B common stock is no longer entitled to special voting rights, we would lose our rights to manage Charter Holdco. In addition to the investment company risks discussed above, this could materially impact the value of the Class A common stock.

If a court determines that the Class B common stock is no longer entitled to special voting rights, Charter would no longer have a controlling voting interest in, and would lose its right to manage, Charter Holdco. If this were to occur:

we would retain our proportional equity interest in Charter Holdco but would lose all of our powers to direct the management and affairs of Charter Holdco and its subsidiaries; and

we would become strictly a passive investment vehicle and would be treated under the Investment Company Act as an investment company.

This result, as well as the impact of being treated under the Investment Company Act as an investment company, could materially adversely impact:

the liquidity of the Class A common stock;

how the Class A common stock trades in the marketplace;

the price that purchasers would be willing to pay for the Class A common stock in a change of control transaction or otherwise; and

the market price of the Class A common stock.

Uncertainties that may arise with respect to the nature of our management role and voting power and organizational documents as a result of any challenge to the special voting rights of the Class B common stock, including legal actions or proceedings relating thereto, may also materially adversely impact the value of the Class A common stock.

Risks Related to Mr. Allen's Controlling Position

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

The Charter Operating credit facilities provide that the failure by Mr. Allen to maintain a 35% direct or indirect voting interest in the applicable borrower would result in a change of control default. Such a default could result in the acceleration of repayment of our and our subsidiaries' indebtedness, including borrowings under the Charter Operating credit facilities. See Risks Related to Significant Indebtedness of Us and Our Subsidiaries. All of our and our subsidiaries' outstanding debt is subject to change in control provisions. We may not have the ability to raise the funds necessary to fulfill our obligations under our indebtedness following a change of control, which would place us in default under the applicable debt instruments.

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

Mr. Allen has the ability to control us. Through his control of approximately 93% of the voting power of our capital stock, Mr. Allen, as sole Class B shareholder, is entitled to elect all but one of its board

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members and effectively has the voting power to elect the remaining board member as well since he controls more than the majority of the vote of the Class A and Class B shareholders voting together as a class. By virtue of Mr. Allen's control of the voting power of Charter, we are a controlled company under Nasdaq rule 4350(c)(5) and are not subject to requirements that a majority of our directors be independent (as defined in Nasdaq's rules) or that there be a nominating committee of Charter's board. Charter does not have a nominating committee. Mr. Allen thus has the ability to control fundamental corporate transactions requiring equity holder approval, including, but not limited to, the election of all of our directors, approval of merger transactions involving us and the sale of all or substantially all of our assets.

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

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

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

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

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

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

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

The special tax allocation provisions of the Charter Holdco limited liability company agreement may cause us in some circumstances to pay more taxes than if the special tax allocation provisions were not in effect.

Charter Holdco's limited liability company agreement provided that through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to us based generally on our percentage ownership of outstanding common membership units of Charter Holdco would instead be allocated to the membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. The purpose of these special tax allocation provisions was to allow Mr. Allen to take advantage for tax purposes of the losses

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generated by Charter Holdco. However, beginning in 2002, due to tax capital account limitations, certain net tax losses of Charter Holdco were allocated to us and have continued to be so allocated since that time. The limited liability company agreement further provides that beginning at the time that Charter Holdco generates net tax profits (as determined under the applicable federal income tax rules for determining book profits), the net tax profits that would otherwise have been allocated to us based generally on our percentage of outstanding common membership units of Charter Holdco will instead generally be allocated to membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. In some situations, the special tax allocation provisions could result in our having to pay taxes in an amount that is more or less than if Charter Holdco losses and net tax profits to its members were based generally on the percentage of outstanding common membership units owned by such members from the time of the completion of the offering. See Description of Capital Stock and Membership Units Special Tax Allocation Provisions. For further discussions on the details of the tax allocation provision see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Income Taxes.

The issuance of our Class A common stock offered hereby pursuant to the share lending agreement, as well as possible future conversions of our convertible notes, significantly increases the risk that we will experience an ownership change in the future for tax purposes, resulting in a material limitation on the use of a substantial amount of our existing net operating loss carryforwards.

As of December 31, 2003, we had approximately \$2.8 billion of tax net operating losses (resulting in a gross deferred tax asset of approximately \$1.1 billion), expiring in the years 2019 through 2023 and anticipate that we will generate approximately an additional \$2.0 billion (which would result in an additional gross deferred tax asset of approximately \$814 million) by December 31, 2004, which would expire in 2024. Due to uncertainties in projected future taxable income, valuation allowances have been established against the gross deferred tax assets for book accounting purposes except for deferred benefits available to offset certain deferred tax liabilities. Currently, such tax net operating losses can accumulate and be used to offset any future taxable income of Charter. An ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended, would place significant limitations, on an annual basis, on the use of such net operating losses to shelter any future taxable income we may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate our ability to use a substantial portion of our net operating losses to offset future taxable income. The shares issued hereby are being issued pursuant to a share lending agreement. See Share Lending Agreement. While the tax treatment of the issuance of shares offered hereby pursuant to a borrowing transaction under the share lending agreement is uncertain, we do not believe that this issuance would result in our experiencing an ownership change. However, future transactions and the timing of such transactions, such as additional stock issuances by us (including but not limited to issuances upon future conversion of our 5.875% convertible senior notes), reacquisitions of the borrowed shares by us, or acquisitions or sales of shares by certain holders of our shares, including persons who have held, currently hold, or accumulate in the future five percent or more of our outstanding stock (including upon an exchange by Paul Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco), could cause an ownership change. Many of the foregoing transactions are beyond our control.

Risks Related to Regulatory and Legislative Matters

Our business is subject to extensive governmental legislation and regulation, which could adversely affect our business by increasing our expenses.

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

rules governing the provision of cable equipment and compatibility with new digital technologies;

rules and regulations relating to subscriber privacy;

limited rate regulation;

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requirements that, under specified circumstances, a cable system carry a local broadcast station or obtain consent to carry a local or distant broadcast station;

rules for franchise renewals and transfers; and

other requirements covering a variety of operational areas such as equal employment opportunity, technical standards and customer service requirements.

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

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

Our cable systems generally operate pursuant to franchises, permits and similar authorizations issued by a state or local governmental authority controlling the public rights-of-way. Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with significant provisions set forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms and must be periodically renewed. Local franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate. Franchise authorities often demand concessions or other commitments as a condition to renewal. In some instances, franchises have not been renewed at expiration, and we have operated and are operating under either temporary operating agreements or without a license while negotiating renewal terms with the local franchising authorities. Approximately 11% of our franchises, covering approximately 10% of our video customers, were expired at December 31, 2004. Approximately 8% of additional franchises, covering approximately an additional 9% of our video customers, will expire on or before December 31, 2005, if not renewed prior to expiration.

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

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

Our cable systems are operated under non-exclusive franchises granted by local franchising authorities. Consequently, local franchising authorities can grant additional franchises to competitors in the same geographic area or operate their own cable systems. As a result, competing operators may build systems in areas in which we hold franchises. In some cases municipal utilities may legally compete with us without obtaining a franchise from the local franchising authority. The existence of more than one cable system operating in the same territory is referred to as an overbuild. These overbuilds could adversely affect our growth, financial condition and results of operations by creating or increasing competition. As of September 30, 2004, we are aware of overbuild situations impacting approximately 5% of our estimated homes passed, and potential overbuild situations in areas servicing approximately 2% of our estimated homes passed. Additional overbuild situations may occur in other systems.

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

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

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

Currently, rate regulation is strictly limited to the basic service tier and associated equipment and installation activities. However, the Federal Communications Commission (or FCC) and the U.S. Congress continue to be concerned that cable rate increases are exceeding inflation. It is possible that either the FCC or the U.S. Congress will again restrict the ability of cable system operators to implement rate increases. Should this occur, it would impede our ability to raise our rates. If we are unable to raise our rates in response to increasing costs, our losses would increase.

There has been considerable legislative interest recently in requiring cable operators to offer historically bundled programming services on an á la carte basis. Although the FCC recently made a recommendation to Congress against the á la carte mandate, it is still possible that new marketing restrictions could be adopted in the future. If á la carte restrictions were imposed on cable operators, it could have a material adverse impact on our ability to offer services in a manner that we believe maximizes our revenue and overall customer satisfaction. If a mandatory á la carte regime were imposed, some customers might elect to purchase fewer video services from us. This loss would be compounded by a likely increase in programming, equipment, marketing, and customer service costs to accommodate á la carte ordering.

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

Pole attachments are cable wires that are attached to poles. Cable system attachments to public utility poles historically have been regulated at the federal or state level, generally resulting in favorable pole attachment rates for attachments used to provide cable service. The FCC clarified that a cable operator's favorable pole rates are not endangered by the provision of Internet access, and that approach ultimately was upheld by the Supreme Court of the United States, except that subsequently on October 6, 2003, the United States Court of Appeals for the Ninth Circuit held that cable modem service is not cable service but is part telecommunications service and part information service, which possibly could lead to higher pole attachment rates. The Ninth Circuit's decision has been appealed to the U.S. Supreme Court, which has agreed to hear the case. Despite the existing regulatory regime, utility pole owners in many areas are attempting to raise pole attachment fees and impose additional costs on cable operators and others. In addition, the favorable pole attachment rates afforded cable operators under federal law can be increased by utility companies if the operator provides telecommunications services, as well as cable service, over plant attached to utility poles. Any significant increased costs could have a material adverse impact on our profitability and discourage system upgrades and the introduction of new products and services.

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

A number of companies, including telephone companies and Internet service providers, or ISPs, have requested local authorities and the FCC to require cable operators to provide non-discriminatory access to cable's broadband infrastructure, which allows cable to deliver a multitude of channels and/or services, so

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that these companies may deliver Internet services directly to customers over cable facilities. A federal court in each of California, Virginia and Florida has struck down open-access requirements imposed by a variety of franchising authorities as unlawful. Each of these decisions struck down the open-access requirements on different legal grounds. On October 6, 2003, however, the United States Court of Appeals for the Ninth Circuit issued a decision holding that cable modem service is part telecommunications service and part information service. The U.S. Supreme Court has agreed to hear an appeal of that decision. If not overturned, the decision could potentially result in open access requirements being imposed on us.

We believe that allocating a portion of our bandwidth capacity to other Internet service providers:

would impair our ability to use our bandwidth in ways that would generate maximum revenues; and

would strengthen our Internet service provider competitors by granting them access and lowering their costs to enter into our markets.

In addition, if we were required to provide access in this manner, it could have a significant adverse impact on our profitability. This requirement could impact us in many ways, including by:

increasing competition;

increasing the expenses we incur to maintain our systems; and/or

increasing the expense of upgrading and/or expanding our systems.

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

Cable operators also face significant regulation of their channel carriage. They currently can be required to devote substantial capacity to the carriage of programming that they would not carry voluntarily, including certain local broadcast signals, local public, educational and government access programming, and unaffiliated commercial leased access programming. This carriage burden could increase in the future, particularly if the FCC were to require cable systems to carry both the analog and digital versions of local broadcast signals or to carry multiple program streams included with a single digital broadcast transmission. The FCC currently is conducting a proceeding in which it is considering these channel usage possibilities, although it previously issued a tentative decision on such dual carriage. Additional broadcast carriage obligations could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity and limit our ability to offer services that would maximize customer appeal and revenue potential.

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

In 2002, we began to offer voice communications services on a limited basis over our broadband network. We continue to explore development and deployment of VOIP services. The regulatory requirements applicable to VOIP service are unclear although the FCC recently declared that certain VOIP services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of VOIP services is not yet clear. Expanding our offering of these services may require us to obtain certain authorizations, including federal, state and local licenses. We may not be able to obtain such authorizations in a timely manner, or at all, and conditions could be imposed upon such licenses or authorizations that may not be favorable to us. Furthermore, telecommunications companies generally are subject to significant regulation, and it may be difficult or costly for us to comply with such regulations, were it to be determined that they applied to VOIP offerings such as ours. In addition, pole attachment rates are higher for providers of telecommunications services than for providers of cable service. If there were to be a final legal determination by the FCC, a state Public Utility Commission, or appropriate court that VOIP services are subject to these higher rates, our pole attachment costs could increase significantly, which could adversely affect our financial condition and results of operations.

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Additional Risks Related to this Offering

The market price of our Class A common stock may be volatile, which could cause the value of your investment to decline.

It is impossible to predict whether the price of our Class A common stock will rise or fall. Trading prices of our Class A common stock will be influenced by our operating results and prospects and by economic, financial, regulatory and other factors. In addition, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, and sales of substantial amounts of our Class A common stock by us in the market after this offering, or the perception that such sales may occur, could affect the price of our Class A common stock.

The price of our Class A common stock also could be affected by any sales of our Class A common stock by investors who view our recently issued 5.875% convertible senior notes as a more attractive means of equity participation in our company. Some investors in our Class A common stock may decide to sell some or all of their shares and purchase our 5.875% convertible senior notes instead. Such sales of our Class A common stock could cause the trading price to decline. The hedging or arbitrage trading activity that could develop with respect to our Class A common stock as a result of the November 2004 issuance of our 5.875% convertible senior notes could also cause a decline or retard any increase in the trading price of our Class A common stock since investors in the convertible senior notes may sell short our Class A common stock in order to establish initial hedge positions, and may increase those positions, particularly as the trading price of our Class A common stock increases, in order to hedge their 5.875% convertible senior notes. See Share Lending Agreement.

The market price of our Class A common stock could be adversely affected by the large number of additional shares of Class A common stock eligible for issuance in the future.

As of December 31, 2004, 305,203,770 shares of Class A common stock were issued and outstanding, and 50,000 shares of Class B common stock were issued and outstanding. An additional 339,132,031 shares of Class A common stock were issuable upon conversion of outstanding units of Charter Holdco (increasing by 24,273,943 shares if Mr. Allen is required to contribute his CC VIII membership interest to Charter Holdco), and 24,834,513 shares were issuable upon the exercise of outstanding options. An additional 356 million shares are now issuable upon conversion of our recently issued 5.875% convertible senior notes due 2009. In addition, additional shares and warrants to acquire shares are expected to be issued in connection with the settlement of certain outstanding litigation matters, as more fully described in Business Legal Proceedings. All of the 339,132,031 shares of Class A common stock issuable upon exchange of Charter Holdco membership units and all shares of the Class A common stock issuable upon conversion of shares of our Class B common stock will have demand and/or piggyback registration rights attached to them. All of the 356 million shares issuable upon conversion of the 5.875% convertible senior notes are expected to be eligible for resale pursuant to a shelf registration statement. The sale of a substantial number of shares of Class A common stock or the perception that such sales could occur could adversely affect the market price for the Class A common stock because the sale could cause the amount of the Class A common stock available for sale in the market to exceed the demand for the Class A common stock and could also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that we deem appropriate. This could adversely affect our ability to fund our current and future obligations. See Shares Eligible for Future Sale.

The effect of the issuance of our shares of Class A common stock pursuant to the share lending agreement and upon conversion of the recently issued 5.875% convertible notes, including sales of our Class A common stock in short sale transactions by the holders of the 5.875% convertible notes, may have a negative effect on the market price of our Class A common stock.

We have agreed pursuant to a share lending agreement to lend to Citigroup Global Markets Limited the 150 million shares of our common stock that are being offered pursuant to this prospectus. In addition,

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we recently sold \$862.5 million original aggregate principal amount of 5.875% convertible senior notes due 2009, which are currently convertible into approximately 356 million shares of our Class A common stock. We have been advised by Citigroup Global Markets Limited that it or an affiliate intends to facilitate the establishment by holders of those convertible notes of hedged positions in the convertible notes. While issuance of shares upon the conversion of the convertible notes may result in a reduction of an equal number in the outstanding borrowed shares under the share lending agreement, the increase in the number of shares of our Class A common stock issued or issuable pursuant to the share lending agreement or upon conversion of the 5.875% convertible senior notes could have a negative effect on the market price of our Class A common stock. Since there will be more shares sold or available for sale, the market price of our Class A common stock may decline or not increase as much as it might have without the availability of such shares. The market price of our Class A common stock also could decline as a result of other short sales of our Class A common stock by the purchasers of the 5.875% convertible senior notes to hedge their investment in the convertible notes. We expect that many investors in our 5.875% convertible senior notes will hedge their investment by selling additional shares of our Class A common stock short in order to establish initial hedge positions, and that they may increase those positions as the market price of the Class A common stock increases, since such price increases will increase the likelihood that such holders will convert their 5.875% convertible senior notes and receive Class A common stock. Therefore, such short sales could retard any increase in the market price of our Class A common stock or cause a decline. See [Share Lending Agreement](#) and [Underwriting](#).

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USE OF PROCEEDS

None of the proceeds from the sale of our Class A common stock offered by this prospectus will be received by us. However, pursuant to the share lending agreement, we will receive a loan fee of \$0.001 for each share that we lend to Citigroup Global Markets Limited, which will be used for general corporate purposes. See Share Lending Agreement.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY**

Our Class A common stock is quoted on the Nasdaq National Market under the symbol CHTR. The following table sets forth, for the periods indicated, the range of high and low last reported sale price per share of Class A common stock on the Nasdaq National Market. There is no established trading market for our Class B common stock.

2005	High	Low
First Quarter through January 28	\$ 2.30	\$ 1.65
2004	High	Low
First Quarter	\$ 5.43	\$ 3.99
Second Quarter	\$ 4.70	\$ 3.61
Third Quarter	\$ 3.90	\$ 2.61
Fourth Quarter	\$ 3.01	\$ 2.03
2003	High	Low
First Quarter	\$ 1.73	\$ 0.76
Second Quarter	\$ 4.18	\$ 0.94
Third Quarter	\$ 5.50	\$ 3.32
Fourth Quarter	\$ 4.71	\$ 3.72
2002	High	Low
First Quarter	\$ 16.85	\$ 9.10
Second Quarter	\$ 11.53	\$ 2.96
Third Quarter	\$ 4.65	\$ 1.81
Fourth Quarter	\$ 2.27	\$ 0.76

As of December 31, 2004, there were 3,793 holders of record of our Class A common stock, one holder of our Class B common stock, and 13 holders of record of our Series A Convertible Redeemable Preferred Stock.

The last reported sale price of our Class A common stock on the Nasdaq National Market on January 28, 2005 was \$1.65 per share.

We have never paid and do not expect to pay any cash dividends on our Class A common stock in the foreseeable future. Charter Holdco is required under certain circumstances to pay distributions pro rata to all its common members to the extent necessary for any common member to pay taxes incurred with respect to its share of taxable income attributed to Charter Holdco. Covenants in the indentures and credit agreements governing the debt of our subsidiaries restrict their ability to make distributions to us and, accordingly, limit our ability to declare or pay cash dividends. We intend to cause Charter Holdco and its subsidiaries to retain future earnings, if any, to finance the operation of the business of Charter Holdco and its subsidiaries.

Table of Contents**CAPITALIZATION**

The following table sets forth as of September 30, 2004, on a consolidated basis:

the actual (historical) capitalization of Charter;

The capitalization of Charter, on a pro forma basis to reflect:

- (1) the sale by CCO Holdings, LLC of \$550 million of senior floating rate notes due 2010 with the net proceeds used to repay borrowings under Charter Communications Operating, LLC's revolving credit facility and for general corporate purposes;
- (2) the issuance and sale of \$863 million of 5.875% convertible senior notes in November 2004 and the use of the proceeds for (i) purchase of certain U.S. government securities which were pledged as security for the 5.875% convertible senior notes (and which we expect to use to fund the first six interest payments thereon), (ii) redemption of outstanding 5.75% convertible senior notes due 2005 and (iii) general corporate purposes; and
- (3) the issuance of the shares offered hereby pursuant to a share lending agreement.

The following information should be read in conjunction with Selected Historical Consolidated Financial Data, Unaudited Pro Forma Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and related notes included elsewhere in this prospectus.

	As of September 30, 2004	
	Actual	Pro Forma
	(Dollars in millions)	
Cash and cash equivalents	\$ 129	\$ 355
Long-term debt:		
Charter Communications, Inc.:		
5.875% convertible senior notes due 2009(a)	\$	\$ 832
5.75% convertible senior notes due 2005	588	
4.75% convertible senior notes due 2006	156	156
Charter Holdings:		
Senior and senior discount notes(b)	8,517	8,517
CCH II:		
10.250% senior notes due 2010	1,601	1,601
CCO Holdings:		
8 3/4% senior notes due 2013	500	500
Senior floating rate notes due 2010		550
Charter Operating:		
8.000% senior second lien notes	1,100	1,100
8.375% senior second lien notes	400	400
Renaissance:		
10.00% senior discount notes due 2008	116	116
CC V Holdings:		
11.875% senior discount notes due 2008	113	113
Credit facilities:		
Charter Operating(c)	5,393	4,993
Total long-term debt	18,484	18,878
Preferred stock redeemable(d)	55	55

Minority interest(e)	637	637
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Shareholders deficit:

Class A common stock; \$.001 par value; 1.75 billion shares authorized;
304,803,455 and 454,803,455 shares issued and outstanding,
respectively(f)

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

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	As of September 30, 2004	
	Actual	Pro Forma
	(Dollars in millions)	
Additional paid-in-capital	4,783	4,796
Accumulated deficit	(8,856)	(8,866)
Accumulated other comprehensive income	(9)	(9)
	-----	-----
Total shareholders' deficit	(4,082)	(4,079)
	-----	-----
Total capitalization	\$ 15,094	\$ 15,491
	=====	=====

- (a) Represents issuance and sale of the 5.875% convertible senior notes. This assumes proceeds of \$863 million of which \$30 million, related to certain provisions of the 5.875% convertible senior notes that for accounting purposes were derivatives which required bifurcation, is recorded as accounts payable and accrued expenses and other long-term liabilities with the resulting long-term debt of \$832 million. The debt will accrete from the \$832 million to the \$863 million face value over three years, the duration of our pledged securities. The derivative valuation is based on preliminary estimates and may be revised as a result of the finalization of the valuation.

	As of September 30, 2004	
	Actual	Pro Forma
	(Dollars in millions)	
(b) Represents the following Charter Holdings notes:		
8.250% senior notes due 2007	\$ 451	\$ 451
8.625% senior notes due 2009	1,242	1,242
9.920% senior discount notes due 2011	1,108	1,108
10.000% senior notes due 2009	640	640
10.250% senior notes due 2010	318	318
11.750% senior discount notes due 2010	435	435
10.750% senior notes due 2009	874	874
11.125% senior notes due 2011	500	500
13.500% senior discount notes due 2011	571	571
9.625% senior notes due 2009	638	638
10.000% senior notes due 2011	708	708
11.750% senior discount notes due 2011	780	780
12.125% senior discount notes due 2012	252	252
	-----	-----
Total	\$ 8,517	\$ 8,517

- (c) The amounts outstanding under the Charter Operating credit facilities as of September 30, 2004 totaled \$5.4 billion. Borrowing availability under the credit facilities totaled \$957 million as of September 30, 2004, none of which was restricted due to covenants.
- (d) In connection with Charter's acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., Charter issued 545,259 shares of Series A Convertible Redeemable Preferred Stock valued at and with a liquidation preference of \$55 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. 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 Class A common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of Class A common stock, subject to certain customary adjustments.

- (e) Minority interest represents the percentage of Charter Communications Holding Company, LLC not owned by Charter, or approximately 53% of total members' equity of Charter Communications Holding Company, LLC, plus \$650 million of preferred membership interests in CC VIII, LLC, an indirect subsidiary of Charter Communications Holding Company, LLC. Paul G. Allen indirectly holds the preferred membership units in CC VIII as a result of the exercise of put rights originally granted in connection with the Bresnan transaction in 2000. An issue has arisen regarding the ultimate

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ownership of the CC VIII membership interests following the consummation of the Bresnan put transaction on June 6, 2003. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen s Investment in Charter and its Subsidiaries Equity Put Rights CC VIII. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Communications Holding Company, LLC. Because minority interest in Charter Communications Holding Company, LLC was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, Charter began to absorb substantially all losses before income taxes that otherwise would have been allocated to minority interest. Subject to any changes in Charter Communications Holding Company, LLC s capital structure, Charter will absorb substantially all future losses.

- (f) Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact earnings per share under current accounting literature. See Share Lending Agreement.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements are based on the historical consolidated financial statements of Charter, adjusted on a pro forma basis to reflect the following transactions as if they had occurred on September 30, 2004 (for the unaudited pro forma consolidated balance sheet) and on January 1, 2003 (for the unaudited pro forma consolidated statement of operations):

- (1) the disposition of certain assets in October 2003 and in March and April 2004 and the use of proceeds in each case to pay down credit facilities;
- (2) the issuance and sale of the CCH II senior notes in September 2003, the CCO Holdings senior notes in November 2003, the CCO Holdings senior floating rate notes in December 2004 and the Charter Operating senior second lien notes in April 2004 with proceeds used to refinance or repay outstanding debt and for general corporate purposes;
- (3) an increase in amounts outstanding under the Charter Operating credit facilities in April 2004 and the use of such funds, together with the proceeds of the sale of the Charter Operating senior second lien notes, to refinance amounts outstanding under the credit facilities of our subsidiaries, CC VI Operating, CC VIII Operating and Falcon;
- (4) the issuance and sale of \$863 million of 5.875% convertible senior notes in November 2004 with proceeds used for (i) the purchase of certain U.S. government securities pledged as security for the 5.875% convertible senior notes (and which we expect to use to fund the first six interest payments thereon), (ii) redemption of outstanding 5.75% convertible senior notes due 2005 and (iii) general corporate purposes; and
- (5) the issuance of the shares offered hereby pursuant to a share lending agreement. See Share Lending Agreement.

The unaudited pro forma adjustments are based on information available to us as of the date of this prospectus and certain assumptions that we believe are reasonable under the circumstances. The Unaudited Pro Forma Consolidated Financial Statements required allocation of certain revenues and expenses and such information has been presented for comparative purposes and is not intended (a) to provide any indication of what our actual financial position or results of operations would have been had the transactions described above been completed on the dates indicated or (b) to project our results of operations for any future date.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Year Ended December 31, 2003**

	Historical	Asset Dispositions (Note A)	Financing Transactions (Note B)	Subtotal	Offering Adjustments (Note C)	Pro Forma
(Dollars in millions, except per share and share data)						
Revenues						
Video	\$ 3,461	\$ (137)	\$	\$ 3,324	\$	\$ 3,324
High-speed data	556	(15)		541		541
Advertising sales	263	(8)		255		255
Commercial	204	(16)		188		188
Other	335	(13)		322		322
	<u>4,819</u>	<u>(189)</u>		<u>4,630</u>		<u>4,630</u>
Costs and Expenses:						
Operating(excluding depreciation and amortization)	1,952	(71)		1,881		1,881
Selling, general and administrative	940	(26)		914		914
Depreciation and amortization	1,453	(40)		1,413		1,413
Loss on sale of assets, net	5	21		26		26
Option compensation expense, net	4			4		4
Special charges, net	21			21		21
Unfavorable contracts and other adjustments	(72)			(72)		(72)
	<u>4,303</u>	<u>(116)</u>		<u>4,187</u>		<u>4,187</u>
Income (loss) from operations	516	(73)		443		443
Interest expense, net	(1,557)	27	(174)	(1,704)	(15)	(1,719)
Gain on derivative instruments and hedging activities, net	65			65		65
Gain on debt exchange, net	267		(267)			
Loss on equity investments	(3)			(3)		(3)
Other, net	(13)			(13)		(13)
	<u>(1,241)</u>	<u>27</u>	<u>(441)</u>	<u>(1,655)</u>	<u>(15)</u>	<u>(1,670)</u>
Loss before minority interest and income taxes	(725)	(46)	(441)	(1,212)	(15)	(1,227)
Minority interest	377			377		377
	<u>(348)</u>	<u>(46)</u>	<u>(441)</u>	<u>(835)</u>	<u>(15)</u>	<u>(850)</u>
Loss before income taxes	(348)	(46)	(441)	(835)	(15)	(850)
Income tax benefit	110	1		111		111
	<u>(238)</u>	<u>\$ (45)</u>	<u>\$ (441)</u>	<u>\$ (724)</u>	<u>\$ (15)</u>	<u>(739)</u>
Net loss	(238)	\$ (45)	\$ (441)	\$ (724)	\$ (15)	(739)
Dividends on preferred stock redeemable	(4)					(4)
	<u>\$ (242)</u>					<u>\$ (743)</u>

Net loss applicable to common stock		
Loss per common share, basic and diluted	\$ (0.82)	\$ (2.52)
Weighted average common shares outstanding, basic and diluted	294,597,519	294,597,519

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Note A: Represents the elimination of operating results related to the disposition of certain assets in October 2003 and in March and April 2004 and a reduction of interest expense related to the use of the net proceeds from such sales to repay a portion of our subsidiaries' credit facilities.

Note B: Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions two and three (in millions):

Interest in the Charter Operating senior second lien notes and the amended and restated Charter Operating credit facilities at a weighted average rate of 5.1%	\$ 340
Interest on CCH II 10.25% senior notes	123
Interest on CCO Holdings 8 3/4% senior notes	38
Interest on CCO Holdings senior floating rate notes	36
Amortization of deferred financing costs	27
Less:	
Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid	(253)
Historical interest expense for CCI and CCH senior and senior discount notes repaid with proceeds from CCH II refinancing	(117)
Interest expense for Charter Operatings' revolving credit facility repaid with proceeds from issuance of the CCO Holdings senior floating rate notes	(20)
	<u> </u>
Net increase in interest expense for other financing transactions	\$ 174
	<u> </u>

Net gain on debt exchange represents the elimination of the gain realized on the purchase of an aggregate of \$609 million principal amount of our convertible senior notes and \$1.3 billion principal amount of Charter Communications Holdings, LLC's senior notes and senior discount notes in consideration for an aggregate of \$1.6 billion principal amount of 10.25% notes due 2010 issued by CCH II, LLC. The gain is net of the write-off of deferred financing costs associated with the retired debt of \$27 million.

Note C: Represents the increase in interest expense from the issuance of \$863 million of convertible senior notes due 2009 with a stated interest rate of 5.875% and the amortization of deferred debt issuance cost associated with such issuance reduced by the use of proceeds to retire \$588 million of the 5.75% convertible senior notes due in 2005 and the interest on the \$144 million of securities purchased and pledged as security for interest payments on such debt (in millions):

Interest on the convertible senior notes issued in November 2004	\$ 51
Amortization of deferred debt issuance costs(a)	4
Less interest from the pledged securities	(3)
Less interest on 5.75% convertible senior notes retired with proceeds	(37)
	<u> </u>
Pro forma interest expense adjustment	\$ 15
	<u> </u>

(a) The adjustment related to the amortization of deferred financing cost is based on preliminary information available at this time and is subject to change based on finalization of the valuation and on finalization of the amount of financing costs to be deferred.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2004**

	Historical	Asset Dispositions (Note A)	Financing Transactions (Note B)	Subtotal	Offering Adjustments (Note C)	Pro Forma
(Dollars in millions, except per share and share data)						
Revenues						
Video	\$ 2,534	\$ (21)	\$	\$ 2,513	\$	\$ 2,513
High-speed data	538	(3)		535		535
Advertising	205	(1)		204		204
Commercial	175	(2)		173		173
Other	249	(2)		247		247
	<u>3,701</u>	<u>(29)</u>		<u>3,672</u>		<u>3,672</u>
Costs and Expenses						
Operating (excluding depreciation and amortization)	1,552	(12)		1,540		1,540
Selling, general and administrative	735	(4)		731		731
Depreciation and amortization	1,105	(6)		1,099		1,099
Impairments of franchises	2,433			2,433		2,433
Gain (loss) on sale of assets, net	(104)	105		1		1
Option compensation expense, net	34			34		34
Special charges, net	100			100		100
	<u>5,855</u>	<u>83</u>		<u>5,938</u>		<u>5,938</u>
Loss from operations	(2,154)	(112)		(2,266)		(2,266)
Interest expense, net	(1,227)	4	(52)	(1,275)	(11)	(1,286)
Gain on derivative instruments and hedging activities, net	48			48		48
Loss on debt to equity conversions	(23)			(23)		(23)
Loss on extinguishment of debt	(21)		21			
	<u>(1,223)</u>	<u>4</u>	<u>(31)</u>	<u>(1,250)</u>	<u>(11)</u>	<u>(1,261)</u>
Loss before minority interest, income taxes, and cumulative effect of accounting change	(3,377)	(108)	(31)	(3,516)	(11)	(3,527)
Minority interest	24			24		24
	<u>(3,353)</u>	<u>(108)</u>	<u>(31)</u>	<u>(3,492)</u>	<u>(11)</u>	<u>(3,503)</u>
Income tax benefit	116	14		130		130
	<u>(3,237)</u>	<u>(94)</u>	<u>(31)</u>	<u>(3,362)</u>	<u>(11)</u>	<u>(3,373)</u>
Loss before cumulative effect of accounting change	\$ (3,237)	\$ (94)	\$ (31)	\$ (3,362)	\$ (11)	\$ (3,373)

Loss per common share, basic and diluted	\$ (10.82)	\$ (11.27)
Weighted average common shares outstanding, basic and diluted (Note D)	299,411,053	299,411,053

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Note A: Represents the elimination of operating results related to the disposition of certain assets in March and April 2004 and a reduction of interest expense related to the use of the net proceeds from such sales to repay a portion of our subsidiaries' credit facilities.

Note B: Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions two and three (in millions):

Interest on the Charter Operating senior second lien notes and the amended and restated Charter Operating credit facilities at a weighted average rate of 4.9%	\$ 114
Interest on CCO Holdings senior floating rate notes	27
Amortization of deferred financing costs	9
Less:	
Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid	(83)
Interest expense for Charter Operating's revolving credit facility repaid with proceeds from issuance of the CCO Holdings senior floating rate notes	(15)
	<u> </u>
Net increase in interest expense for other financing transactions	\$ 52
	<u> </u>

Loss on extinguishment of debt represents the elimination of the write-off of deferred financing fees and third party costs related to the Charter Operating refinancing in April 2004.

Note C: Represents the increase in interest expense from the issuance of \$863 million of convertible senior notes due 2009 with a stated interest rate of 5.875% and the amortization of deferred debt issuance cost associated with such issuance reduced by the use of proceeds to retire \$588 million of the 5.75% convertible senior notes due in 2005 and the interest on the \$144 million of securities purchased and pledged as security for interest payments on such debt (in millions):

Interest on the convertible senior notes issued in November 2004	\$ 38
Amortization of deferred debt issuance costs(a)	3
Less interest from the pledged securities	(2)
Less interest on 5.75% convertible senior notes retired with proceeds	(28)
	<u> </u>
Pro forma interest expense adjustment	\$ 11
	<u> </u>

(a) The adjustment related to the amortization of deferred financing cost is based on preliminary information available at this time and is subject to change based on finalization of the amount of financing costs to be deferred.

Note D: Loss per common share, basic and diluted assumes none of the membership units of Charter Communications Holding Company, LLC are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Communications Holding Company, LLC that are automatically exchanged for Charter common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock-redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET**

As of September 30, 2004

	Historical	Financing Transactions (Note A)	Subtotal	Offering Adjustments (Note B)	Pro Forma
(Dollars in millions)					
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 129	\$ 137	\$ 266	\$ 89	\$ 355
Accounts receivable, net	186		186		186
Receivables from related party					
Prepaid expenses and other current assets	30		30	48	78
Total current assets	345	137	482	137	619
INVESTMENT IN CABLE PROPERTIES:					
Property, plant and equipment, net	6,415		6,415		6,415
Franchises, net	9,885		9,885		9,885
Total investment in cable properties, net	16,300		16,300		16,300
OTHER NONCURRENT ASSETS					
	439	13	452	140	592
Total assets	\$17,084	\$150	\$17,234	\$277	\$17,511
LIABILITIES AND SHAREHOLDERS DEFICIT					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	\$ 1,301	\$	\$ 1,301	\$ 10	1,311
Total current liabilities	1,301		1,301	10	1,311
LONG-TERM DEBT					
	18,484	150	18,634	244	18,878
DEFERRED MANAGEMENT FEES RELATED PARTY					
	14		14		14
OTHER LONG-TERM LIABILITIES					
	675		675	20	695
MINORITY INTEREST					
	637		637		637
PREFERRED STOCK-REDEEMABLE					
	55		55		55
SHAREHOLDERS DEFICIT:					
Class A common stock					
Class B common stock					
Preferred stock					
Additional paid-in capital	4,783		4,783	13	4,796
Accumulated deficit	(8,856)		(8,856)	(10)	(8,866)
Accumulated other comprehensive loss	(9)		(9)		(9)

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Total shareholders' deficit	<u>(4,082)</u>	<u>—</u>	<u>(4,082)</u>	<u>3</u>	<u>(4,079)</u>
Total liabilities and shareholders' deficit	<u>\$ 17,084</u>	<u>\$ 150</u>	<u>\$ 17,234</u>	<u>\$ 277</u>	<u>\$ 17,511</u>

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Note A: Financing transactions represent the issuance in December 2004 of \$550 million of senior floating rate notes by CCO Holdings with proceeds used for (i) repayment of \$400 million under Charter Operatings revolving credit facility, (ii) payment of financing costs and (iii) general corporate purposes. The amount of financing costs deferred is based on preliminary information regarding actual expenses. Sources and uses are as follows (in millions):

Source of funds:	
Issuance of senior floating rate notes due 2010	\$550
	—
Total sources	\$550
	—
Uses of funds:	
Repay Charter Operatings revolving credit facility	\$400
Payment of financing costs	13
General corporate purposes	137
	—
Total uses	\$550
	—

Note B: Offering adjustments include the issuance and sale of approximately \$863 million of convertible senior notes with proceeds used (i) to purchase approximately \$144 million of securities, which are pledged as security for interest payments on such debt, (ii) to call, at 101.15%, the outstanding 5.75% convertible senior notes due 2005, (iii) to pay financing cost and (iv) for general corporate purposes. The short-term portion of the pledged securities is recorded on our unaudited pro forma consolidated balance sheet in prepaid expenses and other current assets, while the long-term portion is recorded in other assets. Certain provisions of the 5.875% convertible senior notes with a fair value of \$30 million for accounting purposes are considered derivatives and require bifurcation. These derivatives are preliminary estimates and may be revised based on finalization of the valuations and have been bifurcated from the long-term debt, with the short-term portion recorded as accounts payable and accrued expenses and the long-term portion recorded as other long-term liabilities on the unaudited pro forma consolidated balance sheet. Additionally, the fair market value of the stock borrow arrangement of approximately \$13 million was recorded as deferred financing cost (other noncurrent assets) and additional paid in capital on the unaudited consolidated balance sheet. The amount of financing costs deferred is based on preliminary information available at this time and is subject to adjustment based on final information regarding actual expenses. In addition, we wrote off approximately \$4 million of deferred financing cost associated with the redemption of the 5.75% convertible senior notes. Sources and uses are as follows (in millions):

Sources of funds:	
Issuance of 5.875% convertible senior notes due 2009	\$863
	—
Total sources	\$863
	—
Uses of funds:	
Redeem 5.75% convertible senior notes due 2005	\$595
Purchase pledged securities	144
Payment of financing cost	35
General corporate purposes	89
	—
Total uses	\$863
	—

Table of Contents**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table presents summary financial and other data for Charter and its subsidiaries and has been derived from (i) the audited consolidated financial statements of Charter and its subsidiaries for the four years ended December 31, 2003, (ii) the unaudited consolidated financial statements of Charter and its subsidiaries for the year ended December 31, 1999, and (iii) the unaudited consolidated financial statements of Charter and its subsidiaries for the nine months ended September 30, 2003 and 2004. The consolidated financial statements of Charter and its subsidiaries for the years ended December 31, 2000 to 2003 have been audited by KPMG LLP, an independent registered public accounting firm. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
(Dollars in millions, except share and per share amounts)							
Statement of Operations Data:							
Revenues	\$ 1,428	\$ 3,141	\$ 3,807	\$ 4,566	\$ 4,819	\$ 3,602	\$ 3,701
Costs and Expenses:							
Operating (excluding depreciation and amortization)	460	1,187	1,486	1,807	1,952	1,457	1,552
Selling, general and administrative	329	606	826	963	940	702	735
Depreciation and amortization	745	2,398	2,683	1,436	1,453	1,095	1,105
(Gain) loss on sale of assets, net			10	3	5	23	(104)
Impairment of franchises				4,638			2,433
Option compensation expense (income), net	80	38	(5)	5	4	1	34
Special charges, net			18	36	21	18	100
Unfavorable contracts and other settlements					(72)		
	1,614	4,229	5,018	8,888	4,303	3,296	5,855
Income (loss) from operations	(186)	(1,088)	(1,211)	(4,322)	516	306	(2,154)
Interest expense, net	(444)	(1,040)	(1,310)	(1,503)	(1,557)	(1,163)	(1,227)
Gain (loss) on derivative instruments and hedging activities, net			(50)	(115)	65	35	48
Gain on debt exchange, net					267	267	
Loss on debt to equity conversions							(23)
Loss on extinguishment of debt							(21)
Loss on equity investments		(19)	(54)	(3)	(3)	(3)	
Other, net	(8)	(1)	(5)	(1)	(13)	(6)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(638)	(2,148)	(2,630)	(5,944)	(725)	(564)	(3,377)
Minority interest	573	1,280	1,461	3,176	377	297	24
Loss before income taxes and cumulative effect of accounting change	(65)	(868)	(1,169)	(2,768)	(348)	(267)	(3,353)
Income tax benefit (expense)	(1)	10	12	460	110	86	116
Loss before cumulative effect of accounting change	(66)	(858)	(1,157)	(2,308)	(238)	(181)	(3,237)
Cumulative effect of accounting change, net of tax			(10)	(206)			(765)

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	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
(Dollars in millions, except share and per share amounts)							
Net loss	(66)	(858)	(1,167)	(2,514)	(238)	(181)	(4,002)
Dividends on preferred stock redeemable			(1)	(3)	(4)	(3)	(3)
Net loss applicable to common stock	\$ (66)	\$ (858)	\$ (1,168)	\$ (2,517)	\$ (242)	\$ (184)	\$ (4,005)
Loss per common share, basic and diluted	\$ (2.22)	\$ (3.80)	\$ (4.33)	\$ (8.55)	\$ (0.82)	\$ (0.62)	\$ (13.38)
Weighted-average common shares outstanding, basic and diluted	29,811,202	225,697,775	269,594,386	294,440,261	294,597,519	294,503,840	299,411,053
Other Data:							
Deficiencies of earnings to cover fixed charges(a)	\$ (638)	\$ (2,148)	\$ (2,630)	\$ (5,944)	\$ (725)	\$ (564)	\$ (3,377)
Balance Sheet Data (end of period):							
Total assets	\$ 18,967	\$ 24,352	\$ 26,463	\$ 22,384	\$ 21,364	\$ 21,451	\$ 17,084
Long-term debt	8,937	13,061	16,343	18,671	18,647	18,498	18,484
Minority interest(b)	5,381	4,571	4,434	1,050	689	763	637
Redeemable securities	751	1,104					
Preferred stock redeemable			51	51	55	55	55
Shareholders' equity (deficit)	3,011	2,767	2,585	41	(175)	(127)	(4,082)

- (a) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.
- (b) Minority interest represents the percentage of Charter Communications Holding Company, LLC not owned by Charter, plus preferred membership interests in CC VIII, LLC, an indirect subsidiary of Charter. Paul G. Allen indirectly holds the preferred membership units in CC VIII, LLC as a result of the exercise of a put right originally granted in connection with the Bresnan transaction in 2000. An issue has arisen regarding the ultimate ownership of the CC VIII, LLC membership interest following the consummation of the Bresnan put transaction on June 6, 2003. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Communications Holding Company, LLC. Because minority interest in Charter Communications Holding Company, LLC was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, Charter began to absorb substantially all losses before income taxes that otherwise would have been allocated to minority interest. As a result of negative equity at Charter Communications Holding Company, LLC, during the nine months ended September 30, 2004, no additional losses were allocated to minority interest, resulting in an approximate additional \$2.0 billion of net losses. Subject to any changes in Charter Communications Holding Company, LLC's capital structure, Charter will absorb substantially all future losses.

Table of Contents**SUPPLEMENTARY QUARTERLY FINANCIAL DATA**

The following tables present quarterly financial data for the periods presented on the consolidated statements of operations (in millions):

Nine Months Ended September 30, 2004

	First Quarter	Second Quarter	Third Quarter
Revenues	\$ 1,214	\$ 1,239	\$ 1,248
Income (loss) from operations	175	15	(2,344)
Loss before minority interest, income taxes and cumulative effect of accounting change	(235)	(366)	(2,776)
Net loss applicable to common stock	(294)	(416)	(3,295)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.00)	(1.39)	(8.36)
Basic and diluted loss per common share	(1.00)	(1.39)	(10.89)
Weighted-average shares outstanding	295,106,077	300,522,815	302,604,978

Year Ended December 31, 2003

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,178	\$ 1,217	\$ 1,207	\$ 1,217
Income from operations	77	112	117	208
Income (loss) before minority interest and income taxes	(301)	(286)	23	(161)
Net income (loss) applicable to common stock	(182)	(38)	36	(58)
Basic income (loss) per common share	(0.62)	(0.13)	0.12	(0.20)
Diluted Income (loss) per common share	(0.62)	(0.13)	0.07	(0.20)
Weighted-average shares outstanding, basic	294,466,137	294,474,596	294,566,878	294,875,504
Weighted-average shares outstanding, diluted	294,466,137	294,474,596	637,822,843	294,875,504

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	84	91	(4,597)
Loss before minority interest, income taxes and cumulative effect of accounting change	(234)	(354)	(367)	(4,989)
Net loss applicable to common stock	(317)	(161)	(167)	(1,872)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.38)	(0.55)	(0.57)	(6.36)
Basic and diluted loss per common share	(1.08)	(0.55)	(0.57)	(6.36)
Weighted-average shares outstanding	294,394,939	294,453,454	294,454,659	294,457,134

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to Disclosure Regarding Forward-Looking Statements, which describes important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following discussion should be read in conjunction with the audited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the years ended December 31, 2003, 2002 and 2001 and the unaudited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the nine months ended September 30, 2004 included in this prospectus.

Introduction

During 2003, we undertook a number of transition activities including reorganizing our workforce, adjusting our video pricing and packages, call center consolidations and implementing billing conversions. Due to the focus on such activities and certain financial constraints, we reduced spending on marketing our products and services. The reduced marketing activities and other necessary operational changes negatively impacted customer retention and acquisition, primarily during the first half of the year. During the second half of 2003, we increased our marketing efforts and implemented promotional campaigns to slow the loss of analog video customers, and to accelerate advanced service penetration, especially in high-speed data.

In 2003 and the nine months ended September 30, 2004, we took a series of steps intended to improve our balance sheet and liquidity. The issuance of approximately \$862.5 million original principal amount of convertible senior notes due 2009, the net proceeds of which have been used to purchase a portfolio of U.S. government securities as security for certain interest payments on the new notes and will be used to redeem Charter's \$588 million outstanding 5.75% Convertible Senior Notes due October 2005, and our subsidiaries' issuance of \$550 million of senior floating rate notes with the net proceeds used to repay Charter Operating's revolving credit facility and for general corporate purposes, are our most recent examples of these efforts. In addition, since September 2003:

We and our subsidiaries exchanged \$1.9 billion of indebtedness for \$1.6 billion of indebtedness while extending maturities and achieving approximately \$294 million of debt discount.

Our subsidiary, CCO Holdings, sold \$500 million total principal amount of 8 3/4% senior notes and used the net proceeds to repay approximately \$486 million principal amount of our subsidiaries' credit facilities, providing additional financial flexibility for use of our subsidiary's credit facilities.

Our subsidiaries amended the Charter Operating credit facilities and concurrently issued \$1.5 billion in senior second lien notes to refinance bank debt of CC VI Operating, CC VIII Operating and Falcon. The transaction extended beyond 2008 approximately \$8.0 billion of scheduled debt maturities and credit facility commitment reductions which would have otherwise come due before that time.

Our subsidiaries completed the sale of cable systems in Port Orchard, Washington, for a total price of approximately \$91 million, subject to adjustments.

We closed the sale of cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia with Atlantic Broadband Finance, LLC. We closed on the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. Subject to post-closing contractual adjustments, we expect the total net proceeds from the sale of all of these systems to be approximately \$733 million, of which \$5 million is currently held in an indemnity escrow account (with the unused portion thereof to be released by March 1, 2005). The proceeds received to date have been used to repay a portion of amounts outstanding under our subsidiary's credit facilities.

We significantly reduced capital spending from approximately \$2.2 billion for the year ended December 31, 2002 to approximately \$854 million for the year ended December 31, 2003, primarily due to the substantial completion of our network rebuild and upgrade.

During the years 1999 through 2001, we grew significantly, principally through acquisitions of other cable businesses financed by debt and, to a lesser extent, equity. We have no current plans to pursue any

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significant acquisitions. However, we may pursue exchanges of non-strategic assets or divestitures, such as the sale of cable systems to Atlantic Broadband Finance, LLC discussed above. We therefore do not believe that our historical growth rates are accurate indicators of future growth.

The industry's and our most significant operational challenges in 2003 and the first nine months of 2004 included increased competition from direct broadcast satellite (DBS) providers and digital subscriber line (DSL) service providers. See Business Competition. The increased competition from DBS has resulted in net analog video customer losses and decreased growth rates for digital video customers. Increased competition from DSL providers combined with limited opportunities to expand our customer base now that approximately 27% of our analog video customers subscribe to our high-speed data services has resulted in decreased growth rates for high-speed data customers. To date, we have continued to grow revenues by offsetting video customer losses with price increases and sales of incremental advanced services such as high-speed data, video on demand, digital video recorders and high-definition television. We expect to continue to grow revenues through continued growth in high-speed data and incremental advanced services including VOIP telephony, high-definition television and digital video recorders.

Historically, our ability to fund operations and investing activities has depended on our continued access to credit under our subsidiary's credit facilities. While our use of cash has changed over time such that the substantial majority of our cash now comes from cash flows from operating activities, we expect we will continue to borrow under our subsidiary's credit facilities from time to time to fund cash needs. The occurrence of an event of default under our subsidiary's credit facilities could result in borrowings from these facilities being unavailable to us and could, in the event of a payment default or acceleration, also trigger events of default under our notes and our subsidiaries' outstanding notes and would have a material adverse effect on us.

Adoption of New Policies

Commencing in January 2002 and continuing through the first quarter of 2003, our management elected to implement a number of new policies including:

Change in Disconnect and Bad Debt Policies. Our estimated customer count is intended to include those people receiving cable service (regardless of payment status), except for complementary accounts (such as our employees). Our disconnect and bad debt guidelines for slow or nonpaying customers provide that, in general, customers are to be terminated for non-payment after approximately 60-75 days, and written off/referred to collection at approximately 90-110 days. We initially began implementing this policy in January 2002 after we decided to change our past practice under which we did not promptly disconnect these customers on a uniform basis. Effective year-end 2001, we also increased our allowance for doubtful accounts. The number of our customers who are presently more than 90 days overdue and our bad debt expense associated with such customers are lower than they were prior to the institution of these policies.

Procedures to Ensure Adherence to Disconnect and Customer Count Policies. During our review of internal audit findings and in the course of internal investigations, and subsequently in the course of responding to governmental investigations, we became concerned that certain employees either were not complying or had not previously been complying with our customer count and disconnect policies. We have since announced to our employees that a failure to follow these policies will be met with disciplinary action including, in appropriate cases, termination. We have terminated and disciplined employees who have not followed the policies. We have instituted regular review of customer reports by senior employees in an effort to ensure adherence to our policies and consistency of application throughout our various operating divisions, and we have established a telephone hotline number for employees to call and report misconduct relating to the reporting of customer numbers. We have also elected not to provide guidance on expected customer numbers in our public disclosures.

Corporate Compliance Program. Prior to 2003, we did not have a formal compliance program. In early 2003, we established a corporate compliance program, pursuant to which we provide training to our employees, and provide a revised Code of Conduct to our employees that is incorporated into our Employee Handbook. The Code and Handbook require that employees report violations of the Code or other behavior which they believe might be unethical or illegal. Employees can report matters to their supervisor, to the Human Resources Department, or through a hotline or through a secure website, and

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may do so anonymously. The compliance program is overseen by a compliance committee comprised of our high-ranking officers, which meets at least on a quarterly basis. The Chief Compliance Officer also reports to the Audit Committee on a quarterly basis.

Treatment of Data Only Customers. We have changed our methodology for reporting analog cable video customers to exclude those customers who receive high-speed data service only. This represents a change in our methodology from prior reports through September 30, 2002, in which high-speed data service only customers (which numbered approximately 55,900 at September 30, 2002) were included within our analog cable video customers. We made this change because we determined that a substantial number of those customers who only received high-speed data service were unable to receive our most basic level of analog video 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. In addition, in light of our decision to begin marketing of our high-speed data services as a separate product, we believed that separate disclosure of this information would assist investors in understanding our current business and in monitoring what we expected to be an increasing number of data only customers. See Business Products and Services.

Disclosure Committee. We established a Disclosure Committee, consisting of senior personnel from the business units, our internal audit group, and the finance and legal groups, and we now follow an extensive review and certification process in connection with our filings with the SEC and other disclosure documents.

Audit Committee. We modified our Audit Committee's charter to expand the role of the committee and to comply with the Sarbanes-Oxley Act of 2002 and the rules issued thereunder (including applicable Nasdaq rules).

Accounting Policy Changes. Consistent with the description of the restatement, we have revised a number of our accounting policies, including treatment of launch incentives received from programmers. For a complete discussion of accounting changes and adjustments brought about as a result of the re-audit or restatement, see Restatement of Prior Results.

Restatement of Prior Results

There were no restatements in 2003 or 2004 of prior results. However, certain reclassifications have been made to 2002 and 2001 amounts to conform to 2003 presentation. Also, as discussed in our annual report on Form 10-K for the year ended December 31, 2002, on November 19, 2002, we announced that we had determined that additional franchise costs and deferred income tax liability should have been recorded for 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, we concluded that it was appropriate to make certain additional adjustments to previously reported results. Among other things, adjustments were made to previous interpretations and applications of generally accepted accounting principles (GAAP) that had been consistently followed by us since 2000 and throughout the restatement period.

These adjustments reduced revenues reported in our 2002 quarterly reports on Form 10-Q for the first three quarters of 2002 by a total of \$38 million, and in our 2001 annual report on Form 10-K for the year 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 a total of \$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. Net cash flows from operating activities for the years ended December 31, 2001 and 2000 were

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reduced by \$30 million and \$303 million, respectively. The most significant categories of adjustments related 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 a total of \$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 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 significantly 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

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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.

	Total
	(In millions)
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, we reduced the value of assets subject to replacement by a total of approximately \$1.2 billion to record the assets at estimated depreciated replacement cost at the date of acquisition. This includes a \$598 million reduction originally recorded in our previously issued financial statements and a \$627 million adjustment identified as part of the restatement. As a result of the items identified above, we determined that depreciation expense was overstated by a total of \$413 million for the first three quarters of 2002, and \$330 million and \$119 million in the years ended 2001 and 2000, respectively. This resulted in net loss being overstated by a total of \$192 million for the first three quarters of 2002, and \$146 million and \$48 million for the years ended 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 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

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\$121 million for the years ended December 31, 2001 and 2000, respectively. This resulted in net loss being understated by a total of \$71 million for the first three quarters of 2002, and \$57 million and \$49 million for the years ended 2001 and 2000, respectively.

Other Adjustments. In addition to the items described above, certain other adjustments were made that increased net loss by \$38 million and decreased net loss by \$10 million, respectively, for the years ended December 31, 2001 and 2000. These adjustments were as follows:

During 2000, advertising revenue was recognized in conjunction with the promotion of equipment offered by two set-top terminal manufacturers from which we purchased digital set-top terminals. However, in connection with our restatement announced in April 2003, we reversed all advertising revenues from the set-top terminal manufacturers recognized in 2000. Based on a reassessment of the underlying structure of the arrangements during 2000, the prices paid for set-top terminals and the advertising revenues recognized were determined to be in excess of fair value. We therefore reduced our advertising revenue and decreased our related property, plant and equipment associated with the purchase of set-top terminals.

During 2001 and 2000, certain post-acquisition marketing and customer acquisition costs were charged against purchase accounting reserves in the financial statements. These costs have been reclassified to record them as period cost in the appropriate fiscal year.

During 2002, 2001 and 2000, certain state taxes, which are equity-based taxes and not based on income, were reclassified as operating expenses, rather than as taxes recorded in other expenses on our consolidated statements of operations.

During 2000, we received management fees from a joint venture pursuant to the terms of the joint venture agreement and recognized revenue. Based on the limited amount of operational management activities performed on behalf of the joint venture, we determined this amount should be reclassified from revenue and recorded as investment income within other expense on our consolidated statements of operations.

During 2000 and 2001, we accounted for the outstanding and unexercised portion of separated employees' options by reversing all (both vested and unvested) previously recorded compensation expense for separated employees who forfeited stock-based awards. Compensation related to vested awards should not have been reversed at the time of separation, as the employee did not fail to fulfill an obligation associated with such vested awards. Stock compensation expense was increased to eliminate the effect of such reversal during 2000 and 2001. In addition, the computation of the compensation expense was adjusted during 2000 to reverse a miscalculation recorded during such years.

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.

Controls. The major adjustments discussed above, including for the rebuild and upgrade of cable systems and deferred tax matters/franchise, generally relate to non-routine items and did not result from control deficiencies in our core accounting operations. 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. 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. As part of our acquisitions integration process, we have, among other things, standardized our data and put in place a data warehouse, which has enhanced our abilities to analyze our operating data. Budgeting has been integrated into our financial systems, through the use of specialized commercial software rather than spreadsheet programs. Additionally, we have implemented in the first quarter 2004, a job costing system, that tracks capital at the project level. These changes have given us the

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ability to better understand, analyze and manage our 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 have improved our controls over both recurring transactions and non-recurring transactions.

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	1,725
Minority interest	3,976	4,434
Total shareholders' equity	2,862	2,585

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 and share data):

	As Previously Reported	As Restated
Revenues	\$ 3,953	\$ 3,807
Costs and expenses:		
Operating (excluding depreciation and amortization)	1,326	1,486
Selling, general and administrative	841	826
Depreciation and amortization	3,010	2,693
Option compensation income	(46)	(5)
Special charges	18	18
	<u>5,149</u>	<u>5,018</u>
Loss from operations	(1,196)	(1,211)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,630)
Loss before cumulative effect of accounting change	(1,178)	(1,157)
Net loss applicable to common stock	\$ (1,179)	\$ (1,168)
	<u>(1,179)</u>	<u>(1,168)</u>
Loss per common share, basic and diluted	\$ (4.37)	\$ (4.33)
	<u>(4.37)</u>	<u>(4.33)</u>
Weighted average common shares outstanding, basic and diluted	269,594,386	269,594,386
	<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
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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	1,568
Minority interest	4,090	4,571
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 and share data):

	<u>As Previously Reported</u>	<u>As Restated</u>
Revenues	\$ 3,249	\$ 3,141
Costs and expenses:		
Operating (excluding depreciation and amortization)	1,036	1,187
Selling, general and administrative	670	606
Depreciation and amortization	2,473	2,398
Stock compensation expense	41	38
	<u>4,220</u>	<u>4,229</u>
Loss from operations	(971)	(1,088)
Loss before minority interest and income taxes	(2,055)	(2,148)
Net loss	\$ (829)	\$ (858)
Loss per common share, basic and diluted	\$ (3.67)	\$ (3.80)
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):

	<u>2001</u>		<u>2000</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>	<u>As Previously Reported</u>	<u>As Restated</u>
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

Table of Contents**Acquisitions**

The following table sets forth information regarding our significant acquisitions from January 1, 1999 to December 31, 2002 (none in 2003 or 2004):

	Acquisition Date	Purchase Price			Total Price	Acquired Customers (approx)
		Cash Paid	Assumed Debt	Securities Issued/Other Consideration		
(Dollars in millions)						
Renaissance	4/99	\$ 348	\$ 111	\$	\$ 459	134,000
American Cable	5/99	240			240	69,000
Greater Media Systems	6/99	500			500	176,000
Helicon	7/99	410	115	25(a)	550	171,000
Vista	7/99	126			126	26,000
Cable Satellite	8/99	22			22	9,000
Rifkin	9/99	1,200	128	133(b)	1,461	463,000
InterMedia	10/99	873		420(c)	1,293	278,000
Fanch	11/99	2,400			2,400	535,600
Falcon	11/99	1,250	1,700	550(d)	3,500	977,200
Avalon	11/99	558	274		832	270,800
Total 1999 Acquisitions		\$ 7,927	\$ 2,328	\$ 1,128	\$ 11,383	3,109,600
Interlake	1/00	\$ 13	\$	\$	\$ 13	6,000
Bresnan	2/00	1,100	963	1,014(e)	3,077	695,800
Capital Cable	4/00	60			60	23,200
Farmington	4/00	15			15	5,700
Kalamazoo	9/00			171(f)	171	50,700
Total 2000 Acquisitions		\$ 1,188	\$ 963	\$ 1,185	\$ 3,336	781,400
AT&T Systems	6/01	\$ 1,711	\$	\$ 25	\$ 1,736(g)	551,100
Cable USA	8/01	45		55(h)	100	30,600
Total 2001 Acquisitions		\$ 1,756	\$	\$ 80	\$ 1,836	581,700
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
Total 2002 Acquisitions		\$ 141	\$	\$	\$ 141	28,000
Total 1999-2002 Acquisitions		\$ 11,012	\$ 3,291	\$ 2,393	\$ 16,696	4,500,700

(a) Represents a preferred limited liability company interest in Charter Helicon, LLC, an indirect wholly owned subsidiary.

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- (b) Relates to preferred equity in Charter Holdco, approximately \$130 million, excluding accrued dividends, of which was subsequently exchanged for shares of Charter Class A common stock.
- (c) As part of this transaction, we agreed to swap certain of our non-strategic cable systems serving customers in Indiana, Montana, Utah and Northern Kentucky valued at approximately \$420 million.
- (d) Relates to common membership units in Charter Holdco issued to certain of the Falcon sellers, which were subsequently exchanged for shares of Charter Class A common stock.

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- (e) Comprised of \$385 million in equity in Charter Holdco and \$629 million of equity in CC VIII.
- (f) 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 Class A common stock.
- (g) Comprised of approximately \$1.7 billion, as adjusted, in cash and a cable system located in Florida valued at approximately \$25 million, as adjusted.
- (h) In connection with this transaction, at the closing we and Charter Holdco 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 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 Charter 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.

We have no current plans to pursue any significant acquisitions. However, we will continue to evaluate opportunities to consolidate our operations through the sale of cable systems to, 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, exchange, or acquisition.

Overview of Operations

Approximately 86% of our revenues for the nine months ended September 30, 2004 and the year ended December 31, 2003 are attributable to monthly subscription fees charged to customers for our video, high-speed data, telephone and commercial services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 14% of revenue is derived primarily from pay-per-view and VOD programming where users are charged a fee for individual programs viewed, advertising revenues, installation or reconnection fees charged to customers to commence or reinstate service, 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 goal is to increase revenues by stabilizing our analog video customer base, implementing price increases on certain services and packages and increasing revenues from incremental high-speed data services, digital video and advanced products and services such as telephony using voice-over-Internet protocol (VOIP), video on demand (VOD), high definition television and digital video recorder service provided to our customers. To accomplish this, we are increasing prices for certain services and we are offering new bundling of services combining digital video and our advanced services (such as high-speed data service and high definition television) at what we believe are attractive price points. See Business Sales and Marketing for more details.

Our success in our efforts to grow revenues and improve margins will be impacted by our ability to compete against companies with often fewer regulatory burdens, easier access to financing, greater personnel resources, greater brand name recognition and long-established relationships with regulatory authorities and customers. Additionally, controlling our cost of operations is critical, particularly cable programming costs, which have historically increased at rates in excess of inflation and are expected to continue to increase. See Business Programming for more details. We are attempting to control our costs of operations by maintaining strict controls on expenses. More specifically, we are focused on managing our cost structure by renegotiating programming agreements to reduce the rate of historical increases in programming cost, managing our workforce to control increases and improve productivity, and leveraging our size in purchasing activities.

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Our expenses primarily consist of operating costs, selling, general and administrative expenses, depreciation and amortization expense and interest expense. Operating costs primarily include programming costs, the cost of our workforce, cable service related expenses, advertising sales costs, franchise fees and expenses related to customer billings. Our income from operations decreased from \$306 million for the nine months ended September 30, 2003 to loss of operations of \$2.2 billion for the nine months ended September 30, 2004, principally due to the impairment of franchises of \$2.4 billion recorded in the third quarter of 2004. The nine months ended September 30, 2004 includes a gain on the sale of certain cable systems to Atlantic Broadband Finance, LLC which is substantially offset by an increase in option compensation expense and special charges when compared to the nine months ended September 30, 2003. For the year ended December 31, 2003, income from operations was \$516 million and for the years ended December 31, 2002 and 2001, our loss from operations was \$4.3 billion and \$1.2 billion, respectively. Operating margin, which is defined as income (loss) from operations divided by revenues, was 11% for the year ended December 31, 2003, whereas for the years ending December 31, 2002 and 2001, we had negative operating margins of 95% and 32%, respectively. The improvement in income from operations and operating margin from 2002 to 2003 was principally due to a \$4.6 billion franchise impairment charge in the fourth quarter of 2002 which did not recur in 2003 and the recognition of gains in 2003 of \$93 million related to unfavorable contracts and other settlements and gain on sale of system. The increase in loss from operations and negative operating margins from 2001 to 2002 was primarily as a result of a \$4.6 billion franchise impairment charge in the fourth quarter of 2002, partially offset by a decrease in amortization expense of \$1.5 billion as a result of the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, which eliminated the amortization of franchises determined to have an indefinite life. Although we do not expect charges for impairment in the future of comparable magnitude, potential charges could occur due to changes in market conditions.

We have a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the interest costs we incur because of our high level of debt, the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties, and the amortization and impairment of our franchise intangibles. We expect that these expenses (other than amortization and impairment of franchises) will remain significant, and we therefore expect to continue to report net losses for the foreseeable future. Additionally, because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, we began to absorb substantially all future losses before income taxes that otherwise would have been allocated to minority interest. This resulted in an additional \$2.0 billion of net loss for the nine months ended September 30, 2004. Subject to any changes in Charter Holdco's capital structure, future losses will continue to be absorbed by Charter.

Critical Accounting Policies and Estimates

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

Capitalization of labor and overhead costs;

Useful lives of property, plant and equipment;

Impairment of property, plant, and equipment, franchises, and goodwill;

Income taxes; and

Litigation.

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

Capitalization of labor and overhead costs. The cable industry is capital intensive, and a large portion of our resources are spent on capital activities associated with extending, rebuilding, and upgrading our cable network. As of September 30, 2004 and December 31, 2003 and 2002, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$6.4 billion (representing 38% of total assets), \$7.0 billion (representing 33% of total assets) and \$7.7 billion (representing 34% of total assets), respectively. Total capital expenditures for the nine months ended September 30, 2004 and the years ended December 31, 2003, 2002 and 2001 were approximately \$639 million, \$854 million, \$2.2 billion and \$2.9 billion, respectively.

Costs associated with network construction, initial customer installations, installation refurbishments and the addition of network equipment necessary to provide 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.

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

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.

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

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While we believe our existing capitalization policies are appropriate, a significant change in the nature or extent of our system activities could affect management's judgment about the extent to which we should capitalize direct labor or overhead in the future. We monitor the appropriateness of our capitalization policies, and perform updates to our internal studies on an ongoing basis to determine whether facts or circumstances warrant a change to our capitalization policies. We capitalized direct labor and overhead of \$116 million, \$174 million, \$335 million and \$305 million, respectively, for the nine months ended September 30, 2004 and the years ended December 31, 2003, 2002 and 2001. Capitalized internal direct labor and overhead costs significantly decreased in 2003 compared to 2002 primarily due to the substantial completion of the upgrade of our systems and a decrease in the amount of capitalizable installation costs.

Useful lives of property, plant and equipment. We evaluate the appropriateness of estimated useful lives assigned to our property, plant and equipment, based on annual studies of such useful lives, and revise such lives to the extent warranted by changing facts and circumstances. Any changes in estimated useful lives as a result of these studies, which were not significant in the periods presented, will be reflected prospectively beginning in the period in which the study is completed. Beginning in January 2000, we commenced a significant initiative to rebuild and upgrade portions of our cable network. We reduced the useful lives of certain assets with a book value of \$1.1 billion in 2000 and an additional \$125 million in 2001. These assets were expected to be replaced and retired through that process in 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. The effect of a one-year decrease in the weighted average useful life of our property, plant and equipment would be an increase in depreciation expense for the year ended December 31, 2004 of approximately \$296 million. The effect of a one-year increase in the weighted average useful life of our property, plant and equipment would be a decrease in depreciation expense for the year ended December 31, 2004 of approximately \$198 million.

Depreciation expense related to property, plant and equipment totaled \$1.1 billion, \$1.5 billion, \$1.4 billion and \$1.2 billion, representing approximately 19%, 34%, 16% and 24% of costs and expenses, for the nine months ended September 30, 2004 and the years ended December 31, 2003, 2002 and 2001, respectively. Of these amounts, approximately \$183 million and \$352 million for the years ended December 31, 2002 and 2001, 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 listed below.

	Useful Life
Cable distribution systems	7-20 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture 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 September 30, 2004, December 31, 2003 and 2002 was approximately \$9.9 billion (representing 58% of total assets), \$13.7 billion (representing 64% of total assets) and \$13.7 billion (representing 61% of total assets), respectively. Furthermore, we recorded within other noncurrent assets approximately \$52 million of goodwill as a result of the acquisition of High Speed Access in February 2002.

We adopted SFAS No. 142 on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet specified indefinite-life criteria no longer be amortized against earnings, but instead must be tested for impairment annually, 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

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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, December 31, 2002, December 31, 2003 and September 30, 2004 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. Franchise amortization expense was \$3 million for the nine months ended September 30, 2004 and \$9 million for each of the years ended December 31, 2003 and 2002. Franchise amortization expense was \$1.5 billion, representing approximately 29% of costs and expenses, for the year ended December 31, 2001. We expect that amortization expense on franchise assets will be approximately \$4 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

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 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.

Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of our cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets. We determined that our franchises were impaired for the year ended December 31, 2002 and as a result recorded the cumulative effect of a change in accounting principle of \$206 million (approximately \$572 million before minority interest effects of \$306 million and tax effects of \$60 million). As required by SFAS No. 142, the standard has not been retroactively applied to results for the period prior to adoption.

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

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residual method of valuing our franchise assets, which had the effect of including goodwill with the franchise assets.

In September 2004, the Securities and Exchange Commission (SEC) staff issued Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. We performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total write-down of franchises of approximately \$3.3 billion. We recorded a cumulative effect of accounting change of \$765 million (approximately \$875 million before tax effects of \$91 million and minority interest effects of \$19 million) for the nine months ended September 30, 2004 representing the portion of our total franchise impairment attributable to no longer including goodwill with franchise assets. The effect of the adoption was to increase net loss and loss per share by \$765 million and \$2.56 for the nine months ended September 30, 2004. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in Charter 's valuation and was recorded as impairment of franchises in our condensed consolidated statements of operations for the three and nine months ended September 30, 2004. Sustained analog video customer losses by us and our industry peers in the third quarter of 2004 primarily as a result of increased competition from DBS providers and decreased growth rates in our and our industry peers high speed data customers in the third quarter of 2004, in part, as a result of increased competition from DSL providers led us to lower our projected growth rates and accordingly revise our estimates of future cash flows. (See Business Competition.)

We performed our annual impairment assessment as of October 1, 2002 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 estimates of future cash flows and the use of a lower projected long-term growth rate in our valuation, led to the recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002. The valuation completed at October 1, 2003 showed franchise values in excess of book value and thus resulted in no impairment.

The valuations used in our impairment assessments involve numerous assumptions as noted above. While the current economic conditions indicate the combination of assumptions utilized in the valuation as of September 30, 2004 is reasonable, as market conditions change so will the assumptions with a resulting impact on the valuation and consequently the impairment charge.

Sensitivity Analysis. The effect on the impairment charge recognized in the third quarter of 2004 of the indicated increase/decrease in the selected assumptions is shown below:

Assumption	Percentage/ Percentage Point Change	Impairment Charge Increase/(Decrease)
		(Dollars in millions)
Annual Operating Cash Flow(1)	+/- 5%	\$(890)/\$921
Long-Term Growth Rate(2)	+/- 1 pts(3)	(1,579)/1,232
Discount Rate	+/- 0.5 pts(3)	1,336/(1,528)

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

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

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

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,

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Charter Investment, Inc. and Vulcan Cable III Inc. Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco limited liability company agreement (LLC Agreement) and partnership tax rules and regulations.

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

Because the respective capital account balance of each of Vulcan Cable III Inc. and Charter Investment, Inc. was reduced to zero by December 31, 2002, certain net tax losses of Charter Holdco that were to be allocated for 2002, 2003 (subject to resolution of the issue described in Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen s Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII) and possibly later years to Vulcan Cable III Inc. and Charter Investment, Inc. will instead be allocated to Charter (the Regulatory Allocations). The LLC Agreement further provides that, to the extent possible, the effect of the Regulatory Allocations is to be offset over time pursuant to certain curative allocation provisions (the Curative Allocation Provisions) so that, after certain offsetting adjustments are made, each member s capital account balance is equal to the capital account balance such member would have had if the Regulatory Allocations had not been part of the LLC Agreement. The cumulative amount of the actual tax losses allocated to Charter as a result of the Regulatory Allocations through the year ended December 31, 2003 is approximately \$2.0 billion to \$2.6 billion pending the resolution of the issue described in Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen s Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

As a result of the Special Loss Allocations and the Regulatory Allocations referred to above, the cumulative amount of losses of Charter Holdco allocated to Vulcan Cable III Inc. and Charter Investment, Inc. is in excess of the amount that would have been allocated to such entities if the losses of Charter Holdco had been allocated among its members in proportion to their respective percentage ownership of Charter Holdco common membership units. The cumulative amount of such excess losses was approximately \$3.1 billion through December 31, 2002 and \$2.0 billion to \$2.5 billion through December 31, 2003, depending upon the resolution of the issue described in Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen s Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

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

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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 potential interaction between the Special Profit Allocations and the Curative Allocation Provisions, (iv) the amount and timing of alternative minimum taxes paid by Charter, if any, (v) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (vi) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit Allocations, Special Loss Allocations, Regulatory Allocations and Curative Allocation Provisions will change significantly pursuant to the provisions of the income tax regulations. 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, under their exchange agreement with Charter, Vulcan Cable III Inc. and Charter Investment, Inc. may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable III Inc. and Charter Investment, Inc. could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable III Inc. and Charter Investment, Inc. immediately prior to the consummation of the exchange. In the event Vulcan Cable III Inc. and Charter Investment, Inc. choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. Mr. Allen has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter.

As of September 30, 2004 and December 31, 2003 and 2002, we have recorded net deferred income tax liabilities of \$204 million, \$417 million and \$519 million, respectively. Additionally, as of September 30, 2004, December 31, 2003 and 2002, we have deferred tax assets of \$3.4 billion, \$1.7 billion and \$1.5 billion, respectively, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. We are required to record a valuation allowance when it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Given the uncertainty surrounding our ability to utilize our deferred tax assets, these items have been offset with a corresponding valuation allowance of \$3.0 billion, \$1.3 billion and \$1.4 billion at September 30, 2004, December 31, 2003 and 2002, respectively.

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 condition, results of operations or our liquidity, including our ability to comply with our debt covenants.

Litigation. Legal contingencies have a high degree of uncertainty. When a loss from a contingency becomes estimable and probable, a reserve is established. The reserve reflects management's best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately when the matter is brought to closure. We have established reserves for certain matters including those described in Business Legal Proceedings. If any of the litigation matters described in Business Legal Proceedings is resolved unfavorably resulting in payment obligations in excess of management's best estimate of the outcome, such resolution could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity.

Table of Contents**Results of Operations****Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003**

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

	Nine Months Ended September 30,			
	2004		2003	
Revenues	\$ 3,701	100%	\$ 3,602	100%
Costs and expenses:				
Operating (excluding depreciation and amortization)	1,552	42%	1,457	41%
Selling, general and administrative	735	20%	702	19%
Depreciation and amortization	1,105	30%	1,095	30%
Impairment of franchises	2,433	66%		
(Gain) loss on sale of assets, net	(104)	(3)%	23	1%
Option compensation expense, net	34	1%	1	
Special charges, net	100	2%	18	1%
	5,855	158%	3,296	92%
Income (loss) from operations	(2,154)	(58)%	306	8%
Interest expense, net	(1,227)		(1,163)	
Gain on derivative instruments and hedging activities, net	48		35	
Loss on debt to equity conversions	(23)			
Loss on extinguishment of debt	(21)			
Gain on debt exchange, net			267	
Other, net			(9)	
	(1,223)		(870)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(3,377)		(564)	
Minority interest	24		297	
Loss before income taxes and cumulative effect of accounting change	(3,353)		(267)	
Income tax benefit	116		86	
Loss before cumulative effect of accounting change	(3,237)		(181)	
Cumulative effect of accounting change, net of tax	(765)			
Net loss	(4,002)		(181)	
Dividends on preferred stock redeemable	(3)		(3)	
Net loss applicable to common stock	\$ (4,005)		\$ (184)	
Loss per common share, basic and diluted	\$ (13.38)		\$ (0.62)	

	2003	2004
Weighted average common shares outstanding, basic and diluted	299,411,053	294,503,840

Revenues. Revenues increased by \$99 million, or 3%, from \$3.6 billion for the nine months ended September 30, 2003 to \$3.7 billion for the nine months ended September 30, 2004. This increase is principally the result of an increase of 330,200 and 24,100 high-speed data and digital video customers, respectively, as well as price increases for video and high-speed data services, and is offset partially by a decrease of 423,500 analog video customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed data customers are 259,100 analog video customers, 94,500 digital video customers and 48,200 high-speed data customers sold in the cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 and to WaveDivision Holdings,

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LLC which closed in October 2003 (collectively referred to herein as the System Sales). The Systems Sales reduced the increase in revenues by \$116 million. Our goal is to increase revenues by stabilizing our analog video customer base, implementing price increases on certain services and packages and increasing revenues from incremental high-speed data services, digital video and advanced products and services such as telephony using VOIP, VOD, high definition television and digital video recorder service provided to our customers.

Average monthly revenue per analog video customer increased from \$61.46 for the nine months ended September 30, 2003 to \$66.17 for the nine months ended September 30, 2004 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by nine, divided by the average number of analog video customers during the respective period.

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

	Nine Months Ended September 30,					
	2004		2003		2004 over 2003	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$2,534	68%	\$2,607	73%	\$ (73)	(3)%
High-speed data	538	14%	403	11%	135	33%
Advertising sales	205	6%	188	5%	17	9%
Commercial	175	5%	149	4%	26	17%
Other	249	7%	255	7%	(6)	(2)%
	<u>\$3,701</u>	<u>100%</u>	<u>\$3,602</u>	<u>100%</u>	<u>\$ 99</u>	<u>3%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues decreased by \$73 million, or 3%, from \$2.6 billion for the nine months ended September 30, 2003 to \$2.5 billion for the nine months ended September 30, 2004. Approximately \$84 million of the decrease was the result of the Systems Sales and approximately an additional \$45 million related to a decline in analog video customers. These decreases were offset by increases of approximately \$35 million resulting from price increases and incremental video revenues from existing customers and approximately \$21 million resulting from an increase in digital video customers.

Revenues from high-speed data services provided to our non-commercial customers increased \$135 million, or 33%, from \$403 million for the nine months ended September 30, 2003 to \$538 million for the nine months ended September 30, 2004. Approximately \$125 million of the increase related to the increase in the average number of customers receiving high-speed data services, whereas approximately \$19 million related to the increase in average price of the service. The increase in customers resulted from our ability 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 85% as of September 30, 2003 to 88% as of September 30, 2004 as a result of our system upgrades. The increase in high-speed data revenues was reduced by approximately \$9 million as a result of the Systems Sales.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$17 million, or 9%, from \$188 million for the nine months ended September 30, 2003 to \$205 million for the nine months ended September 30, 2004, primarily as a result of an increase in national advertising campaigns and election related advertising. The increase in advertising sales was reduced by approximately \$5 million as a result of the Systems Sales. For the nine months ended September 30, 2004 and 2003, we received \$9 million and \$10 million, respectively, in advertising revenue from vendors.

Commercial revenues consist primarily of revenues from cable video and high-speed data services to our commercial customers. Commercial revenues increased \$26 million, or 17%, from \$149 million for the nine months ended September 30, 2003 to \$175 million for the nine months ended September 30, 2004,

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primarily as a result of an increase in commercial high-speed data revenues. The increase was reduced by approximately \$10 million as a result of the Systems Sales.

Other revenues consist of revenues from franchise fees, telephony revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. Other revenues decreased \$6 million, or 2%, from \$255 million for the nine months ended September 30, 2003 to \$249 million for the nine months ended September 30, 2004. Approximately \$8 million of the decrease was the result of the Systems Sales, while the offsetting increase was primarily the result of an increase in home shopping and infomercial revenue.

Operating Expenses. Operating expenses increased \$95 million, or 7%, from \$1.5 billion for the nine months ended September 30, 2003 to \$1.6 billion for the nine months ended September 30, 2004. The increase in operating expenses was reduced by approximately \$42 million as a result of the System Sales. Programming costs included in the accompanying condensed consolidated statements of operations were \$991 million and \$934 million, representing 17% and 28% of total costs and expenses for the nine months ended September 30, 2004 and 2003, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Nine Months Ended September 30,					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 991	27%	\$ 934	26%	\$ 57	6%
Advertising sales	72	2%	65	2%	7	11%
Service	489	13%	458	13%	31	7%
	<u>\$ 1,552</u>	<u>42%</u>	<u>\$ 1,457</u>	<u>41%</u>	<u>\$ 95</u>	<u>7%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels and pay-per-view programming. The increase in programming costs of \$57 million, or 6%, for the nine months ended September 30, 2004 over the nine months ended September 30, 2003 was a result of price increases, particularly in sports programming, an increased number of channels carried on our systems and an increase in digital video customers, partially offset by decreases in analog video customers. Additionally, the increase in programming costs was reduced by \$30 million as a result of the Systems Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$43 million and \$47 million for the nine months ended September 30, 2004 and 2003, respectively. Programming costs for the nine months ended September 30, 2004 also include a \$5 million reduction related to the settlement of a dispute with TechTV, Inc. See Note 17 to our September 30, 2004 unaudited condensed consolidated financial statements attached hereto for more information.

Our cable programming costs have increased in every year we have operated in excess of customary inflationary and cost-of-living type increases, and we expect them to continue to increase because of 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 programming, increased costs for previously discounted programming and inflationary or negotiated annual increases. Our increasing programming costs will result in declining operating margins for our video services to the extent we are unable to pass on cost increases to our customers. We expect to partially offset any resulting margin compression from our traditional video services with revenue from advanced video services, increased high-speed data revenues, advertising revenues and commercial service revenues.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased \$7 million, or 11%, primarily due to increased salary, benefit and commission costs. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider

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fees, maintenance and pole rent expense. The increase in service costs of \$31 million, or 7%, resulted primarily from additional activity associated with ongoing infrastructure maintenance.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$33 million, or 5%, from \$702 million for the nine months ended September 30, 2003 to \$735 million for the nine months ended September 30, 2004. The increase in selling, general and administrative expenses was reduced by \$16 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Nine Months Ended September 30,					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 636	17%	\$ 622	17%	\$ 14	2%
Marketing	99	3%	80	2%	19	24%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 735	20%	\$ 702	19%	\$ 33	5%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$14 million, or 2%, resulted primarily from increases in costs associated with our commercial business of \$16 million, bad debt expense of \$11 million, franchise taxes of \$4 million and third party call center costs of \$12 million. These increases were partially offset by a decrease in salaries and benefits of \$19 million and property taxes of \$14 million.

Marketing expenses increased \$19 million, or 24%, as a result of an increased investment in marketing and branding campaigns.

Depreciation and Amortization. Depreciation and amortization expense increased by \$10 million, or 1%, from \$1.10 billion for the nine months ended September 30, 2003 to \$1.11 billion for the nine months ended September 30, 2004. The increase in depreciation related to an increase in capital expenditures, which was offset by lower depreciation as the result of the Systems Sales.

Impairment of Franchises. We performed an impairment assessment during the third quarter of 2004. The use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation, primarily as a result of increased competition, led to the recognition of a \$2.4 billion impairment charge for the nine months ended September 30, 2004.

(Gain) Loss on Sale of Assets, Net. Gain on sale of assets of \$104 million for the nine months ended September 30, 2004 primarily represents the pretax gain realized on the sale of systems to Atlantic Broadband Finance, LLC which closed in March and April 2004. Loss on sale of assets of \$23 million for the nine months ended September 30, 2003 primarily represents the loss recognized on the disposition of fixed assets.

Option Compensation Expense, Net. Option compensation expense of \$34 million for the nine months ended September 30, 2004 primarily represents the expense of approximately \$9 million related to a stock option exchange program, under which our employees were offered the right to exchange all stock options (vested and unvested) issued under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. The exchange offer closed in February 2004. Additionally, during the nine months ended September 30, 2004, we recognized approximately \$8 million related to the options granted under the Charter Long-Term Incentive Program and approximately \$17 million related to options granted following the adoption of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Option compensation expense of \$1 million for the nine months ended September 30, 2003 primarily represents options expensed in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*.

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Special Charges, Net. Special charges of \$100 million for the nine months ended September 30, 2004 represents approximately \$85 million of aggregate value of the Charter Class A common stock and warrants to purchase Charter Class A common stock contemplated to be issued as part of a settlement of the consolidated federal class actions, state derivative actions and federal derivative action lawsuits, approximately \$9 million of litigation costs related to the tentative settlement of a South Carolina national class action suit, all of which settlements are subject to final documentation and court approval and approximately \$9 million of severance and related costs of our workforce reduction. Special charges for the nine months ended September 30, 2004 were offset by \$3 million received from a third party in settlement of a dispute. Special charges of \$18 million for the nine months ended September 30, 2003 represents approximately \$23 million of severance and related costs of our workforce reduction partially offset by a \$5 million credit from a settlement from the Internet service provider Excite@Home related to the conversion of about 145,000 high-speed data customers to our Charter Pipeline service in 2001. We expect to continue to record additional special charges in 2004 related to the continued reorganization of our operations.

Interest Expense, Net. Net interest expense increased by \$64 million, or 6%, from \$1.16 billion for the nine months ended September 30, 2003 to \$1.23 billion for the nine months ended September 30, 2004. The increase in net interest expense was a result of an increase in our average borrowing rate from 7.95% in the nine months ended September 30, 2003 to 8.61% in the nine months ended September 30, 2004 partially offset by a decrease of \$516 million in average debt outstanding from \$18.9 billion for the nine months ended September 30, 2003 compared to \$18.4 billion for the nine months ended September 30, 2004.

Gain on Derivative Instruments and Hedging Activities, Net. Net gain on derivative instruments and hedging activities increased \$13 million from \$35 million for the nine months ended September 30, 2003 to \$48 million for the nine months ended September 30, 2004. The increase is primarily the result of an increase in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, which increased from a gain of \$27 million for the nine months ended September 30, 2003 to a gain of \$45 million for the nine months ended September 30, 2004. This was coupled with a decrease in gains on interest rate agreements, as a result of hedge ineffectiveness on designated hedges, which decreased from \$8 million for the nine months ended September 30, 2003 to \$3 million for the nine months ended September 30, 2004.

Loss on Debt to Equity Conversions. Loss on debt to equity conversions of \$23 million for the nine months ended September 30, 2004 represents the loss recognized from privately negotiated exchanges of a total of \$30 million principal amount of Charter's 5.75% convertible senior notes held by two unrelated parties for shares of Charter Class A common stock. The exchange resulted in the issuance of more shares in the exchange transaction than would have been issuable under the original terms of the convertible senior notes.

Loss on Extinguishment of Debt. Loss on extinguishment of debt of \$21 million for the nine months ended September 30, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating, LLC (Charter Operating) refinancing in April 2004.

Gain on Debt Exchange, Net. Net gain on debt exchange of \$267 million for the nine months ended September 30, 2003 represents the gain realized on the purchase of an aggregate of \$609 million principal amount of our convertible senior notes and \$1.3 billion principal amount of Charter Holdings' senior notes and senior discount notes in consideration for an aggregate of \$1.6 billion principal amount of 10.25% notes due 2010 issued by CCH II. The gain is net of the write-off of deferred financing costs associated with the retired debt of \$27 million.

Other, Net. Net other expense of \$9 million for the nine months ended September 30, 2003 primarily represents losses on equity investments.

Minority Interest. Minority interest represents the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC, and since June 6, 2003, the pro rata share of the

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profits and losses of CC VIII, LLC. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, Charter began to absorb substantially all future losses before income taxes that otherwise would have been allocated to minority interest. For the nine months ended September 30, 2003, 52.8% of Charter's losses were allocated to minority interest. As a result of negative equity at Charter Holdco during the nine months ended September 30, 2004, no additional losses were allocated to minority interest, resulting in an additional \$2.0 billion of net losses. Subject to any changes in Charter Holdco's capital structure, future losses will be substantially absorbed by Charter.

Income Tax Benefit. Income tax benefit of \$116 million and \$86 million was recognized for the nine months ended September 30, 2004 and the nine months ended September 30, 2003, respectively. The income tax benefits were realized as a result of decreases in certain deferred tax liabilities related to our investment in Charter Holdco as well as decreases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

The income tax benefit recognized in the nine months ended September 30, 2004 was directly related to the impairment of franchises as discussed above. We do not expect to recognize a similar benefit associated with the impairment charge in future periods. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results.

The income tax benefit recognized in the nine months ended September 30, 2003 was directly related to the tax losses allocated to Charter from Charter Holdco. In the second quarter of 2003, Charter started receiving tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable III Inc. and Charter Investment, Inc. in accordance with the Special Loss Allocations provided under the Charter Holdco limited liability company agreement. We do not expect to recognize a similar benefit related to our investment in Charter Holdco after 2003 related to tax loss allocations received from Charter Holdco, due to limitations associated with our ability to offset future tax benefits against the remaining deferred tax liabilities. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results.

Cumulative Effect of Accounting Change, Net of Tax. Cumulative effect of accounting change of \$765 million (net of minority interest effects of \$19 million and tax effects of \$91 million) in 2004 represents the impairment charge recorded as a result of our adoption of Topic D-108.

Net Loss. Net loss increased by \$3.8 billion, from \$181 million for the nine months ended September 30, 2003 to \$4.0 billion for the nine months ended September 30, 2004 as a result of the factors described above.

Preferred Stock Dividends. On August 31, 2001, Charter 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, on which Charter 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 \$12.76, from \$0.62 per common share for the nine months ended September 30, 2003 to \$13.38 per common share for the nine months ended September 30, 2004 as a result of the factors described above.

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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 and share data):

	Year Ended December 31,					
	2003		2002		2001	
Revenues	\$ 4,819	100%	\$ 4,566	100%	\$ 3,807	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization)	1,952	40%	1,807	40%	1,486	39%
Selling, general and administrative	940	20%	963	21%	826	22%
Depreciation and amortization	1,453	30%	1,436	31%	2,683	71%
Impairment of franchises			4,638	102%		
Loss on sale of assets, net	5		3		10	
Option compensation expense (income), net	4		5		(5)	
Special charges, net	21		36	1%	18	
Unfavorable contracts and other settlements	(72)	(1)%				
	4,303	89%	8,888	195%	5,018	132%
Income (loss) from operations	516	11%	(4,322)	(95)%	(1,211)	(32)%
Interest expense, net	(1,557)		(1,503)		(1,310)	
Gain (loss) on derivative instruments and hedging activities, net	65		(115)		(50)	
Gain on debt exchange, net	267					
Loss on equity investments	(3)		(3)		(54)	
Other, net	(13)		(1)		(5)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(725)		(5,944)		(2,630)	
Minority interest	377		3,176		1,461	
Loss before income taxes and cumulative effect of accounting change	(348)		(2,768)		(1,169)	
Income tax benefit	110		460		12	
Loss before cumulative effect of accounting change	(238)		(2,308)		(1,157)	
Cumulative effect of accounting change, net of tax			(206)		(10)	
Net loss	(238)		(2,514)		(1,167)	
Dividends on preferred stock redeemable	(4)		(3)		(1)	

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Net loss applicable to common stock	\$ (242)	\$ (2,517)	\$ (1,168)
	<u> </u>	<u> </u>	<u> </u>
Loss per common share, basic and diluted	\$ (0.82)	\$ (8.55)	\$ (4.33)
	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding	294,597,519	294,440,261	269,594,386
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**

Revenues. Revenues increased by \$253 million, or 6%, from \$4.6 billion for the year ended December 31, 2002 to \$4.8 billion for the year ended December 31, 2003. This increase is principally the result of an increase of 427,500 high-speed data customers, as well as price increases for video and high-speed data services, and is offset partially by a decrease of 147,500 and 10,900 in analog and digital video customers, respectively. Included within the decrease of analog and digital video customers and reducing the increase of high-speed data customers are 25,500 analog video customers, 12,500 digital video customers and 12,200 high-speed data customers sold in the Port Orchard, Washington sale on October 1, 2003. Our goal is to increase revenues by mitigating our past analog video customer losses, implementing limited price increases on certain services and packages and increasing revenues from incremental high-speed data services, digital video and advanced products and services such as digital video recorders, high definition television, VOD and telephony using VOIP to our existing customer base and commercial customers.

Average monthly revenue per analog video customer increased from \$56.91 for the year ended December 31, 2002 to \$61.92 for the year ended December 31, 2003 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

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

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$3,461	72%	\$3,420	75%	\$ 41	1%
High-speed data	556	12%	337	7%	219	65%
Advertising sales	263	5%	302	7%	(39)	(13)%
Commercial	204	4%	161	3%	43	27%
Other	335	7%	346	8%	(11)	(3)%
	<u>\$4,819</u>	<u>100%</u>	<u>\$4,566</u>	<u>100%</u>	<u>\$253</u>	<u>6%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues increased by \$41 million, or 1%, for the year ended December 31, 2003 compared to the year ended December 31, 2002. Video revenues increased approximately \$65 million due to price increases and incremental video revenues from existing customers and \$82 million as a result of increases in the average number of digital video customers, which were partially offset by a decrease of approximately \$106 million as a result of a decline in analog video customers.

Revenues from high-speed data services provided to our non-commercial customers increased \$219 million, or 65%, from \$337 million for the year ended December 31, 2002 to \$556 million for the year ended December 31, 2003. Approximately \$206 million of the increase related to the increase in the average number of customers, whereas approximately \$13 million related to the increase in the average price of the service. The increase in customers was primarily due to the addition of high-speed data customers within our existing service areas. We were also 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 82% as of December 31, 2002 to 87% as of December 31, 2003 as a result of our system upgrades.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales decreased \$39 million, or 13%, from \$302 million for the year ended December 31, 2002, to \$263 million for the year ended December 31, 2003 primarily as a result of a decrease in advertising from vendors of approximately \$64 million offset partially by an increase

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in local advertising sales revenues of approximately \$25 million. For the years ended December 31, 2003 and 2002, we received \$15 million and \$79 million, respectively, in advertising revenue from vendors.

Commercial revenues consist primarily of revenues from video and high-speed data services to our commercial customers. Commercial revenues increased \$43 million, or 27%, from \$161 million for the year ended December 31, 2002, to \$204 million for the year ended December 31, 2003, primarily due to an increase in commercial high-speed data revenues.

Other revenues consist of revenues from franchise fees, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the year ended December 31, 2003 and 2002, franchise fees represented approximately 48% and 46%, respectively, of total other revenues. Other revenues decreased \$11 million, or 3%, from \$346 million for the year ended December 31, 2002 to \$335 million for the year ended December 31, 2003. The decrease was due primarily to a decrease in franchise fees after an FCC ruling in March 2002, no longer requiring the collection of franchise fees for high-speed data services. Franchise fee revenues are collected from customers and remitted to franchise authorities.

The decrease in accounts receivable of 27% compared to the increase in revenues of 6% is primarily due to the timing of collection of receivables from programmers for fees associated with the launching of their networks coupled with our tightened credit and collections policy. These fees from programmers are not recorded as revenue but, rather, are recorded as reductions of programming expense on a straight-line basis over the term of the contract. Programmer receivables decreased \$40 million, or 57%, from \$70 million as of December 31, 2002 to \$30 million as of December 31, 2003.

Operating expenses. Operating expenses increased \$145 million, or 8%, from \$1.8 billion for the year ended December 31, 2002 to \$2.0 billion for the year ended December 31, 2003. Programming costs included in the accompanying consolidated statements of operations were \$1.2 billion and \$1.2 billion, representing 64% and 65% of total operating expenses for the years ended December 31, 2003 and 2002, respectively. Key expense components as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 1,249	26%	\$ 1,166	26%	\$ 83	7%
Advertising sales	88	2%	87	2%	1	1%
Service	615	12%	554	12%	61	11%
	<u>\$ 1,952</u>	<u>40%</u>	<u>\$ 1,807</u>	<u>40%</u>	<u>\$ 145</u>	<u>8%</u>

Programming costs consist primarily of costs paid to programmers for the provision of analog, premium and digital channels and pay-per-view programs. The increase in programming costs of \$83 million, or 7%, was due to price increases, particularly in sports programming, and due to an increased number of channels carried on our systems, partially offset by decreases in analog and digital video customers. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels against programming costs of \$62 million and \$57 million for the year ended December 31, 2003 and 2002, respectively.

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases, and we expect them 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 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 from our traditional video services with revenue from advanced

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video services, increased incremental high-speed data revenues, advertising revenues and commercial services revenues.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries and benefits and commissions. Advertising sales expenses increased \$1 million, or 1%, primarily due to increased sales commissions, taxes and benefits. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider fees, maintenance and pole rent expense. The increase in service costs of \$61 million, or 11%, resulted primarily from additional activity associated with ongoing infrastructure maintenance and customer service, including activities associated with our promotional program.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased by \$23 million, or 2%, from \$963 million for the year ended December 31, 2002 to \$940 million for the year ended December 31, 2003. Key components of expense as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 833	18%	\$ 810	18%	\$ 23	3%
Marketing	107	2%	153	3%	(46)	(30)%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 940	20%	\$ 963	21%	\$ (23)	(2)%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$23 million, or 3%, resulted primarily from increases in salaries and benefits of \$4 million, call center costs of \$25 million and internal network costs of \$16 million. These increases were partially offset by a decrease in bad debt and collection expense of \$27 million as we continue to realize benefits from our strengthened credit policies.

Marketing expenses decreased \$46 million, or 30%, due to reduced promotional activity related to our service offerings including reductions in advertising, telemarketing and direct sales activities. However, we expect marketing expenses to increase in 2004.

Depreciation and amortization. Depreciation and amortization expense increased by \$17 million, or 1%, from \$1.4 billion in 2002 to \$1.5 billion in 2003 due primarily to an increase in depreciation expense related to additional capital expenditures in 2003 and 2002.

Impairment of franchises. We performed our annual impairment assessments on October 1, 2002 and 2003. Revised estimates of future cash flows and the use of a lower projected long-term growth rate in our valuation led to a \$4.6 billion impairment charge in the fourth quarter of 2002. Our 2003 assessment performed on October 1, 2003 did not result in an impairment. We do not expect to incur impairment charges of comparable magnitude to the 2002 charge in the future.

Loss on sale of assets, net. Loss on sale of assets for the year ended December 31, 2003 represents \$26 million of losses related to the disposition of fixed assets offset by the \$21 million gain recognized on the sale of cable systems in Port Orchard, Washington which closed on October 1, 2003. Loss on sale of assets for the year ended December 31, 2002 represents losses related to the disposition of fixed assets.

Option compensation expense (income), net. Option compensation expense decreased by \$1 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. Option compensation expense includes expense related to exercise prices on certain options that were issued prior to our initial public offering in 1999 that were less than the estimated fair values of our common stock at the time of grant. Compensation expense is being recognized over the vesting period of such options and

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will continue to be recorded until the last vesting period lapses in April 2004. On January 1, 2003, we adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, using 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.

Special charges, net. Special charges of \$21 million for the year ended December 31, 2003 represent approximately \$26 million of severance and related costs of our ongoing initiative to reduce our workforce partially offset by a \$5 million credit from a settlement from the Internet service provider Excite@Home related to the conversion of about 145,000 high-speed data customers to our Charter Pipeline service in 2001. 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. We expect to continue to record additional special charges in 2004 related to the reorganization of our operations and costs of litigation.

Unfavorable contracts and other settlements. Unfavorable contracts and other settlements of \$72 million for the year ended December 31, 2003 represents the settlement of estimated liabilities recorded in connection with prior business combinations. The majority of this benefit (approximately \$52 million) is due to the renegotiation in 2003 of a major programming contract, for which a liability had been recorded for the above market portion of that agreement in conjunction with the Falcon acquisition in 1999 and the Bresnan acquisition in 2000. The remaining benefit relates to the reversal of previously recorded liabilities, which, based on an evaluation of current facts and circumstances, are no longer required.

Interest expense, net. Net interest expense increased by \$54 million, or 4%, from \$1.5 billion for the year ended December 31, 2002 to \$1.6 billion for the year ended December 31, 2003. The increase in net interest expense was a result of increased average debt outstanding in 2003 of \$18.9 billion compared to \$17.8 billion in 2002, partially offset by a decrease in our average borrowing rate from 8.02% in 2002 to 7.99% in 2003. The increased debt was primarily used for capital expenditures.

Gain (loss) on derivative instruments and hedging activities, net. Net gain on derivative instruments and hedging activities increased \$180 million from a loss of \$115 million for the year ended December 31, 2002 to a gain of \$65 million for the year ended December 31, 2003. The increase is primarily due to an increase in gains on interest rate agreements, which do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which increased from a loss of \$101 million for the year ended December 31, 2002 to a gain of \$57 million for the year ended December 31, 2003.

Gain on debt exchange, net. Net gain on debt exchange of \$267 million for the year ended December 31, 2003 represents the gain realized on the purchase, in a non-monetary transaction, of a total of \$609 million principal amount of our outstanding convertible senior notes and \$1.3 billion principal amount of Charter Holdings senior notes and senior discount notes in consideration for a total of \$1.6 billion principal amount of 10.25% notes due 2010 issued by our indirect subsidiary, CCH II. The gain is net of the write-off of deferred financing costs associated with the retired debt of \$27 million.

Loss on equity investments. Loss on equity investments remained constant at \$3 million for the years ended December 31, 2003 and 2002. Loss on equity investments is primarily due to losses on investments carried under the equity method of accounting offset by realized gains on marketable securities.

Other expense, net. Other expense increased by \$12 million from \$1 million in 2002 to \$13 million in 2003. This increase is primarily due to increases in costs associated with amending a revolving credit facility of our subsidiaries and costs associated with terminated debt transactions.

Minority interest. Minority interest represents the allocation of losses to the minority interest based on ownership of Charter Holdco, the 10% dividend on preferred membership units in our indirect subsidiary, Charter Helicon, LLC and the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC, and since June 6, 2003, the pro rata share of the profits of CC VIII,

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LLC. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII. Additionally, reported losses allocated to minority interest on the statement of operations will be limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Accordingly, commencing in 2004, Charter expects to absorb all, or substantially all, future losses before income taxes because minority interest in Charter Holdco was substantially eliminated at December 31, 2003. For the year ended December 31, 2003, 53.5% of our losses before income taxes were classified as minority interest.

Income Tax Benefit. Income tax benefit of \$110 million and \$460 million was recognized for the years ended December 31, 2003 and 2002, respectively. The income tax benefit was realized through decreases in certain deferred tax liabilities related to our investment in Charter Holdco, as well as to the change in the deferred tax liabilities of certain of our indirect corporate subsidiaries. In 2003, Charter received tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable III Inc. and Charter Investment, Inc. in accordance with the Special Loss Allocations provided under the Charter Holdco limited liability company agreement. We do not expect to recognize a similar benefit related to our investment in Charter Holdco after 2003 due to limitations on our ability to offset future tax benefits against the remaining deferred tax liabilities. However, the actual tax provision calculation in future periods will be the result of current and future temporary differences, as well as future operating results.

Cumulative effect of accounting change, net of tax. Cumulative effect of accounting change in 2002 represents the impairment charge recorded as a result of adopting SFAS No. 142.

Net loss. Net loss decreased by \$2.3 billion, or 91%, from \$2.5 billion in 2002 to \$238 million in 2003 as a result of the factors described above. The impact of the gain on sale of system, unfavorable contracts and settlements and gain on debt exchange, net of minority interest and income tax impacts, was to decrease net loss by \$168 million in 2003. The impact of the impairment of franchises and the cumulative effect of accounting change, net of minority interest and income tax impacts, was to increase net loss by \$1.6 billion in 2002.

Preferred stock dividends. On August 31, 2001, Charter 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 decreased by \$7.73, from \$8.55 per common share for the year ended December 31, 2002 to \$0.82 per common share for the year ended December 31, 2003 as a result of the factors described above.

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 an increase of 538,000 and 585,200 in the number of digital video and high-speed data customers, respectively, as well as price increases, and is offset by a decrease of 357,400 in analog video customers. Average monthly revenue per analog video customer increased from \$45.68 in 2001 to \$56.91 in 2002 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

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

	Year Ended December 31,					
	2002		2001		2002 over 2001	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$3,420	75%	\$2,971	78%	\$449	15%
High-speed data	337	7%	148	4%	189	128%
Advertising sales	302	7%	197	5%	105	53%
Commercial	161	3%	123	3%	38	31%
Other	346	8%	368	10%	(22)	(6)%
	<u>\$4,566</u>	<u>100%</u>	<u>\$3,807</u>	<u>100%</u>	<u>\$759</u>	<u>20%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues increased by \$449 million, or 15%, to \$3.4 billion in 2002 compared to \$3.0 billion in 2001. The increase was due to a full year of revenue from the AT&T Broadband systems acquired in June 2001, general price increases and the addition of approximately 538,000 digital video customers partially offset by a reduction of approximately 357,400 analog video customers. Overall, the net increase in the average number of customers resulted in approximately 7% of the increase in video revenue, whereas approximately 93% resulted from the increase in average price of our video products.

Revenues from high-speed data services provided to our non-commercial customers increased \$189 million, or 128%, from \$148 million for the year ended December 31, 2001 to \$337 million for the year ended December 31, 2002. Approximately 73% of the increase related to the increase in the average number of customers, whereas approximately 27% related to the increase in average price of the service. The increase 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 due to an increase of \$53 million, from \$13 million in 2001 to \$66 million in 2002, in advertising contracts with programmers, \$40 million of additional sales primarily due to the 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 revenues from our two largest suppliers of digital set-top terminals representing 0.3% and 0.4% of total revenues, respectively. 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.

Commercial revenues consist primarily of revenues from video and high-speed data services to our commercial customers. Commercial revenues increased \$38 million, or 31%, from \$123 million for the year ended December 31, 2001, to \$161 million for the year ended December 31, 2002, primarily due to an increase in commercial high-speed data revenues.

Other revenues consist of revenues from franchise fees, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the years ended December 31, 2002 and 2001, franchise fees represented approximately 46% and 39%, respectively, of total other revenues. Other revenues decreased \$22 million, or 6%, from \$368 million for the year ended December 31, 2001 to \$346 million for the year ended December 31,

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2002. The decrease was due to 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 revenues of 20% is primarily due to the timing of collection of receivables from programmers for fees associated with the launching of their networks, coupled with our tightened credit and collections policy. These fees from programmers are not recorded as revenue but, rather, are recorded as reductions of programming expense on a straight-line basis over the term of the contract. Programmer 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 \$321 million, or 22%, from \$1.5 billion in 2001 to \$1.8 billion in 2002. Programming costs included in the accompanying consolidated statements of operations were \$1.2 billion and \$963 million, representing 65% 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	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 1,166	26%	\$ 963	25%	\$ 203	21%
Advertising sales	87	2%	64	2%	23	36%
Service	554	12%	459	12%	95	21%
	<u>\$ 1,807</u>	<u>40%</u>	<u>\$ 1,486</u>	<u>39%</u>	<u>\$ 321</u>	<u>22%</u>

Programming costs consist primarily of costs paid to programmers for the provision of analog, premium and digital channels and pay-per-view programs. The increase in programming costs of \$203 million, or 21%, was primarily due to price increases, particularly in sports programming, an increased number of channels carried on our systems and an increase in digital video customers. 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. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels against programming costs of \$57 million and \$35 million for the years ended December 31, 2002 and 2001, respectively.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries and benefits and commissions. 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, Internet service provider fees, maintenance and pole rent expense. The increase in service costs of \$95 million, or 21%, 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 \$137 million, or 17%, from \$826 million for the year ended December 31, 2001 to \$963 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	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change

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General and administrative	\$810	18%	\$689	18%	\$121	18%
Marketing	153	3%	137	4%	16	12%
	—	—	—	—	—	—
	\$963	21%	\$826	22%	\$137	17%
	—	—	—	—	—	—

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General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$121 million, or 18%, resulted primarily from increases in salaries and benefits of \$66 million, bad debt and collection expense of \$24 million and insurance of \$13 million. The increase in bad debt expense resulted primarily from continuing effects of our aggressive discounting of our analog video service during late 2000 and most of 2001 in an effort to grow our customer base and respond to price competition from satellite providers. This practice led to an increase in customers during the discounted period whose service was subsequently disconnected for non-payment or who subsequently cancelled their service without payment for services provided. We also lengthened the period during which we extended credit to customers, which increased exposure to customers whose accounts were subject to cancellation and increased bad debt expense. 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 \$16 million, or 12%, 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 \$1.5 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 of franchises. We performed our annual impairment assessment on October 1, 2002. Revised estimates of future cash flows and the use of a lower projected long-term growth rate in our valuation led to 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.

Loss on sale of assets, net. Loss on sale of assets decreased by \$7 million, or 70%, from \$10 million for the year ended December 31, 2001 to \$3 million for the year ended December 31, 2002 primarily as a result of a decrease in the losses related to the disposition of fixed assets.

Option compensation expense (income), net. 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 recognized 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 under which we 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 19 to our consolidated financial statements attached hereto.

Special charges, net. 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 (now known as Charter High Speed Internet) service, as well as employee severance costs.

Interest expense, net. 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

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average borrowing rate from 8.40% in 2001 to 8.02% in 2002. The increased debt was used for capital expenditures.

Gain (loss) on derivative instruments and hedging activities, net. Loss on derivative instruments and hedging activities increased \$65 million from \$50 million for the year ended December 31, 2001 to \$115 million for the year ended December 31, 2002. The 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 for the year ended December 31, 2001 to \$101 million for the year ended December 31, 2002.

Loss on equity investments. Loss on equity investments decreased by \$51 million, or 94%, from \$54 million for the year ended December 31, 2001 to \$3 million for the year ended December 31, 2002. This decrease is primarily due to a decrease of \$38 million in our investment in High Speed Access, a related party until our acquisition of certain of its assets, as described more fully in Certain Relationships and Related Transactions.

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 Holdco, the 10% dividend on preferred membership units in our indirect subsidiary, Charter Helicon, LLC, and the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC issued to certain sellers of the Bresnan systems acquired by CC VIII systems in February 2000. The increase is a result of an increase in loss before minority interest. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.

Income tax benefit. Income tax benefit of \$460 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 Holdco, as well as the change in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

Cumulative effect of accounting change, net of tax. 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, or 115%, from \$1.2 billion in 2001 to \$2.5 billion in 2002 as a result of the combination of factors described above. The impact of the impairment of franchises and the cumulative effect of accounting change, net of minority interest and income tax impacts, was to increase net loss by \$1.6 billion in 2002. This was offset somewhat by the decrease in amortization expense, net of minority interest and income tax impacts, in 2002 versus 2001 of \$645 million as a result of the adoption of SFAS No. 142 on January 1, 2002.

Preferred stock dividends. On August 31, 2001, Charter 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.

Liquidity and Capital Resources

Introduction

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

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issuance of the 5.875% convertible senior notes and the senior floating rate notes in November and December 2004, respectively, and the use of those proceeds, as discussed in the Unaudited Pro Forma Consolidated Financial Statements .

Overview

Our business requires significant cash to fund debt service costs, capital expenditures and ongoing operations. We have historically funded our debt service costs, operating activities and capital requirements through cash flows from operating activities, borrowings under our credit facilities, sale of assets, issuances of debt and equity securities and cash on hand. The mix of funding sources changes from period to period, but for the nine months ended September 30, 2004, approximately 49% of our funding requirements were met from cash flows from operating activities and 51% from proceeds from the sale of systems. For the nine months ended September 30, 2004, net cash flows used in financing activities were \$431 million, reflecting a net repayment of \$334 million of debt. Additionally, we increased cash on hand by \$2 million to \$129 million during the nine months ended September 30, 2004. We expect that our mix of sources of funds will continue to change in the future based on overall needs relative to our cash flow and on the availability of funds under our credit facilities, our access to the debt and equity markets, the timing of possible asset sales and our ability to generate cash flows from operating activities.

We have a significant level of debt. In the fourth quarter of 2004, \$7.5 million of our debt will mature. An additional \$30 million and \$186 million of our debt will mature in 2005 and 2006, respectively. In addition, the Charter Operating credit facilities require the \$113 million principal amount of CC V Holdings, LLC notes to be redeemed within 45 days after the Charter Holdings leverage ratio discussed below is determined to be below 8.75 to 1.0. In 2007 and beyond, significant additional amounts will become due under our remaining long-term debt obligations.

Our ability to operate depends upon, among other things, our continued access to capital, including credit under the Charter Operating credit facilities. These credit facilities are subject to certain restrictive covenants, some of which require us to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from our independent auditors. As of September 30, 2004, we were and, as of the date of this prospectus, we are in compliance with the covenants under our credit facilities and our indentures, and we expect to remain in compliance with those covenants throughout 2005. If our operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities or indentures governing our debt occurs, funding under the credit facilities may not be available and defaults on some or potentially all debt obligations could occur. As of September 30, 2004, we had borrowing availability under the Charter Operating credit facilities of \$957 million, approximately \$1.4 billion after giving effect to the fourth quarter 2004 financing transactions, none of which was restricted due to covenants.

We expect that cash on hand, cash flows from operating activities and the amounts available under our credit facilities will be adequate to meet our cash needs in 2005. However, as the principal amounts owing under our various debt obligations become due, meeting our liquidity needs in subsequent years will depend on our ability to access additional sources of capital. Cash flows from operating activities and amounts available under our credit facilities may not be sufficient to permit us to fund our operations and satisfy our principal repayment obligations that come due in 2006 and we believe will not be sufficient to fund our operations and satisfy such repayment obligations thereafter. Continued access to our credit facilities is subject to our remaining in compliance with the applicable covenants of these credit facilities, including covenants tied to our operating performance. An event of 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, which would have a material adverse effect on our consolidated financial condition and results of operations.

Our ability to make interest payments on our convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of our convertible senior notes, will depend on our ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including

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CCH II, CCO Holdings, LLC (CCO Holdings) and Charter Operating. The indentures governing the CCH II notes, CCO Holdings notes, and Charter Operating notes, however, restrict these entities and their subsidiaries from making distributions to their parent companies (including us) for payment of principal on our convertible senior notes, in each case unless there is no default under the applicable indenture and a specified leverage ratio test is met. In addition, each of CCH II, CCO Holdings and Charter Operating must independently assess whether such payments or distributions are advisable. CCH II, CCO Holdings and Charter Operating currently meet the applicable leverage ratio test under each of their respective indentures, and therefore are not currently prohibited from making any such distributions to their respective direct parent.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on our convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio test of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended September 30, 2004, there were no defaults under the Charter Holdings indentures and the other specified tests were met. However, Charter Holdings continued not to meet the leverage ratio test of 8.75 to 1.0 at September 30, 2004. As a result, distributions from Charter Holdings to Charter or Charter Holdco have been restricted and will continue to be restricted until that test is met.

During this restriction period, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures. As of September 30, 2004, Charter Holdco had \$31 million in cash on hand (\$120 million after giving effect to the fourth quarter 2004 financing transactions) and was owed \$39 million in intercompany loans from its subsidiaries, which were available to Charter Holdco to pay interest on Charter's convertible senior notes, which is expected to be approximately \$27 million for the remainder of 2004.

As a result of the foregoing, it is likely that Charter or Charter Holdco will require additional funding to repay debt maturing in 2006. We are working with our financial advisors to address such funding requirements. However, there can be no assurance that such funding will be available to us. Although Mr. Allen and his affiliates have purchased equity from us in the past, Mr. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to us in the future.

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

issuing equity that would significantly dilute existing shareholders;

issuing convertible debt or some other securities that may have structural or other priority over our existing notes and may also significantly dilute Charter's existing shareholders;

further reducing our expenses and capital expenditures, which may impair our ability to increase revenue;

selling assets;

issuing debt securities that may have structural or other priorities over our existing notes; or

requesting waivers or amendments with respect to our credit facilities, the availability and terms of which would be subject to market conditions.

If the above strategies are not successful, 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

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shareholders could suffer significant dilution and our noteholders might not receive all principal and interest payments to which they are contractually entitled.

On March 1, 2004, we closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. We closed on the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. Subject to post-closing contractual adjustments, we expect the total net proceeds from the sale of all of these systems to be approximately \$733 million, of which \$5 million is currently held in an indemnity escrow account (with the unused portion thereof to be released by March 1, 2005). The proceeds received to date have been used to repay a portion of our credit facilities.

Summary of Outstanding Contractual Obligations

The following table summarizes our payment obligations as of December 31, 2003 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
Contractual Obligations					
Long-Term Debt Principal Payments(1)	\$ 19,208	\$ 188	\$ 2,199	\$ 6,293	\$ 10,528
Long-Term Debt Interest Payments(2)	8,783	1,121	2,718	2,704	2,240
Payments on Interest Rate Instruments(3)	183	115	68		
Capital and Operating Lease Obligations(1)	80	19	29	14	18
Programming Minimum Commitments(4)	1,949	320	684	703	242
Other(5)	282	63	86	49	84
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 30,485	\$ 1,826	\$ 5,784	\$ 9,763	\$ 13,112
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (1) The tables present maturities of long-term debt outstanding as of December 31, 2003 and does not reflect the effects of the sale of the Charter Operating senior second lien notes, the amendment and restatement of the Charter Operating credit facilities, the 5.875% convertible senior notes and the senior floating rate notes. Refer to Description of Certain Indebtedness and Notes 9 and 23 to our December 31, 2003 consolidated financial statements included in this prospectus for a description of our long-term debt and other contractual obligations and commitments.
- (2) Interest payments on variable debt are estimated using amounts outstanding at December 31, 2003 and the average implied forward London Interbank Offering Rate (LIBOR) rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2003. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.
- (3) Represents amounts we will be required to pay under our interest rate hedge agreements estimated using the average implied forward LIBOR rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2003.
- (4) We pay 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. Programming costs included in the accompanying statement of operations were \$1.2 billion, \$1.2 billion and \$963 million for the years ended December 31, 2003, 2002 and 2001, respectively. Certain of our programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the aggregate guaranteed minimum commitments under our programming contracts.
- (5) Other represents other guaranteed minimum commitments, which consist primarily of commitments to our billing services vendors.

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

We also rent utility poles used in our operations. Generally, pole rentals are cancelable on short notice, but we anticipate that such rentals will recur. Rent expense incurred for pole rental attachments for the years ended December 31, 2003, 2002 and 2001, was \$40 million, \$41 million and \$33 million, respectively.

We pay franchise fees under multi-year franchise agreements based on a percentage of revenues earned from video service per year. We also pay other franchise related costs, such as public education grants under multi-year agreements. Franchise fees and other franchise-related costs included in the accompanying statement of operations were \$162 million, \$160 million and \$144 million for the years ended December 31, 2003, 2002 and 2001, respectively.

We also have \$153 million in letters of credit, primarily to our various worker's compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount we may borrow under our credit facilities.

Historical Operating, Financing and Investing Activities

We held \$129 million in cash and cash equivalents as of September 30, 2004 compared to \$127 million as of December 31, 2003. The decrease in cash and cash equivalents reflects the use of cash in funding operations, capital expenditures and debt service cost.

Operating Activities. Net cash provided by operating activities decreased \$255 million, or 40%, from \$638 million for the nine months ended September 30, 2003 to \$383 million for the nine months ended September 30, 2004. For the nine months ended September 30, 2004, net cash provided by operating activities decreased primarily as a result of changes in operating assets and liabilities that provided \$80 million less cash during the nine months ended September 30, 2004 than the corresponding period in 2003 and an increase in cash interest expense of \$146 million over the corresponding prior period. The change in operating assets and liabilities is primarily the result of the benefit in the nine months ended September 30, 2003 from collection of receivables from programmers related to network launches, while accounts receivable remained essentially flat in the nine months ended September 30, 2004.

Net cash provided by operating activities for the years ended December 31, 2003, 2002 and 2001 was \$765 million, \$748 million and \$489 million, respectively. Operating activities provided \$17 million more cash in 2003 than in 2002 primarily due to an increase in revenue over cash costs year over year partially offset by changes in operating assets and liabilities that provided \$82 million less cash in 2003 than in 2002.

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 \$65 million more cash in 2002 than in 2001 offset in part by increases in operating expenses and cash interest expense.

Investing Activities. Net cash provided by investing activities for the nine months ended September 30, 2004 was \$50 million and net cash used in investing activities for the nine months ended September 30, 2003 was \$628 million. Investing activities provided \$678 million more cash during the nine months ended September 30, 2004 than the corresponding period in 2003 primarily as a result of proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC.

Net cash used in investing activities for the years ended December 31, 2003, 2002 and 2001 was \$817 million, \$2.4 billion and \$4.8 billion, respectively. Investing activities used \$1.5 billion less cash in 2003 than in 2002 primarily as a result of reductions in capital expenditures and acquisitions. Purchases of property, plant and equipment used \$1.3 billion less cash in 2003 than in 2002 as a result of reduced rebuild and upgrade activities and our efforts to reduce capital expenditures. Payments for acquisitions used \$139 million less cash in 2003 than in 2002.

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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 \$746 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.

Financing Activities. Net cash used in financing activities for the nine months ended September 30, 2004 and 2003 was \$431 million and \$196 million, respectively. The increase in cash used during the nine months ended September 30, 2004, as compared to the corresponding period in 2003, was primarily the result of an increase in net repayments of long-term debt.

Net cash used in financing activities was \$142 million for the year ended December 31, 2003, whereas net cash provided by financing activities for the year ended December 31, 2002 and 2001 was \$1.9 billion and \$4.2 billion, respectively. Financing activities provided \$2.1 billion less cash in 2003 than in 2002. The decrease in cash provided in 2003 compared to 2002 was primarily due to a decrease in borrowings of long-term debt.

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 borrowings 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. These decreases in cash provided were offset partially by decreases in cash used for repayments of long-term debt.

Capital Expenditures

We have significant ongoing capital expenditure requirements. However, we experienced a significant decline in such requirements in 2004 and 2003, compared to prior years. This decline in 2004 and 2003 was primarily the result of a substantial reduction in rebuild costs as our network had been largely upgraded and rebuilt in prior years, consumption of inventories, negotiated savings in contract labor and network components including digital set-top terminals and cable modems and reduced volume of installation related activities. Capitalized labor and overhead declined \$161 million in 2003 compared to 2002. Capital expenditures, excluding acquisitions of cable systems, were \$639 million, \$503 million, \$854 million, \$2.2 billion and \$2.9 billion for the nine months ended September 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, respectively. The majority of the capital expenditures in 2004 and 2003 related to our customer premise equipment costs. The majority of the capital expenditures in 2002 related to our rebuild and upgrade program and purchases of customer premise equipment. See the table below for more details.

Upgrading our cable systems has enabled us to offer digital television, high-speed data services, VOD, interactive services, additional channels and tiers, and expanded pay-per-view options to a larger customer base. Our capital expenditures are funded primarily from cash flows from operating activities, the issuance of debt and borrowings under credit facilities. In addition, during the nine months ended September 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, our liabilities related to capital expenditures decreased \$23 million, \$109 million, \$33 million, \$55 million and \$88 million, respectively.

During 2004, we expect to spend a total of \$850 million to \$950 million on capital expenditures. We expect that the nature of these expenditures will continue to shift from upgrade/rebuild costs to customer premise equipment and scalable infrastructure costs. Expected capital expenditures for 2004 are consistent with our total capital expenditures for 2003 and significantly lower than 2002 levels because our rebuild and upgrade plans are largely completed, a greater portion of our work force is focused on maintenance and period related activities, our purchases of digital set-top terminals have declined and the volume of installation related activities has declined. We expect to fund capital expenditures for 2004 primarily from cash flows from operating activities and borrowings under our credit facilities.

We have adopted capital expenditure disclosure guidance, which was developed by eleven publicly traded cable system operators, including Charter, with the support of the National Cable & Telecommunications Association (NCTA). The new disclosure is intended to provide more consistency

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in the reporting of operating statistics in capital expenditures and customers among peer companies in the cable industry. These disclosure guidelines are not required disclosure under GAAP, nor do they impact our accounting for capital expenditures under GAAP.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the nine months ended September 30, 2004 and 2003, and the years ended December 31, 2003, 2002 and 2001 (dollars in millions):

	Nine Months Ended September 30,		For the Years Ended December 31,		
	2004	2003	2003	2002	2001
Customer premise equipment(a)	\$345	\$253	\$380	\$ 748	\$ 926
Scalable infrastructure(b)	55	35	67	261	308
Line extensions(c)	94	69	131	101	161
Upgrade/ Rebuild(d)	28	76	132	777	1,014
Support capital(e)	117	70	144	280	504
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total capital expenditures(f)	\$639	\$503	\$854	\$2,167	\$2,913
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

- (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 expenditures made during the nine months ended September 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, respectively.

Interest Rate Risk

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

As of September 30, 2004 and December 31, 2003, long-term debt totaled approximately \$18.5 billion and \$18.6 billion, respectively. This debt was comprised of approximately \$5.4 billion and \$7.2 billion of credit facility debt, \$12.3 billion and \$10.6 billion principal amount of high-yield notes and \$744 million and \$774 million principal amount of convertible senior notes, respectively. As of September 30, 2004 and December 31, 2003, the weighted average interest rate on the credit facility debt, was approximately 6.6%

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and 5.4%, respectively, the weighted average interest rate on the high-yield notes was approximately 10.3%, and the weighted average interest rate on the convertible notes was approximately 5.5%, resulting in a blended weighted average interest rate of 8.8% and 8.2%, respectively. Approximately 85% of our debt was effectively fixed including the effects of our interest rate hedge agreements as of September 30, 2004 compared to approximately 80% at December 31, 2003. The fair value of our high-yield notes was \$10.6 billion and \$9.9 billion at September 30, 2004 and December 31, 2003, respectively. The fair value of credit facility debt was \$5.3 billion and \$6.9 billion at September 30, 2004 and December 31, 2003, respectively. The fair value of our convertible senior notes was \$651 million and \$732 million at September 30, 2004 and December 31, 2003, respectively. The fair value of high-yield notes, credit facility debt and convertible senior notes is based on quoted market prices.

We do not hold or issue derivative instruments for trading purposes. We do, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. 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 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 nine months ended September 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, net gain (loss) on derivative instruments and hedging activities includes gains of \$3 million, \$8 million, \$8 million and losses of \$14 million and \$2 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the nine months ended September 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, a gain of \$31 million, \$30 million, \$48 million and losses 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 gain (loss) on derivative instruments and hedging activities in our condensed consolidated statements of operations. For the nine months ended September 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, net gain (loss) on derivative instruments and hedging activities includes gains of \$45 million, \$27 million and \$57 million and losses of \$101 million and \$48 million, respectively, for interest rate derivative instruments not designated as hedges.

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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 September 30, 2004 (dollars in millions):

	2004	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value at September 30, 2004
Debt:									
Fixed Rate	\$	\$ 588	\$ 156	\$ 451	\$ 227	\$ 3,398	\$ 8,631	\$ 13,451	\$ 11,232
Average Interest Rate		5.75%	4.75%	8.25%	10.93%	9.60%	9.32%	9.18%	
Variable Rate	\$ 8	\$ 30	\$ 30	\$ 280	\$ 630	\$ 780	\$ 3,635	\$ 5,393	\$ 5,319
Average Interest Rate	4.88%	6.05%	6.85%	7.15%	7.53%	7.86%	8.48%	8.18%	
Interest Rate Instruments:									
Variable to Fixed Swaps	\$ 240	\$ 990	\$ 873	\$ 575	\$	\$	\$	\$ 2,678	\$ 101
Average Pay Rate	8.05%	7.95%	8.25%	8.07%				8.08%	
Average Receive Rate	4.64%	5.96%	6.94%	7.15%				6.42%	

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 September 30, 2004.

At September 30, 2004 and December 31, 2003, we had outstanding \$2.7 billion and \$3.0 billion and \$20 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board issued the revised SFAS No. 123, *Share Based Payment*, which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. This statement will be effective for us beginning July 1, 2005. Because we adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, we do not expect this revised standard to have a material impact on our financial statements.

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

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BUSINESS

Overview

We are a broadband communications company operating in the United States, with approximately 6.3 million customers at September 30, 2004. Through our broadband network of coaxial and fiber optic cable, we offer our customers traditional cable video programming (analog and digital, which we refer to as video service), high-speed cable Internet access (which we refer to as high-speed data service), advanced broadband cable services (such as video on demand (VOD), high definition television service, and interactive television) and, in some of our markets, we offer telephone service (which we refer to as telephony). See Business Products and Services for further description of these terms, including customers.

At September 30, 2004, we served approximately 6.1 million analog video customers, of which approximately 2.7 million were also digital video customers. We serve approximately 1.8 million high speed data customers (including approximately 205,000 who receive only high-speed data services). We also provided telephony service to approximately 40,000 customers as of that date.

At September 30, 2004, our investment in cable properties, long-term debt and total shareholders deficit was \$16.3 billion, \$18.5 billion and \$4.1 billion, respectively. Our working capital deficit was \$956 million at September 30, 2004. For the nine months ended September 30, 2004, our revenues were approximately \$3.7 billion.

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

Charter was organized as a Delaware corporation in 1999 and completed an initial public offering of its Class A common stock in November 1999. Charter is a holding company whose principal assets are an approximate 47% equity interest and a 100% voting interest in Charter Holdco, the direct parent of Charter Holdings. Charter's only business is to act as the sole manager of Charter Holdco and its subsidiaries. As sole manager, Charter controls the affairs of Charter Holdco and its subsidiaries. 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 a total of approximately 5.5 million customers. We do not expect to make any significant acquisitions in the foreseeable future, but plan to evaluate opportunities to consolidate our operations through exchanges of cable systems with other cable operators, as they arise. We may also sell certain assets from time to time. Paul G. Allen controls Charter with an as-converted common equity interest of approximately 57% and a beneficial voting control interest of approximately 92.5% as of September 30, 2004.

Adoption of New Policies

Commencing in January 2002 and continuing through the first quarter of 2003, our management elected to implement a number of new policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations Adoption of New Policies.

Business Strategy

Our principal financial goal is to maximize our return on invested capital. To do so, we will focus on increasing revenues, growing our customer base, improving customer retention and enhancing customer satisfaction by providing reliable, high-quality service offerings, superior customer service and attractive bundled offerings.

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Specifically, in the near term, we are focusing on:

generating significant improvements in the overall customer experience in such critical areas as service delivery, customer care, and new product offerings;

developing more sophisticated customer management capabilities through investment in our customer care and marketing infrastructure, improved segment-level marketing, and rigorous test and learn processes;

executing smart growth strategies for new services, including digital simulcast, VOD, telephony, and digital video recorder service (DVR);

managing our operating costs by exercising discipline in capital and operational spending; and

identifying opportunities to continue to improve our balance sheet and liquidity.

We believe that our high-speed data service will continue to provide a substantial portion of our revenue growth in the near future. We also plan to continue to expand our marketing of high-speed data service to the business community, which we believe has shown an increasing interest in high-speed data service and private network services.

We believe we offer our customers an excellent choice of services through a variety of bundled packages, particularly with respect to our digital video and high-speed data services. Our digital platform enables us to offer a significant number and variety of channels, and we offer customers the opportunity to choose among groups of channel offerings, including premium channels, and to combine selected programming with other services such as high-speed data, high definition television (in selected markets) and VOD (in selected markets).

We have reduced the number of our customer contact centers from over 300 at December 31, 2000, to 36 at September 30, 2004. Our 14 largest customer contact centers now serve approximately 95% of our customers. We anticipate that this initiative will improve overall customer satisfaction while reducing costs. We believe that consolidation and standardization of call centers enable us to provide a more consistent experience for our customers and to improve sales through the use of better trained, more efficient and sales-oriented customer service representatives.

We continue to pursue opportunities to improve our balance sheet and liquidity. Our efforts in this regard have resulted in the completion of a number of transactions since September 2003, as follows:

the issuance and sale by CCO Holdings, LLC and CCO Holdings Capital Corp. of \$550 million of senior floating rate notes in December 2004;

the November 2004 sale of \$862.5 million of 5.875% convertible senior notes due 2009;

the sale of non-core cable systems for \$824 million, the proceeds of which we used to reduce our indebtedness;

the 2003 issuance by our subsidiaries, CCH II and Charter Holdings, of approximately \$1.6 billion of senior notes which they exchanged in private transactions for approximately \$1.9 billion of outstanding indebtedness of Charter and Charter Holdings, resulting in a \$294 million reduction of our consolidated debt outstanding; and

the sale in April 2004 of \$1.5 billion of senior second lien notes by our subsidiary, Charter Communications Operating, LLC (Charter Operating), together with the concurrent refinancing of its credit facilities.

Going forward, we plan to continue to identify and pursue opportunities to improve our liquidity and reduce indebtedness in order to enhance the long-term strength of our balance sheet and our business.

Charter Background

In 1998, Mr. Allen acquired approximately 99% of the non-voting economic interests in Marcus Cable, which owned various operating subsidiaries that served approximately 1.1 million customers.

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Thereafter, in December 1998, Mr. Allen acquired, through a series of transactions, approximately 94% of the equity interests of Charter Investment, Inc., which controlled various operating subsidiaries that serviced approximately 1.2 million customers.

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

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

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

In February 2001, Charter entered into several agreements with AT&T Broadband, LLC involving several strategic cable system transactions that resulted in a net addition of customers for our systems. In the AT&T transactions, which closed in June 2001, Charter acquired cable systems from AT&T Broadband serving approximately 551,000 customers for a total of \$1.74 billion consisting of \$1.71 billion in cash and a Charter cable system valued at \$25 million. In 2001, Charter also acquired all of the outstanding stock of Cable USA, Inc. and the assets of certain of its related affiliates in exchange for consideration valued at \$100 million (consisting of Series A preferred stock with a face amount of \$55 million and the remainder in cash and assumed debt).

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

For additional information regarding Charter's acquisitions see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions.

Products and Services

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

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The following table summarizes our customer statistics for analog and digital video, residential high-speed data, and residential telephony as of September 30, 2004 and 2003:

	Approximate as of	
	September 30, 2004(a)	September 30, 2003(a)
Cable Video Services:		
Analog Video:		
Residential (non-bulk) analog video customers(b)	5,825,000	6,240,000
Multi-dwelling (bulk) and commercial unit customers(c)	249,600	258,100
	<hr/>	<hr/>
Analog video customers(b)(c)	6,074,600	6,498,100
	<hr/>	<hr/>
Digital Video:		
Digital video customers(d)	2,688,900	2,664,800
Digital percentage of analog video customers(b)(c)(d)(e)	44%	41%
Non-Video Cable Services:		
Residential high-speed data customers(f)	1,819,900	1,489,700
Dial-up customers	7,300	10,900
Telephony customers(g)	40,200	24,100

Pro forma for the sale of systems to Atlantic Broadband Finance, LLC in March and April 2004 and to WaveDivision Holdings, LLC in October 2003, as if all of these sales had occurred as of January 1, 2003, analog video customers, digital video customers and residential high-speed data customers would have been 6,239,000, 2,570,300 and 1,441,500, respectively, as of September 30, 2003.

- (a) Customers include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts (such as our employees). Further, customers include persons receiving service under promotional programs that offered up to two months of service for free, some of whom had not requested to be disconnected, but had not become paying customers as of September 30, 2004. If such persons do not become paying customers, we do not believe this would have a material impact on our consolidated financial condition or consolidated results of operations. In addition, at September 30, 2004 and 2003, customers include approximately 46,000 and 64,600 persons whose accounts were over 60 days past due in payment, approximately 5,500 and 7,100 persons whose accounts were over 90 days past due in payment, and approximately 2,000 and 2,300 of which were over 120 days past due in payment, respectively.
- (b) Residential (non-bulk) analog video customers include all residential customers who receive video services, except for complimentary accounts (such as our employees).
- (c) Included within video customers are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit (EBU) basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential 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 video prices to residential customers without a corresponding increase in the prices charged to commercial service or multi-dwelling customers, our EBU count will decline even if there is no real loss in commercial service or multi-dwelling customers.
- (d) Digital video customers include all households that have one or more digital set-top terminals. Included in digital video customers on September 30, 2004 and 2003 are approximately 10,700 and 12,600 customers, respectively, that receive digital video service directly through satellite transmission.
- (e) Represents the number of digital video customers as a percentage of analog video customers.

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- (f) All of these customers also receive video service and are included in the video statistics above except for approximately 205,500 and 75,200 of these customers at September 30, 2004 and 2003, respectively, who were residential high-speed data only customers.
- (g) Telephony customers include all households receiving telephone service.

Video Services

Our video service offerings include the following:

Basic Analog Video. All of our video customers receive a package of basic programming, which generally consists of local broadcast television, local community programming, including governmental and public access, and limited satellite-delivered or non-broadcast channels, such as weather, shopping and religious services. Our basic channel line-up generally has between 15 and 30 channels.

Expanded Basic Analog Video. This expanded programming level includes a package of satellite-delivered or non-broadcast channels and generally has between 30 and 50 channels in addition to the basic channel line-up.

Premium Channels. These channels provide commercial-free movies, sports and other special event entertainment programming. Although we offer subscriptions to premium channels on an individual basis, we offer an increasing number of premium channel packages and 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 Video. We offer digital video to our customers in several different service combination packages. All of our digital packages include a digital set-top terminal, an interactive electronic programming guide, up to 45 channels of digital music, an expanded menu of pay-per-view channels and the option to also receive digital packages which range from 4 to 30 additional video channels. We also offer our customers certain digital packages with 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 airing (such as east and west coast time slots) or programming content theme (such as westerns or romance). Some digital tier packages focus on the interests of a particular customer demographic and emphasize, for example, sports, movies, family or ethnic programming. In addition to video programming, digital video service enables customers to receive our advanced services such as VOD and high definition television. Other digital packages bundle digital television with our advanced services, such as high-speed data services.

High-Speed Data Services

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

In the fall of 2003, we re-priced our high-speed data service, offering faster speed and additional features, both as part of a service bundle and as an à la carte offering. We ended the third quarter of 2004 with 17% penetration of high-speed data homes passed, up from the 15% penetration of high-speed data homes passed at year-end 2003. This gave us a percentage increase in high-speed data customers of 16% and an increase in high-speed data revenues of 33% in the nine months ended September 30, 2003. As of September 30, 2003, in most of our systems, we migrated high-speed data customers to the fastest residential speed available at no additional charge to our existing high-speed data customers. These

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customers remained at that speed without additional charge through March 2004. As of September 30, 2004, 65% of our high-speed data customers subscribe at the fastest residential speed available.

Advanced Broadband Services

We continue to test, evaluate and deploy new advanced services that we believe will provide new revenue streams to offset overall increasing programming costs or enhance our appeal to consumers to counter competition. These advanced services include:

Video On Demand and Subscription Video on Demand. We offer VOD service, which allows customers to access hundreds of movies and other programming at any time with digital picture quality. In some systems we also offer SVOD for a single monthly fee or included with a digital tier premium channel subscription. As of September 30, 2004, we offered VOD in systems serving approximately 1.3 million digital video customers or 48% of our digital video customers as of that date. We expect to make VOD service available in systems serving approximately 1.6 million digital video customers by mid-2005.

High Definition Television. High definition television offers our digital customers video programming at a higher resolution than the standard analog or digital video image. As of September 30, 2004, we offered high definition television in systems serving approximately 2.1 million digital video customers. Our objective in 2004 was to provide at least 8-10 broadcast and cable network high definition channels per system, focusing on providing at least two local high definition broadcast channels per system. As of September 30, 2004 we have reached our objective in systems covering 1.2 million digital video customers or 57% of our total customers able to receive high definition television as of that date.

Telephony Services. We continue to explore development and deployment of voice communications services using VOIP to transmit digital voice signals over our systems. At September 30, 2004, our VOIP telephony service was available to approximately 416,300 homes passed in two markets and traditional switch-based telephony was available to approximately 91,800 homes passed in another market. At year-end 2004, we anticipate having nearly 1 million telephony-ready homes. We will continue to prepare these and additional markets for VOIP launches in 2005.

i-TV Service. We ended 2003 with interactive television service (i-TV) available to over 1 million digital video customers. In 2004 we decreased availability of our i-TV channels and dropped the service in certain markets, due to incompatibility issues with our VOD provider in those markets. We are exploring a possible relaunch of i-TV in those markets in mid-2005. We expect to end 2004 with i-TV channels available to approximately 815,100 digital video customers.

Commercial Services. We offer integrated network solutions to commercial and institutional customers. These solutions include high-speed data and video services. In addition, we offer high- speed data services to local businesses.

Digital Video Recorder

In December 2003, we launched digital video recording capabilities service in four Los Angeles systems serving 121,000 digital video customers at year-end. In April 2004, we launched DVR service in our Rochester, Minnesota market. As of September 30, 2004 we have DVR service available in 33 markets serving approximately 1.4 million digital video customers. We expect to end 2004 with DVR deployment in systems serving approximately 1.8 million digital video customers, which would be approximately 67% of our digital video customers as of September 30, 2004.

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 39 channels. Our system rebuilds have increased the number of available

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channels on which we are able to insert local advertising. We also provide cross-channel advertising to some programmers.

From time to time, certain of our equipment vendors have purchased advertising from us. For the nine months ended September 30, 2004 and the years ending December 31, 2003, 2002 and 2001, advertising revenue from vendors was recognized in the amounts of \$9 million, \$15 million, \$79 million and \$27 million respectively. These revenues resulted from purchases at market rates pursuant to executed binding agreements. However, in connection with Charter's restatement announced in April 2003, we reversed all advertising revenues (approximately \$17 million) from two set-top terminal manufacturers recognized in 2000. Based on a reassessment of the underlying structure of the arrangements during 2000, the prices paid for the set-top terminals and the advertising revenue recognized were determined to be in excess of fair value.

Pricing for Our Products and Services

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

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

Service	Price Range as of September 30, 2004		
Analog video packages	\$ 8.00	-	\$ 54.00
Premium channel	\$10.00	-	\$ 15.00
Pay-per-view (per movie or event)	\$ 3.95	-	\$179.00
Digital video packages (including high-speed data service for higher tiers)	\$34.00	-	\$112.00
High-speed data service	\$21.95	-	\$ 49.99
Video on demand (per selection)	\$ 0.99	-	\$ 12.99
High definition television	\$ 3.99	-	\$ 6.99
Digital video recorder			\$ 9.99

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

Our Network Technology

We have substantially completed the build-out of our systems to a minimum bandwidth of 550 megahertz or greater, which enables us to:

offer digital television, high-speed data services and other advanced services;

offer up to 82 analog channels, and even more channels when our bandwidth is used for digital signal transmission; and

permit two-way communication for Internet access and interactive services, and potentially, telephony services.

As part of the upgrade of our systems during the last several years and as a result of system sales, we reduced the number of headends that serve our customers from 1,138 at January 1, 2001 to 744 at September 30, 2004. Because headends are the control centers of a cable system, where incoming signals

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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 84% of our customers were served by headends serving at least 10,000 customers as of September 30, 2004.

The following table sets forth the technological capacity of our systems as of September 30, 2004:

Less than 550 Megahertz	550 Megahertz to 660 Megahertz	750 Megahertz	860 Megahertz to 870 Megahertz	Two-way Capability	Two-way Enabled
8%	5%	42%	45%	92%	87%

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

As of September 30, 2004, our cable systems consisted of approximately 220,200 strand miles, including approximately 48,400 strand miles of fiber optic cable, passing approximately 12.1 million households and serving approximately 6.3 million customers.

We adopted the hybrid fiber coaxial cable (HFC) architecture as the standard for our systems upgrades. HFC architecture combines the use of fiber optic cable with coaxial cable. Fiber optic cable is a communication medium that uses glass fibers to transmit signals over long distances with minimum signal loss or distortion. Fiber optic cable has excellent broadband frequency characteristics, noise immunity and physical durability and can carry hundreds of video, data and voice channels over extended distances. Coaxial cable is less expensive 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 occur with two-way communication capability; and

improved picture quality and service reliability.

We currently maintain a national network operations center to monitor our data networks and to further our strategy of providing high quality service. Monitoring previously done by our regional operations centers has been migrated to our national network operations center. Centralized monitoring becomes increasingly important as we increase the number of customers utilizing two-way high-speed data service. Our local dispatch centers focus primarily on monitoring the HFC plant, also replacing our existing regional operating centers.

Management of Our Systems

Many of the functions associated with our financial management are centralized, including accounting, billing, finance and acquisitions, payroll, accounts payable and benefits administration, information system design and support, internal audit, purchasing, marketing, programming contract administration and Internet service, network and circuits administration.

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To improve efficiency and operational consistency throughout our systems, we have consolidated from three divisions and ten regions to four operating divisions, eliminating certain layers of middle management. Each division is supported by operational, financial, marketing and engineering functions. The reorganization has facilitated the establishment of and adherence to standard practices, Charter branding throughout our systems and improved internal communication. We believe these improvements enhance consistency of service delivery.

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. As of September 30, 2004, we had 36 customer service locations, and our 14 largest customer service locations serviced approximately 95% of our customers.

Sales and Marketing

In the third quarter of 2004, Charter shifted primary responsibility for implementing sales and marketing strategies to the divisional and system level offices with a single corporate team in place to ensure compliance with certain guidelines established by the corporate marketing department designed to promote consistency in campaigns and promotion of our national brand. Our marketing efforts are intended to promote good interaction, quick information flow and sharing of best practices between our corporate office and our field offices, which make strategic decisions as to when and how various marketing programs will be rolled out to customers.

Due to our focus in 2003 on certain other operational matters and due to certain financial constraints, we reduced spending in 2003 on marketing our products and services. We expect to reduce marketing spending again during the fourth quarter of 2004. For the nine months ended September 30, 2004, we had marketing expenditures of \$99 million.

We monitor government regulation, customer perception, competition, pricing and product preferences, among other factors, to increase our responsiveness to our customers. Our coordinated marketing techniques include door-to-door solicitation, telemarketing, media advertising, e-marketing, direct mail solicitation and retail locations. In 2004 we have also increased our focus on marketing and selling our services through consumer electronics retailers and other retailers that sell televisions or cable modems.

In January 2004, we introduced the first national branding campaign in Charter's history. The "Get Hooked" branding initiative has been a key focal point of our national marketing campaigns throughout 2004, designed to promote our long-term objective of increasing our cash flow through deeper market penetration and growth in revenue per customer. In 2004 our corporate team produced eight national marketing campaigns employing the "Get Hooked" Charter brand designed to:

Promote customer awareness and loyalty;

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Attract former customers and households that have never subscribed to our services;

Promote our advanced services (such as DVR, high definition television, VOD and SVOD) with the goal that our customers will view their cable connection as one-stop shopping for video, voice, high-speed data and interactive services;

Promote our bundling of digital video and high-speed data services and pricing strategies; and

Announce the launch of our advanced services as they become available in our systems.

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 usually payable each month based on calculations performed by us and are subject to adjustment based on the results of periodic audits by the programmers.

Costs

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

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

annual increases imposed by programmers;

additional programming being provided to customers as a result of system rebuilds and bandwidth reallocation, both of which increase channel capacity; and

increased cost for certain previously discounted programming.

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 absorb 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 or mitigate reduction of 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 will result in enhanced quality of programming offered on digital tiers and provide our video customers more value and more choice. Additionally, as we migrate our programming to our digital tier packages certain programming that was previously available to all of our customers via an analog signal, may be part of an elective digital tier package. As a result, the customer base upon which we pay programming fees will proportionately decrease, and the overall expense for providing that service would likewise decrease. Reductions in the size of certain programming customer bases may result in the loss of specific volume discount benefits. We

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plan to seek to renegotiate the terms of our agreements with certain programmers as these agreements come due for renewal.

As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of September 30, 2004 approximately 33% of our current programming contracts are scheduled to expire by the end of 2004, and approximately another 12% by the end of 2005. There can be no assurance that these agreements will be renewed on favorable or comparable terms. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable, we may be forced to remove such programming channels from our line-up, which could result in a further loss of customers. In addition, our inability to fully pass these programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins.

Franchises

As of September 30, 2004, our systems operated pursuant to a total of approximately 4,200 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, provided that revenue is derived from a cable service, which is the maximum amount that may be charged under the applicable federal law. We are entitled to and generally do pass this fee through to the customer.

Prior to the scheduled expiration of most franchises, we initiate renewal proceedings with the granting authorities. This process 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 consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants. Approximately 11% of our franchises, covering approximately 10% of our video customers have expired at December 31, 2004. Approximately 8% of additional franchises, covering approximately 9% of additional video customers will expire on or before December 31, 2005, if not renewed prior to expiration. We expect to renew substantially all of these franchises.

Under the Telecommunications Act of 1996 (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 (FCC) 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. On October 6, 2003, the United States Court of Appeals for the Ninth Circuit vacated in part the FCC's March 2002 decision and remanded for further proceedings. The Ninth Circuit affirmed the portion of the FCC's March 2002 decision holding that cable modem service is not a cable service. Although the Ninth Circuit's decision should not subject cable operators to additional cable franchise fee requirements for the provision of cable modem service, it could possibly result in other telecommunications regulation.

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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 (DBS), 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 September 30, 2004, we are aware of traditional overbuild situations impacting approximately 5% of our total homes passed and potential overbuilds in areas servicing approximately 2% of our total homes passed.

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

Our key competitors include:

Direct Broadcast Satellite

Direct broadcast satellite (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 approximately 24 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, although DBS providers have indicated that they may not continue to promote their high-speed Internet services on a going forward basis. Consistent with increasing consolidation in the communications industry, News Corp., one of the world's largest media companies, recently acquired a controlling interest in DIRECTV, Inc. (DirecTV), the largest domestic DBS company. This business combination 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. In addition to the two established DBS providers, DirecTV and EchoStar Communications Corporation (EchoStar), a third DBS provider, Rainbow DBS, a division of Cablevision Systems Corp., commenced offering service in the fall of 2003. Additionally, EchoStar and DirecTV both have entered into joint marketing agreements with major telecommunications companies to offer bundled packages combining phone service, DSL and DBS services.

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 2003, 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 compared to approximately \$40 for the closest comparable package in most of our markets. In addition, while we continue to believe that the initial investment by a DBS customer exceeds that of a cable customer, the initial equipment cost for DBS has decreased substantially, as the DBS providers have aggressively marketed offers to new customers of incentives for discounted or free equipment, installation and multiple units. DBS providers are able to offer service nationwide and are able to establish a national image and branding with standardized offerings, which together with their ability to avoid franchise fees of

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up to 5% of revenues and property tax, 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 believe that cable-delivered VOD and SVOD service are superior to DBS service because cable headends can store thousands of titles which customers can access and control independently, whereas DBS technology can only make available a much smaller number of titles with DVR-like customer control. We also believe that our higher tier products, particularly our bundled premium packages, are price-competitive with DBS packages and that many consumers prefer our ability to economically bundle video packages with data packages. Further, cable providers have the potential in some areas to provide a more complete whole house communications package when combining video, high-speed data and voice. We believe that this ability to bundle, combined with the introduction of more new products that DBS cannot readily offer (local high definition television and local interactive television) differentiates us from DBS competitors and could enable us to win back some of our former customers who migrated to satellite. However, joint marketing arrangements between DBS providers and telecommunications carriers allow similar bundling of services in certain areas.

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 and EchoStar 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. DBS companies do not offer local broadcast programming in every U.S. market, although the number of markets covered is increasing.

DirecTV (through an affiliate) is now providing two-way high-speed Internet access services in some areas. Another satellite company called WildBlue Communications, Inc. (formerly iSKY, Inc.) reports that it plans to deliver two-way high-speed Internet access to residential and small business markets in the contiguous United States and portions of Canada in early 2005 using the Ka-band and spot beam technology. EchoStar is offering its video programming services with the Internet services provided by EarthLink, an Internet service provider, using digital subscriber line technology. In addition, EchoStar may expand into dish-based broadband service offerings.

DSL and Other Broadband Services

The deployment of 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. Most telephone companies which already have plant, an existing customer base, and other operational functions in place (such as, billing, service personnel, etc.) offer DSL service. DSL actively markets its service, and many providers have offered promotional pricing with a one-year service agreement. The FCC has 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 FCC'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 available. In addition, local wireless Internet services have recently begun to operate in many markets using available unlicensed radio spectrum. This service option, popularly known as "wi-fi", offers another alternative to cable-based Internet access.

High-speed Internet access facilitates the streaming of video into homes and businesses. As the quality and availability of video streaming over the Internet improves, video streaming likely will compete with the traditional delivery of video programming services over cable systems. It is possible that

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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 comparable to that for similar 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. Joint marketing arrangements between DSL providers and DBS providers may allow some additional bundling of services. Moreover, major telephone companies, such as SBC and Verizon, are now deploying fiber deep into their networks that will enable them to offer video services over their networks, in addition to established voice and Internet services.

Broadcast Television

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

Traditional Overbuilds

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

As of September 30, 2004, we are aware of overbuild situations impacting approximately 5% of our total homes passed and potential overbuild situations in areas servicing approximately 2% of our total homes passed, together representing a total of approximately 7% of our homes passed. 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 September 30, 2004, 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-

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ownership restriction, making it possible for local exchange carriers, who have considerable resources, to provide a wide variety of video services competitive with services offered by cable systems.

Telephone companies can lawfully enter the cable television business, and although activity in this area historically has been quite limited, recent announcements by telephone companies indicate a growing interest in offering a video product. Local exchange carriers do already provide facilities for the transmission and distribution of voice and data services, including Internet services, in competition with our existing or potential interactive services ventures and businesses. In addition, major telephone companies, such as SBC and Verizon, are now deploying fiber into their networks that will enable them to offer video services over their networks, in addition to established voice and Internet services. We cannot predict the likelihood of success of the broadband services offered by our competitors or the impact on us of such competitive ventures. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of established cable systems.

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 franchises, wireless or private cable operators, local exchange carriers and others may result in providers capable of offering cable television, Internet, and telecommunications services in direct competition with us. For example, major local exchange carriers have entered into arrangements with EchoStar and DirecTV in which they will market packages combining phone service, DSL and DBS services.

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

Private Cable

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

Wireless Distribution

Cable systems also compete with wireless program distribution services such as multi-channel multipoint distribution systems or wireless cable, known as MMDS, which uses low-power microwave frequencies to transmit television programming over-the-air to paying customers. Wireless distribution services generally provide many of the programming services provided by cable systems, and digital compression technology increases significantly the channel capacity of their systems. Both analog and digital MMDS services, however, require unobstructed line of sight transmission paths and MMDS ventures have been quite limited to date.

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

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Properties

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

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

Historically our subsidiaries have owned the real property and buildings for our data centers, customer contact centers and our divisional administrative offices. Since early 2003 we have reduced our total real estate portfolio square footage by approximately 17% and have decreased our operating annual lease costs by approximately 30%. We plan to continue reducing 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 Holdco owns the real property and building for our principal executive offices.

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

Employees

As of September 30, 2004, we had approximately 15,550 full-time equivalent employees. At September 30, 2004, approximately 100 of our employees were represented by collective bargaining agreements. We have never experienced a work stoppage.

The corporate office, which includes employees of Charter and Charter Holdco, is responsible for coordinating and overseeing our operations. The corporate office performs certain financial and administrative functions on a centralized basis such as accounting, billing, finance and acquisitions, payroll and benefit administration, information system design and support, internal audit, purchasing, marketing and programming contract administration. The corporate office performs these services on a cost reimbursement basis pursuant to a management services agreement. See *Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Intercompany Management Arrangements*.

Legal Proceedings

Securities Class Actions and Derivative Suits

Fourteen putative federal class action lawsuits (the *Federal Class Actions*) were 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 were sought by the plaintiffs. In general, the lawsuits alleged that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects. The Federal Class Actions were specifically and individually identified in public filings made by Charter prior to the date of this prospectus.

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

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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. StoneRidge subsequently filed a Consolidated Amended Complaint. The Court subsequently consolidated the Federal Class Actions into a single action (the Consolidated Federal Class Action) for pretrial purposes. On June 19, 2003, following a status and scheduling conference with the parties, the Court issued a Case Management Order setting forth a schedule for the pretrial phase of the Consolidated Federal Class Action. Motions to dismiss the Consolidated Amended Complaint were filed. On February 10, 2004, in response to a joint motion made by StoneRidge and Defendants Charter, Vogel and Allen, the Court entered an order providing, among other things, that: (1) the parties who filed such motion, engage in a mediation within ninety (90) days; and (2) all proceedings in the Consolidated Federal Class Actions were stayed until May 10, 2004. On May 11, 2004, the Court extended the stay in the Consolidated Federal Class Action for an additional sixty (60) days. On July 12, 2004, the parties submitted a joint motion to again extend the stay, this time until September 10, 2004. The Court granted that extension on July 20, 2004. On August 5, 2004, Stoneridge, Charter and the individual defendants who were the subject of the suit entered into a Memorandum of Understanding (described more fully below) setting forth agreements in principle to settle the Consolidated Federal Class Action.

The Consolidated Federal Class Action is entitled:

In re Charter Communications, Inc. Securities Litigation, MDL Docket No. 1506 (All Cases), StoneRidge Investments Partners, LLC, Individually and On Behalf of All Others Similarly Situated, v. Charter Communications, Inc., Paul Allen, Jerald L. Kent, Carl E. Vogel, Kent Kalkwarf, David G. Barford, Paul E. Martin, David L. McCall, Bill Shreffler, Chris Fenger, James H. Smith, III, Scientific-Atlanta, Inc., Motorola, Inc. and Arthur Andersen, LLP, Consolidated Case No. 4:02-CV-1186-CAS.

On September 12, 2002, a shareholders derivative suit (the State Derivative Action) was filed in the Circuit Court of the City of St. Louis, State of Missouri (the Missouri State Court), against Charter and its then 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.

The consolidated State Derivative Action is entitled:

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, Arthur Andersen, LLP and Charter Communications, Inc.

On March 12, 2004, an action substantively identical to the State Derivative Action was filed in the Missouri State Court, against Charter and certain of its current and former directors, as well as its former auditors. The plaintiffs in that case alleged 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, were sought by plaintiffs. On July 14, 2004, the Court consolidated this case with the State Derivative Action.

This action is entitled:

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

Separately, on February 12, 2003, a shareholders derivative suit (the Federal Derivative Action), was filed against Charter and its then current directors in the United States District Court for the Eastern

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District of Missouri. The plaintiff in that suit alleged 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 Charter's behalf, were 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.

On August 5, 2004, Charter entered into Memoranda of Understanding setting forth agreements in principle regarding settlement of the Consolidated Federal Class Action, the State Derivative Action(s) and the Federal Derivative Action (the "Actions"). In exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter will pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which will include the fees and expenses of plaintiffs' counsel. Of this amount, \$64 million will be paid in cash (by Charter's insurance carriers) and the balance will be paid in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million. The warrants would have an exercise price equal to 150% of the fair market value (as defined) of Charter Class A common stock as of the date of the entry of the order of final judgment approving the settlement. In addition, Charter expects to issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million. As part of the settlements, Charter will also commit to a variety of corporate governance changes, internal practices and public disclosures, some of which have already been undertaken and none of which are inconsistent with measures Charter is taking in connection with the recent conclusion of the SEC investigation described below. The settlement of each of the lawsuits is conditioned upon, among other things, the parties' approval and execution of definitive settlement agreements with respect to the matters described above, judicial approval of the settlements by the Court following notice to the class, and dismissal of the consolidated derivative actions now pending in Missouri State Court, which are related to the Federal Derivative Action.

In addition to the Federal Class Actions, the State Derivative Action(s), the new Missouri State Court derivative action and the Federal Derivative Action, six putative class action lawsuits were filed against Charter and certain of its then current directors and officers in the Court of Chancery of the State of Delaware (the "Delaware Class Actions"). The lawsuits were filed after the filing of a Schedule 13D amendment by Mr. Allen indicating that he was exploring a number of possible alternatives with respect to restructuring or expanding his ownership interest in Charter. We believe the plaintiffs speculated that Mr. Allen might have been contemplating an unfair bid for shares of Charter or some other sort of going private transaction on unfair terms and generally alleged that the defendants breached their fiduciary duties by participating in or acquiescing to such a transaction. The lawsuits, which are substantively identical, were brought on behalf of Charter's securities holders as of July 29, 2002, and sought unspecified damages and possible injunctive relief. However, no such transaction by Mr. Allen has been presented. On April 30, 2004, orders of dismissal without prejudice were entered in each of the Delaware Class Actions.

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.

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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.

Government Investigations

In August 2002, Charter became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, and its reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office has publicly stated that Charter is not a target of the investigation. Charter has also been advised by the U.S. Attorney's office that no member of its board of directors is a target of the investigation. On July 24, 2003, a federal grand jury charged four former officers of Charter with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. All four of the former officers who were indicted have entered guilty pleas and are now awaiting sentencing. We are fully cooperating with the investigation.

On November 4, 2002, Charter received an informal, non-public inquiry from the staff of the SEC. The SEC issued a formal order of investigation dated January 23, 2003, and subsequently served document and testimony subpoenas on Charter and a number of its former employees. The investigation and subpoenas generally concerned Charter'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. On July 27, 2004, the SEC and Charter reached a final agreement to settle the investigation. In the Settlement Agreement and Cease and Desist Order, Charter agreed to entry of an administrative order prohibiting any future violations of United States securities laws and requiring certain other remedial internal practices and public disclosures. Charter neither admitted nor denied any wrongdoing, and the SEC assessed no fine against Charter.

Indemnification

Charter is generally required to indemnify each of the named individual defendants in connection with the matters described above pursuant to the terms of its bylaws and (where applicable) such individual defendants' employment agreements. In accordance with these documents, in connection with the pending grand jury investigation, the now settled SEC investigation and the above described lawsuits, some of Charter's current and former directors and current and former officers have been advanced certain costs and expenses incurred in connection with their defense.

Other Litigation

In October 2001, two customers, Nikki Nicholls and Geraldine M. Barber, filed a class action suit against Charter Holdco in South Carolina Court of Common Pleas (the "South Carolina Class Action"), purportedly on behalf of a class of Charter Holdco's customers, alleging that Charter Holdco improperly charged them a wire maintenance fee without request or permission. They also claimed that Charter

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Holdco improperly required them to rent analog and/or digital set-top terminals even though their television sets were cable ready. A substantively identical case was filed in the Superior Court of Athens Clarke County, Georgia by Emma S. Tobar on March 26, 2002 (the Georgia Class Action), alleging a nationwide class for these claims. Charter Holdco removed the South Carolina Class Action to the United States District Court for the District of South Carolina in November 2001, and moved to dismiss the suit in December 2001. The federal judge remanded the case to the South Carolina Court of Common Pleas in August 2002 without ruling on the motion to dismiss. The plaintiffs subsequently moved for a default judgment, arguing that upon return to state court, Charter Holdco should have, but did not file a new motion to dismiss. The state court judge granted the plaintiff's motion over Charter Holdco's objection in September 2002. Charter Holdco immediately appealed that decision to the South Carolina Court of Appeals and the South Carolina Supreme Court, but those courts ruled that until a final judgment was entered against Charter Holdco, they lacked jurisdiction to hear the appeal.

In January 2003, the Court of Common Pleas granted the plaintiffs' motion for class certification. In October and November 2003, Charter Holdco filed motions (a) asking that court to set aside the default judgment, and (b) seeking dismissal of plaintiffs' suit for failure to state a claim. In January 2004, the Court of Common Pleas granted in part and denied in part Charter Holdco's motion to dismiss for failure to state a claim. It also took under advisement Charter Holdco's motion to set aside the default judgment. In April 2004, the parties to both the Georgia and South Carolina Class Actions participated in a mediation. The mediator made a proposal to the parties to settle the lawsuits. In May 2004, the parties accepted the mediator's proposal and reached a tentative settlement, subject to final documentation and court approval. As a result of the tentative settlement, we recorded a special charge of \$9 million in our consolidated statement of operations in the first quarter of 2004. On July 8, 2004, the Superior Court of Athens Clarke County, Georgia granted a motion to amend the Tobar complaint to add Nicholls, Barber and April Jones as plaintiffs in the Georgia Class Action and to add any potential class members in South Carolina. The court also granted preliminary approval of the proposed settlement on that date. On August 2, 2004, the parties submitted a joint request to the South Carolina Court of Common Pleas to stay the South Carolina Class Action pending final approval of the settlement and on August 17, 2004, that court granted the parties' request. On November 10, 2004, the court granted final approval of the settlement, rejecting positions advanced by two objectors to the settlement. On December 13, 2004, the court entered a written order formally approving that settlement. On January 11, 2005, however, certain class members appealed the order entered by the Georgia court. Additionally, one of the objectors to this settlement had recently filed a similar, but not identical, lawsuit.

The South Carolina Class Action was entitled:

Nikki Nicholls and Geraldine M. Barber, on behalf of themselves and all others similarly situated v. Charter Communications Holding Company, LLC and City of Spartanburg filed on October 29, 2001.

The Georgia Class Action is now entitled:

Emma S. Tobar, Nikki Nicholls, Geraldine M. Barber and April Jones, on behalf of themselves and all others similarly situated v. Charter Communications Holding Company, LLC, et al, originally filed on March 26, 2002.

Outcome

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 are not expected to have a material adverse effect on our consolidated financial condition, results of operations or our liquidity.

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REGULATION AND LEGISLATION

The following summary addresses the key regulatory and legislative developments affecting the cable industry. Cable system operations are extensively regulated by the FCC, some state governments and most local governments. A failure to comply with these regulations could subject us to substantial penalties. Our business can be dramatically impacted by changes to the existing regulatory framework, whether triggered by legislative, administrative, or judicial rulings. Congress and the FCC have expressed a particular interest in increasing competition in the communications field generally and in the cable television field specifically. The 1996 Telecom Act altered the regulatory structure governing the nation's communications providers. It removed barriers to competition in both the cable television market and the local telephone market. At the same time, the FCC has pursued spectrum licensing options designed to increase competition to the cable industry by wireless multichannel video programming distributors. We could be materially disadvantaged in the future if we are subject to new regulations that do not equally impact our key competitors. Congress and the FCC have frequently revisited the subject of communications regulation, and they are likely to do so in the future. In addition, franchise agreements with local governments must be periodically renewed, and new operating terms may be imposed. Future legislative, regulatory, or judicial changes could adversely affect our operations. We can provide no assurance that the already extensive regulation of our business will not be expanded in the future.

Cable Rate Regulation

The cable industry has operated under a federal rate regulation regime for more than a decade. The regulations currently restrict the prices that cable systems charge for basic service and associated equipment. All other cable offerings are now universally exempt from rate regulation. Although rate regulation operates pursuant to a federal formula, local governments, commonly referred to as local franchising authorities, are primarily responsible for administering this regulation. The majority of our local franchising authorities have never certified to regulate basic cable rates, but they retain the right to do so (and order rate reductions and refunds), except in those specific communities facing effective competition. Federal law defines effective competition as existing in a variety of circumstances that historically were rarely satisfied, but are increasingly likely to be satisfied with the recent increase in DBS competition.

There have been frequent calls to impose expanded rate regulation on the cable industry. Confronted with rapidly increasing cable programming costs, it is possible that Congress may adopt new constraints on the retail pricing or packaging of cable programming. Such constraints could adversely affect our operations. In response to Congressional sensitivity to the cable industry's practice of bundling programming into large tiers, the FCC recently conducted an inquiry into the advisability of mandating the a la carte offering of programming services. Although the FCC recommended against an a la carte mandate, it is still possible that new marketing restrictions could be adopted in the future.

The federal rate regulations also require cable operators to maintain a geographically uniform rate within each community, except in those communities facing effective competition. As we attempt to respond to a changing marketplace with competitive pricing practices, we may face legal restraints and challenges that impede our ability to compete.

Must Carry/ Retransmission Consent

Federal law currently includes must carry regulations, which require cable systems to carry certain local broadcast television stations that the cable operator would not select voluntarily. Alternatively, popular commercial television stations can prohibit cable carriage unless the cable operator first negotiates for retransmission consent, which may be conditioned on significant payments or other concessions. Either option has a potentially adverse effect on our business. The burden associated with must carry could increase significantly if the FCC requires cable systems to simultaneously carry both the analog and digital signals of each television station, as the broadcast industry transitions from an analog to a digital format.

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The burden could also increase significantly if the FCC requires cable systems to carry multiple program streams included within a single digital broadcast transmission. Although the FCC tentatively ruled against this expansion in a 2001 ruling, it is reviewing the issue and could reach a contrary result in the near future. If these expanded must-carry requirements were adopted, we would have less freedom over our distribution capacity.

Access Channels

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

Access to Programming

The FCC recently extended a regulation prohibiting video programmers affiliated with cable companies from favoring cable operators over new competitors and requiring 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. DBS providers traditionally had no similar restriction on exclusive programming, but the FCC recently imposed that restriction as part of its approval of the DirecTV-News Corp. merger. The FCC has also adopted regulations to avoid unreasonable conduct in retransmission consent negotiations between broadcasters and multichannel video programming distributors, including cable and DBS. It imposed special conditions on the DirecTV-News Corp. merger, including a requirement that Fox affiliated broadcast stations enter into commercial arbitration for disputes over retransmission consent. Given the heightened competition and media consolidation that Charter faces, it is possible that we will find it increasingly difficult to gain access to popular programming at favorable terms. Such difficulty could adversely impact our business.

Ownership Restrictions

Federal regulation of the communications field traditionally included a host of ownership restrictions, which limited the size of certain media entities and restricted their ability to enter into competing enterprises. Through a series of legislative, regulatory, and judicial actions, most of these restrictions recently were eliminated or substantially relaxed. For example, historic restrictions on local exchange carriers offering cable service within their telephone service area, as well as those prohibiting broadcast stations from owning cable systems within their broadcast service area, no longer exist. Changes in this regulatory area, including some still subject to judicial review, could alter the business landscape in which we operate, as formidable new competitors (including electric utilities, local exchange carriers, and broadcast/media companies) may increasingly choose to offer cable services. The relaxation of ownership restrictions could, for example, simplify transactions such as the one that would have resulted from Comcast Corporation's bid for Walt Disney Company had it been accepted, notwithstanding overlapping cable and broadcast properties.

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

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Internet Service

Over the past several years, proposals have been advanced at the FCC and Congress that would require cable operators offering Internet service to provide non-discriminatory access to unaffiliated Internet 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. It remains unclear today precisely what regulatory regime ultimately will be applied to the cable industry's high-speed Internet service. The FCC has ruled that cable modem service is an interstate information service, rather than a cable or telecommunications service. This classification left cable modem service exempt from the burdens associated with traditional cable and telecommunications regulation. The United States Court of Appeals for the Ninth Circuit however, vacated in part the FCC's ruling and remanded for further proceedings. The Ninth Circuit held that cable modem service is not cable service, but is part telecommunications service and part information service. That decision has been appealed to the Supreme Court, which has agreed to hear the case. The Ninth Circuit decision, if not overturned, could potentially result in adverse regulatory treatment, including the imposition of open access requirements on the cable industry's Internet access service.

Although the FCC previously suggested that regulatory forbearance of cable modem service would be appropriate, regardless of the technical classification ultimately assigned to it, a number of technology companies continue to press the FCC to subject cable modem service to certain nondiscrimination principles. The final regulatory status of cable modem service remains uncertain. Its outcome could materially affect our business. It could also affect whether local franchising authorities can collect franchise fees on cable modem service and whether cable systems will have any payment obligations to the federal government's universal service fund.

As the Internet has matured, it has become the subject of increasing regulatory interest. There is now a host of federal laws affecting Internet service, including the Digital Millennium Copyright Act, which affords copyright owners certain rights against us that could adversely affect our relationship with any customer accused of violating copyright laws. Recently enacted Anti-Spam legislation also imposes new obligations on our operations. The adoption of new Internet regulations could adversely affect our business.

Phone Service

The 1996 Telecom Act created a more favorable regulatory environment for us to provide telecommunications services. In particular, it limited the regulatory role of local franchising authorities and established requirements ensuring that we could interconnect with other telephone companies to provide a viable service. Many implementation details remain unresolved, and there are substantial regulatory changes being considered that could impact, in both positive and negative ways, our primary telecommunications competitors and our own entry into the field of phone service. The FCC and state regulatory authorities are considering, for example, whether common carrier regulation traditionally applied to incumbent local exchange carriers should be modified. The FCC recently decided that alternative voice technologies, like certain types of VOIP, should be regulated only at the federal level, rather than by individual states. As the FCC generally does not favor extensive regulation of such services, this decision appears to be a positive development for VOIP offerings. It is unclear how these regulatory matters ultimately will be resolved and how they will affect our potential expansion into phone service.

Pole Attachments

The Communications Act requires most utilities to provide cable systems with access to poles and conduits and simultaneously regulates the rates charged for this access. The Act specifies that significantly higher rates apply if the cable plant is providing telecommunications service, as well as traditional cable service. The FCC has clarified that a cable operator's favorable pole rates are not endangered by the provision of Internet access. Although that determination was upheld by the United States Supreme Court, a subsequent decision by the United States Court of Appeals for the Ninth Circuit regarding the proper

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regulatory classification of Internet service has once again created controversy in this area. The U.S. Supreme Court has agreed to hear an appeal of that decision. It remains possible that the underlying pole attachment formula, or its application to Internet and telecommunications offerings, will be modified in a manner that substantially increases our pole attachment costs.

Cable Equipment

The FCC has undertaken several steps to promote competition in the delivery of cable equipment and compatibility with new digital technology. The FCC has expressly ruled that cable customers must be allowed to purchase set-top 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 the basic converter functions, which could then be provided by third party vendors. The first phase of implementation has already passed. A prohibition on cable operators leasing digital set-top terminals that integrate security and basic navigation functions is currently scheduled to go into effect as of July 1, 2006.

The FCC recently adopted rules implementing an agreement between major cable operators and manufacturers of consumer electronics on plug and play specifications for one-way digital televisions. The rules require cable operators to provide CableCard security modules and support to customer owned digital televisions and similar devices already equipped with built-in set-top terminal functionality. Cable operators must support basic home recording rights and copy protection rules for digital programming content. The FCC has adopted companion broadcast flag rules, requiring cable carriage of a code embedded in digital broadcast programming that will regulate the further use of copyright programming.

The FCC is conducting additional related rulemakings, and the cable and consumer electronics industries are currently negotiating an agreement that would establish additional plug and play specifications for two-way digital televisions.

The FCC rules are subject to challenge and inter-industry negotiations are ongoing. It is unclear how this process will develop and how it will affect our offering of cable equipment and our relationship with our customers.

Other Communications Act Provisions and FCC Regulatory Matters

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

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

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

Copyright

Cable systems are subject to federal copyright licensing covering carriage of television and radio broadcast signals. The possible modification or elimination of this compulsory copyright license is the

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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. Moreover, the Copyright Office has not yet provided any guidance as to the how the compulsory copyright license should apply to newly offered digital broadcast signals.

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

Franchise Matters

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

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

Table of Contents**MANAGEMENT****Directors and Executive Officers of Registrant**

The persons listed below are directors of Charter.

Directors	Position(s)
Paul G. Allen	Chairman of the board of directors
W. Lance Conn	Director
Jonathan L. Dolgen	Director
Charles M. Lillis	Director
Robert P. May	Director, Interim President and Chief Executive Officer
David C. Merritt	Director
Marc B. Nathanson	Director
Jo Allen Patton	Director
John H. Tory	Director
Larry W. Wangberg	Director

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

Paul G. Allen, 51, has been Chairman of our Board of Directors since July 1999, and Chairman of the Board of Directors of Charter Investment, Inc. (a predecessor to, and currently an affiliate of, Charter) since December 1998. Mr. Allen, co-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 DreamWorks LLC and Oxygen Media. In addition, Mr. Allen is a director of Vulcan Programming Inc., Vulcan Ventures, Vulcan Inc., Vulcan Cable III Inc., numerous privately held companies and, until its sale in May 2004 to an unrelated third party, TechTV L.L.C.

W. Lance Conn, 36, was elected to our Board of Directors in September 2004. Since July 2004, Mr. Conn has served as Executive Vice President, Investment Management for Vulcan Inc., the investment and project management company that oversees a diverse multi-billion dollar portfolio of investments by Paul G. Allen. Prior to joining Vulcan Inc., Mr. Conn was employed by America Online, Inc., an interactive online services company, from March 1996 to May 2003. From 1997 to 2000, Mr. Conn served in various senior business development roles at America Online. In 2000, Mr. Conn began supervising all of America Online's European investments, alliances and business initiatives. In 2002 he became Senior Vice President of American Online U.S. where he led a company-wide effort to restructure and optimize America Online's operations. From September 1994 until February 1996, Mr. Conn was an attorney with the Shaw Pittman law firm in Washington, D.C. Mr. Conn holds a J.D. degree from the University of Virginia, a master's degree in history from the University of Mississippi and an A.B. in history from Princeton University.

Jonathan L. Dolgen, 59, was elected to our Board of Directors in October 2004. Since July 2004, Mr. Dolgen has been a Senior Advisor to Viacom, Inc. (Viacom) a worldwide entertainment and media company, where he provides advisory services to the current Chairman and Chief Executive of Viacom, or others designated by him, on an as requested basis. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group, a unit of Viacom, where he oversaw various operations of Viacom's businesses, which during 2003 and 2004 primarily included the operations engaged in motion picture production and distribution, television production and distribution, regional theme parks, theatrical exhibition and publishing. Mr. Dolgen began his career in the entertainment industry in 1976 and until joining the Viacom Entertainment Group, served in executive positions at Columbia Pictures Industries, Inc., Twentieth Century Fox and Fox, Inc., and Sony Pictures

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Entertainment. Mr. Dolgen holds a B.S. degree from Cornell University and a J.D. degree from New York University.

Charles M. Lillis, 63, was elected to our Board of Directors in October 2003. Presently, he is the Managing Partner of Lone Tree Capital, a private equity partnership he co-founded in 2002. Mr. Lillis served as Chairman and Chief Executive Officer of MediaOne Group, Inc. from June 1998 to May 2000. He served as Chief Executive Officer of MediaOne while it was a tracking stock company from November 1995 to May 1997. Prior to that, he held various senior management positions at US WEST, MediaOne's predecessor. Before joining US WEST, he served as Dean of the University of Colorado's College of Business and as a professor at Washington State University. In addition, he is a director and serves on the audit committees of SuperValu, Inc. and Williams Companies. Mr. Lillis is also Chairman of the University of Washington Business Advisory Board, a member of the University of Washington Foundation Board, and a former member of the University of Colorado Foundation Board. Mr. Lillis is a graduate of the University of Washington, Seattle, with an M.B.A., and he holds a doctorate of Philosophy in Business from the University of Oregon, in Eugene.

Robert P. May, 55, was elected to our Board of Directors in October 2004 and became our Interim President and Chief Executive Officer in January 2005. Mr. May has served on the Board of Directors of HealthSouth Corporation, a national provider of healthcare services since October 2002, and has been its Chairman since July 2004. Mr. May also served as HealthSouth Corporation's Interim Chief Executive Officer from March 2003 until May of 2004, and as Interim President of its Outpatient and Diagnostic Division from August 2003 to January 2004. From March 2001 until March 2003, Mr. May was principal of RPM Systems, a strategic and private investing consulting firm. From March 1999 to March 2001, Mr. May served on the Board of Directors and was Chief Executive Officer of PNV Inc., a national telecommunications company. PNV Inc. filed for bankruptcy in December 2000. Prior to his employment at PNV Inc., Mr. May was Chief Operating Officer and a member of the Board of Directors of Cablevision Systems Corporation from October 1996 to February 1998, and from 1973 to 1993 he held several senior executive positions with Federal Express Corporation, including President, Business Logistics Services. Mr. May was educated at Curry College and Boston College and attended Harvard Business School's Program for Management Development.

David C. Merritt, 50, was elected to our Board of Directors in July 2003, and was also appointed as Chairman of the Audit Committee at that time. Since October 2003, Mr. Merritt has been a Managing Director of Salem Partners, LLC, an investment banking firm. He was a Managing Director in the Entertainment Media Advisory Group at Gerard Klauer Mattison & Co., Inc., a company that provides financial advisory services to the entertainment and media industries from January 2001 through April 2003. Prior to that, he served as Chief Financial Officer of CKE Associates, Ltd., a privately held company with interests in talent management, film production, television production, music and new media from July 1999 to November 2001. He also served as a director of Laser-Pacific Media Corporation from January 2001 until October 2003 and served as Chairman of its audit committee. During December 2003, he became a director of Outdoor Channel Holdings, Inc. Mr. Merritt joined KPMG LLP in 1975 and served in a variety of capacities during his years with the firm, including national partner in charge of the media and entertainment practice and before joining CKE Associates, Mr. Merritt was an audit and consulting partner of KPMG LLP for 14 years. Mr. Merritt holds a B.S. degree in Business and Accounting from California State University Northridge.

Marc B. Nathanson, 59, has been a director of Charter 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.

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Mr. Nathanson holds a Bachelors degree in Mass Communications from the University of Denver and a Masters degree in Political Science from University of California/ Santa Barbara.

Jo Allen Patton, 46, has been a director of Charter since April 2004. Ms. Patton joined Vulcan Inc. as Vice President in 1993, and since that time has served as an officer and director of many affiliates of Mr. Allen, including in her current position as President and Chief Executive Officer of Vulcan Inc. since July 2001. Vulcan Inc. is the investment and project management company founded by Mr. Allen to oversee a diverse multi-billion dollar portfolio of investments, real estate, sports teams, entertainment and charitable projects. Ms. Patton is also President of Vulcan Productions, an independent feature film and documentary production company, Vice Chair of First & Goal, Inc., which developed and operates the Seattle Seahawks NFL stadium, and serves as Executive Director of the six Paul G. Allen Foundations. Ms. Patton is a co-founder of the Experience Music Project museum, as well as the Science Fiction Museum and Hall of Fame. Ms. Patton is the sister of Mr. Allen.

John H. Tory, 50, has been a director of Charter since December 2001. Mr. Tory served as the Chief Executive Officer of Rogers Cable Inc., Canada's largest broadband cable operator, from 1999 until 2003. From 1995 to 1999 Mr. Tory was President and Chief Executive Officer of Rogers Media Inc., a broadcasting and publishing company. Prior to joining Rogers, Mr. Tory was a Managing Partner and member of the executive committee at Tory Tory DesLauriers & Binnington, one of Canada's largest law firms. Mr. Tory serves on the Board of Directors of a number of Canadian companies, including Cara Operations Limited. Mr. Tory was educated at University of Toronto Schools, Trinity College (University of Toronto) and Osgoode Hall Law School.

Larry W. Wangberg, 62, has been a director of Charter since January 2002. From August 1997 to May 2004, Mr. Wangberg was a director of TechTV L.L.C., a cable television network controlled by Paul Allen. He also served as its Chairman and Chief Executive Officer from August 1997 through July 2002. In May 2004, TechTV was sold to an unrelated third party. Prior to joining TechTV L.L.C., Mr. Wangberg was Chairman and Chief Executive Officer of StarSight Telecast Inc., an interactive navigation and program guide company, which later merged with Gemstar International, from 1994 to 1997. Mr. Wangberg was Chairman and Chief Executive Officer of Times Mirror Cable Television and Senior Vice President of its corporate parent, Times Mirror Co., from 1983 to 1994. He currently serves on the boards of Autodesk Inc., and ADC Telecommunications. Mr. Wangberg holds a bachelor's degree in Mechanical Engineering and a master's degree in Industrial Engineering, both from the University of Minnesota.

Director Compensation

Each non employee member of our Board receives an annual retainer of \$40,000 in cash plus restricted stock, vesting one year after the date of grant, with a value on the date of grant of \$50,000. In addition, the Audit Committee chair receives \$25,000 per year, and the chair of each other committee receives \$10,000 per year. All committee members also receive \$1,000 for attendance at each committee meeting. Each of our directors is entitled to reimbursement for costs incurred in connection with attendance at Board and Committee meetings.

Directors who were not employees did not receive additional compensation in 2003 or 2004. Mr. Vogel, who was our President and Chief Executive Officer in 2004, was the only director who was also an employee during 2004.

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

Table of Contents**Executive Officers**

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

Executive Officers	Position
Paul G. Allen	Chairman of the Board of Directors
Robert P. May	Interim President and Chief Executive Officer
Derek Chang	Executive Vice President of Finance and Strategy and interim co-Chief Financial Officer
Thomas A. Cullen	Executive Vice President of Advanced Services and Business Development
Wayne H. Davis	Executive Vice President and Chief Technical Officer
Michael J. Lovett	Executive Vice President, Operations and Customer Care
Paul E. Martin	Senior Vice President, Principal Accounting Officer and interim co-Chief Financial Officer
Curtis S. Shaw	Executive Vice President, General Counsel and Secretary

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

Derek Chang, 36, Executive Vice President of Finance and Strategy and interim co-Chief Financial Officer. Mr. Chang joined Charter in December 2003 as Executive Vice President of Finance and Strategy and was appointed interim co-Chief Financial Officer in August 2004. Prior to joining us, Mr. Chang was Executive Vice President of the Yankees Entertainment and Sports (YES) Network, a regional sports programming network in New York where he headed corporate development and financing activities from the company's inception in 2001 until January 2003. Prior to joining YES, he was the Chief Financial Officer and Co-Chief Operating Officer of GlobalCenter, the web hosting subsidiary of Global Crossing. Mr. Chang worked for TCI Communications/ AT&T Broadband in Denver from 1997 to 2000, ultimately as Executive Vice President of Corporate Development, where he directed mergers and acquisitions activities and managed a multi-billion dollar portfolio of cable joint ventures. He was with InterMedia Partners in San Francisco from 1994 to 1997 where he held a number of positions and was ultimately Treasurer. Mr. Chang received a B.A. degree from Yale University and an M.B.A. from the Stanford University Graduate School of Business.

Thomas A. Cullen, 45, Executive Vice President of Advanced Services and Business Development. Mr. Cullen joined Charter as Senior Vice President of Advanced Services and Business Development in August 2003 and was promoted to Executive Vice President in August 2004. From January 2001 to October 2002, Mr. Cullen was General Partner of Lone Tree Capital, a private equity partnership focused on investment opportunities in the technology and communications sector. From March 1997 to June 2000, Mr. Cullen was President of MediaOne Ventures. Prior to that, Mr. Cullen served in several capacities with MediaOne Internet Services including Vice President from April 1998 to June 2000 and Vice President of Business Development from September 1995 to March 1997. Mr. Cullen is a member of the Colorado State University Global Leadership Council. He is also a member of the board of directors of the Cable & Telecommunications Association for Marketing (CTAM). Mr. Cullen is a graduate of Northern Arizona University with a B.S. degree in Business Administration. He earned a Master of Business Administration from the University of Colorado.

Wayne H. Davis, 50, Executive Vice President and Chief Technical Officer. Prior to his current position, Mr. Davis served as Senior Vice President, Engineering and Technical Operations, and as Assistant to the President/ Vice President of Management Services, prior to that, he was Vice President of Engineering/ Operations for our National Region from December 2001. Before joining Charter, Mr. Davis held the position of Vice President of Engineering for Comcast Corporation, Inc. Prior to that, he held various engineering positions including Vice President of Engineering for Jones Intercable Inc. He began his career in the cable industry in 1980. He attended the State University of New York at Albany. Mr. Davis serves as an advisory board member of Cedar Point Communications, and as a board member

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of @Security Broadband Corp., a company in which Charter owns an equity investment interest. Mr. Davis is also a member of the Society of Cable Telecommunications Engineers.

Michael J. Lovett, 43, Executive Vice President, Operations and Customer Care. Mr. Lovett was promoted to his current position in September 2004. Prior to that he served as Senior Vice President, Midwest Division Operations and as Senior Vice President of Operations Support, since joining Charter in August 2003. Mr. Lovett was Chief Operating Officer of Voyant Technologies, Inc., a voice conferencing hardware/ software solutions provider, from December 2001 to August 2003. From November 2000 to December 2001, he was Executive Vice President of Operations for OneSource, Inc., a startup delivering management/ monitoring of firewalls and virtual private networks. Prior to that, Mr. Lovett was Regional Vice President at AT&T from June 1999 to November 2000 where he was responsible for operations. Mr. Lovett was Senior Vice President at Jones Intercable from October 1989 to June 1999 where he was responsible for operations in nine states. Mr. Lovett began his career in cable television at Centel Corporation where he held a number of positions.

Paul E. Martin, 44, Senior Vice President, Interim Co-Chief Financial Officer and Principal Accounting Officer. Mr. Martin has been employed by Charter since March 2000, when he joined Charter as Vice President and Corporate Controller. In April 2002, Mr. Martin was promoted to Senior Vice President and Principal Accounting Officer and in August 2004 was named interim co-Chief Financial Officer. Prior to joining us 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 with honors in Accounting from the University of Missouri - St. Louis.

Curtis S. Shaw, 56, Executive Vice President, General Counsel and Secretary. Mr. Shaw was promoted to Executive Vice President in October 2003. Prior to joining Charter Investment as Senior Vice President, General Counsel and Secretary 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 with honors in Economics from Trinity College and a J.D. degree from Columbia University School of Law.

Compensation Committee Interlocks and Insider Participation

Until April 27, 2004, when Mr. Savoy resigned from the board, our Compensation Committee was comprised of Messrs. Allen, Savoy and Nathanson. In 2004, Nancy Peretsman and David Merritt served as the Option Plan Committee that administered the 1999 Charter Communications Option Plan and the Charter Communications, Inc. 2001 Stock Incentive Plan until Mr. Lillis replaced Ms. Peretsman on the Option Plan Committee in July 2004.

No member of the Compensation Committee or the Option Plan Committee was an officer or employee of Charter or any of its subsidiaries during 2004, except for Mr. Allen who served as a non-employee chairman of the Compensation Committee. Also, Mr. Nathanson was an officer of certain of our subsidiaries prior to their acquisition by Charter in 1999 and held the title of Vice Chairman of Charter's Board of Directors, a non-executive, non-salaried position, in 2004. Mr. Allen is the 100% owner and a director of Vulcan Inc. and certain of its affiliates, which employed Mr. Savoy, one of our directors until April 27, 2004, as an executive officer in the past. Mr. Allen also was a director of and indirectly owned 98% of TechTV, of which Mr. Wangberg, one of our directors, was a director until the sale of TechTV to an unrelated third party in May 2004. Transactions between us and members of the Compensation Committee are more fully described in Director Compensation and in Certain Relationships and Related Transactions - Other Miscellaneous Relationships.

During 2004, (1) none of our executive officers served on the compensation committee of any other company that has an executive officer currently serving on our board of directors, Compensation Committee or Option Plan Committee and (2) except for Carl Vogel who served as a director of Digeo,

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Inc., an entity of which Paul Allen is a director and by virtue of his position as Chairman of the board of directors of Digeo, Inc. is also a non-employee executive officer, none of our executive officers served as a director of another entity, one of whose executive officers served on our Compensation Committee or Option Plan Committee.

Executive Compensation**Summary Compensation Table**

The following table sets forth information regarding the compensation to those executive officers listed below for services rendered for the fiscal years ended December 31, 2002, 2003 and 2004. These officers consist of the Chief Executive Officer, each of the other four most highly compensated executive officers as of December 31, 2004, and one other highly compensated executive officer who served during 2004 but was not an executive officer on December 31, 2004.

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Long-Term Compensation Award		All Other Compensation (\$)(2)
		Salary(\$)	Bonus\$(1)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Securities Underlying Options (#)	
Carl E. Vogel(3)	2004	1,038,462	500,000		2,924,000(15)	580,000	39,787(18)
Former President and Chief Executive Officer	2003	1,000,000	150,000	30,345(12)		750,000	12,639(18)
	2002	980,769	330,000(8)	214,961(12)		1,000,000	10,255(18)
Margaret A. Bellville(4)	2004	478,366		28,309(13)		200,000	201,989(19)
Former Executive Vice President, Chief Operating Officer	2003	581,730	203,125	30,810(13)			109,139(19)
	2002	9,615	150,000(9)			500,000	
Derek Chang	2004	386,538		7,255(14)		135,000	
Executive Vice President of Finance and Strategy, Interim Co-Chief Financial Officer	2003	15,385			192,000(16)	350,000	
Steven A. Schumm(5)	2004	467,308			467,702(17)	135,000	1,242(20)
Former Executive Vice President and Chief Administrative Officer	2003	448,077	45,000			250,000	9,889
	2002	436,058	588,000(10)			300,000	5,255
Curtis S. Shaw(6)	2004	422,115				135,000	2,322(21)
Executive Vice President, General Counsel and Secretary	2003	275,782	37,500			250,000	9,411(21)
	2002	249,711	281,500(11)			100,000	3,096
Michael J. Lovett(7)	2004	291,346				172,000	8,757(22)
Executive Vice President, Operations and Customer Care	2003	81,731	60,000			100,000	2,400(22)

- (1) Generally, bonus amounts for 2004 have not yet been determined by Charter's Board of Directors. Bonus shown for Mr. Vogel for 2004 was a mid-year discretionary bonus. Includes senior management bonuses for 2003 under the 2003 senior management incentive plan. Mr. Vogel's and Ms. Bellville's 2002 and 2003 bonuses were determined in accordance with the terms of their respective employment agreements. Also, where indicated in the footnotes below, the bonuses for 2002 include stay bonuses in the form of principal and interest forgiven under the employee's promissory note. In 2002, all the remaining principal and accrued interest on these notes was forgiven as provided by the terms of the notes, so that at December 31, 2002, these notes were no longer outstanding.
- (2) Except as noted in notes 18 through 22 below, respectively, these amounts consist of matching contributions under our 401(k) plan. The 2002 amounts also include premiums for supplemental life insurance available to executives, and the 2003 amounts include long-term disability available to executives.
- (3) Mr. Vogel resigned from all of his positions with Charter and its subsidiaries on January 17, 2005.

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- (4) Ms. Bellville became the Chief Operating Officer of Charter in December 2002 and terminated her employment, effective September 30, 2004.
- (5) Mr. Chang was hired as Executive Vice President of Finance and Strategy in December 2003, and was appointed Interim Co-Chief Financial Officer in August 2004.
- (6) Mr. Shaw was promoted to Executive Vice President in October 2003.
- (7) Mr. Lovett joined Charter in August 2003 and was promoted to his current position in September 2004.
- (8) Includes \$330,000 awarded as a bonus for services performed in 2002.
- (9) Includes a one-time signing bonus of \$150,000 pursuant to an employment agreement.
- (10) Includes a stay bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$363,000 for 2002; and \$225,000 awarded as a bonus for services performed in 2002.
- (11) Includes a stay bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$181,500 for 2002; and \$100,000 awarded as a bonus for services performed in 2002.
- (12) Amount attributed to personal use of the corporate airplane in 2003 and \$100,000 attributed to personal use and commuting in the corporate airplane in 2002 and \$114,961 for purchase of a car in 2002.
- (13) Includes (i) for 2004, reimbursement for taxes (on a grossed up basis) paid in respect of prior reimbursements for relocation expenses, and (ii) for \$26,010 attributed to personal use of the corporate airplane and \$4,800 for car allowance.
- (14) Includes reimbursement for taxes (on a grossed up basis) paid in respect of prior reimbursements for relocation expenses.
- (15) These restricted shares were issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below. One half of these restricted shares constitute performance units granted under our Long-Term Incentive Program and will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. The other half vest over three years in equal one-third installments. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings (including performance units) was \$1,548,868, based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004.
- (16) These restricted shares vest over three years in equal one-third installments. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings was \$84,000 based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004.
- (17) These restricted shares were issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below. One half of these restricted shares constitute performance units granted under our Long-Term Incentive Program and will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. The other half vest over three years in equal one-third installments. At December 31, 2004, the value of all of the named officer's vested restricted stock holdings (including performance units) was \$243,640, based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004.
- (18) Includes (i) for 2004, \$28,977 attributed to personal use of the corporate airplane, \$10,000 for as reimbursement for tax advisory services and \$810 for group term life insurance premiums; (ii) for 2003, \$2,639 paid as premium for long-term disability available for executives and \$10,000 as reimbursement for tax advisory services; and (iii) for 2002, \$255 paid as premiums for supplemental life insurance available for executives and \$10,000 as reimbursement for tax advisory services.

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- (19) Includes (i) for 2004, \$183,899 for severance and accrued vacation at termination of employment, \$10,299 for COBRA payments following termination, \$4,650 for automobile allowance, \$2,831 attributed to personal use of the corporate airplane and \$311 for group term life insurance premiums; and (ii) for 2003, \$2,955 paid as premium for long-term disability insurance available to executives, \$5,000 as reimbursement for tax advisory services, \$7,500 for legal services and \$93,684 paid in relation to relocation expenses.
- (20) Includes, for 2004, \$1,242 for group term life insurance premiums.
- (21) Includes (i) for 2004, \$2,322 for group term life insurance premiums, and (ii) for 2003, \$2,287 attributed to personal use of the corporate airplane.
- (22) Includes, (i) for 2004, \$7,200 for automobile allowance, \$960 for group term life insurance premiums and \$597 attributed to personal use of the corporation aircraft and (ii) for 2003, \$2,400 for automobile allowance.

2004 Option Grants

The following table shows individual grants of options made to individuals named in the Summary Compensation Table during 2004. 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 on the respective grant dates.

Name	Number of Securities Underlying Options Granted(#)(1)	% of Total Options Granted to Employees In 2004	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(3)	580,000	6.17%	\$ 5.17	1/27/14	1,885,803	4,778,996
Margaret A. Bellville(4)	200,000	2.13%	5.17	1/27/14	650,277	1,647,930
Derek Chang	135,000	1.44%	5.17	1/27/14	438,937	1,112,353
Steven A. Schumm(5)	135,000	1.44%	5.17	1/27/14	438,937	1,112,353
Curtis S. Shaw	135,000	1.44%	5.17	1/27/14	438,937	1,112,353
Michael J. Lovett	77,500	0.82%	5.17	1/27/14	251,982	638,573
	12,500	0.13%	4.555	4/27/14	35,808	90,744
	82,000	0.87%	2.865	10/26/14	147,746	374,418

- (1) Options are transferable under limited conditions, primarily to accommodate estate planning purposes. These options generally vest in four equal installments commencing on the first anniversary following the grant date.
- (2) This column shows the hypothetical gains on the options granted based on assumed annual compound price appreciation of 5% and 10% over the full ten-year term of the options. The assumed rates of 5% and 10% appreciation are mandated by the SEC and do not represent our estimate or projection of future prices.
- (3) Mr. Vogel's employment terminated on January 17, 2005.
- (4) Ms. Bellville's employment terminated on September 30, 2004. Under the terms of the separation agreement, her options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (5) Mr. Schumm's employment terminated on January 28, 2005.

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The following table sets forth, for the individuals named in the Summary Compensation Table, (i) information concerning options exercised during 2004, (ii) the number of shares of our Class A common stock underlying unexercised options at year-end 2004, and (iii) the value of unexercised in-the-money options (i.e., the positive spread between the exercise price of outstanding options and the market value of our Class A common stock) on December 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized(\$)	Number of Securities Underlying Unexercised Options at December 31, 2004 (#)(1)		Value of Unexercised In-the-Money Options at December 31, 2004 \$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Carl E. Vogel			2,499,999	3,230,001		
Margaret A. Bellville			385,416	314,584	254,375	75,625
Derek Chang			87,500	262,500		
Steven A. Schumm			182,500	502,500		
Curtis S. Shaw			438,833	420,167		
Michael J. Lovett			25,000	247,000		

- (1) Options granted prior to 2001 and under the 1999 Charter Communications Option Plan, when vested, are exercisable for membership units of Charter Holdco which are immediately exchanged on a one-for-one basis for shares of our Class A common stock upon exercise of the option. Options granted under the 2001 Stock Incentive Plan and after 2000 are exercisable for shares of our Class A common stock.
- (2) Based on a per share market value (closing price) of \$2.24 as of December 31, 2004 for our Class A common stock.

Option/ Stock Incentive Plans

The Plans. We have granted 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 Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and to our current and prospective non-employee directors. Membership units received upon exercise of any options are immediately exchanged for shares of our 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 and its subsidiaries and affiliates are eligible to receive grants under the 2001 Stock Incentive Plan. Generally, options expire 10 years from the grant date. Unless sooner terminated by our board of directors, the 2001 Stock Incentive Plan will terminate on February 12, 2011, and no option or award can be granted thereafter.

Together, the plans allow for the issuance of up to a total of 90,000,000 shares of our Class A common stock (or units exchangeable for our Class A common stock). Any shares covered by options that are terminated under the 1999 Charter Communications Option Plan will be transferred to the 2001 Stock Incentive Plan, and no new options will be granted under the 1999 Charter Communications Option Plan. At December 31, 2004, 1,004,848 shares had been issued under the plans upon exercise of options, 187,699 had been issued upon vesting of restricted stock granted under the plans, and 2,076,860 shares were subject to future vesting under restricted stock agreements. Of the remaining 86,730,593 shares covered by the plans, as of December 31, 2004, 24,834,513 were subject to outstanding options (31% of which were vested), and there were 6,899,600 performance units granted under Charter's Long-Term Incentive Program as of December 31,

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2004, which will vest on the third anniversary of the date of grant conditional upon Charter's performance against certain financial targets approved by Charter's Board of Directors at the time of the award. 54,996,480 shares remained available for future grants under the plans.

In July 2003, we amended the plans to authorize the repricing of options, which could include reducing the exercise price per share of any outstanding option, permitting the cancellation, forfeiture or tender of outstanding options in exchange for other awards or for new options with a lower exercise price per share, or repricing or replacing any outstanding options by any other method.

In January 2004, the Compensation Committee of our board of directors approved our Long-Term Incentive Program, or LTIP, which is a program administered under the 2001 Stock Incentive Plan. Employees of Charter and its subsidiaries whose pay classifications exceeded a certain level were eligible to receive stock options, and more senior level employees were eligible to receive stock options and performance shares. Under the LTIP, the stock options vest 25% on each of the first four anniversaries of the date of grant. The performance units vest on the third anniversary of the grant date and shares of Class A common stock are issued, conditional upon our performance against financial performance measures targets established by our management and approved by the board of directors as of the time of the award. No awards were made under the LTIP in 2003.

The Option Plan Committee of our board of directors administers and authorizes grants and awards under the 2001 Stock Incentive Plan to any eligible individuals. The Option Plan Committee determines the terms of each stock option grant, restricted stock grant or other award at the time of grant, including the exercise price to be paid for the shares, the vesting schedule for each option, the price, if any, to be paid by the grantee for the restricted stock, the restrictions placed on the shares, and the time or times when the restrictions will lapse. The Option Plan Committee also has the power to accelerate the vesting of any grant or extend the term thereof.

Upon a change of control of Charter, the 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 shares will vest and the restrictions on all of the outstanding performance shares will lapse as if all performance objectives had been satisfied at the maximum level.

February 2004 Option Exchange. In January 2004, we began an option exchange program in which we offered employees of Charter and its subsidiaries the right to exchange all stock options (vested and unvested) under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Class A common stock or, in some instances, cash. Based on a sliding exchange ratio, which varied depending on the exercise price of an employee's outstanding options, if exchange for tendered options, we issued to that employee shares of restricted stock in the exchange. If, based on the exchange ratios, an employee would have received 400 or fewer shares of restricted stock in exchange for tendered options, we instead paid to the employee cash in an amount equal to the number of shares the employee would have received multiplied by \$5.00. The offer applied to options to purchase a total of 22,929,573 shares of Class A common stock, or approximately 48% of our 47,882,365 total options (vested and unvested) issued and outstanding as of December 31, 2003. Participation by employees was voluntary. Those members of our board of directors who were not also employees of Charter or any of its subsidiaries were not eligible to participate in the exchange offer.

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

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received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options eligible to be exchanged under the program.

The cost of the stock option exchange program was approximately \$12 million, with a 2004 cash compensation expense of approximately \$4 million and a non-cash compensation expense of approximately \$8 million to be expensed ratably over the three-year vesting period of the restricted stock issued in the exchange.

Employment Arrangements

Messrs. May and Chang serve pursuant to letter agreements described below. Also, the individuals named in the Summary Compensation Table, Mr. Vogel and Ms. Bellville are no longer employees, but served during 2004 pursuant to employment agreements as described below.

Charter entered into an agreement with Robert P. May, effective January 17, 2005, whereby Mr. May serves as Charter's Interim President and Chief Executive Officer (the May Executive Services Agreement). Under the May Executive Services Agreement, Mr. May receives a \$1,250,000 base fee per year. If Mr. May becomes Charter's permanent President and Chief Executive Officer or is terminated without cause, Mr. May will be eligible to receive a one-time discretionary bonus up to 100% of the actual base fee paid to him for his interim service under the agreement, based on individual and company performance. Mr. May will continue to receive the compensation and reimbursement of expenses to which he is entitled in his capacity as a member of the Board of Directors. Mr. May may terminate the May Executive Services Agreement on thirty (30) days notice. Charter may terminate such agreement upon three (3) months notice, and Charter may elect at its discretion to pay Mr. May the base rate for such period in lieu of all or part of the notice. Subject to the approval of the Board's Stock Option Committee, Mr. May will be granted options to purchase shares of Charter Class A common stock and/or receive a grant of restricted stock pursuant to the Charter Communications, Inc. 2001 Stock Incentive Plan, the number and terms of which will be determined as soon as practicable. Mr. May serves as an independent contractor and is not entitled to any vacation or eligible to participate in any employee benefit programs of Charter. Charter will reimburse Mr. May for reasonable transportation costs from Mr. May's residence in Florida or other locations to Charter's offices and will provide temporary living quarters or reimburse expenses related thereto.

Mr. Chang is employed under the terms contained in an offer letter effective December 2, 2003 providing for an annual base salary of \$400,000 and eligibility for an annual incentive target of 100% of the base salary (based on a combination of personal performance goals and overall company performance). Mr. Chang is also eligible to participate in our 2001 Stock Incentive Plan. Under this plan, Mr. Chang was granted 350,000 options to purchase Class A common stock and 50,000 restricted shares on December 9, 2003. Mr. Chang is also entitled to participate in our LTIP. Mr. Chang's agreement provides that one half of each of his unvested restricted shares would immediately vest, and one half of his unvested options of the initial option grant would vest if he is terminated without cause or if he elects to terminate his employment due to (1) a change in our current Chief Executive Officer, (2) a change in reporting relationship to anyone other than the Chief Executive Officer, (3) a requirement that the employee relocate, or (4) a change of control of Charter, if terminated without cause. In addition, Mr. Chang would be entitled to eighteen months of full severance benefits at his current compensation rate, plus the pro rata portion of his bonus amounts within thirty days after termination because of any of these events. In light of Mr. Vogel's resignation, Charter and Mr. Chang have agreed that he will have until April 15, 2005 to exercise his right to terminate his employment and receive the foregoing vesting, severance and other benefits.

Mr. Vogel was employed as President and Chief Executive Officer, earning a base annual salary of \$1,000,000 and was eligible to receive an annual bonus of up to \$500,000, a portion of which was based on personal performance goals and a portion of which was based on company performance measured against criteria established by the board with Mr. Vogel. Pursuant to his employment agreement, Mr. Vogel was granted 3,400,000 options to purchase Class A common stock and 50,000 shares of restricted stock under

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

Ms. Bellville was employed as Executive Vice President, Chief Operating Officer. Until her resignation in September 2004, she was employed under an employment agreement entered into as of April 27, 2003, that would have terminated on September 1, 2007. Her annual base salary was \$625,000 and she was eligible to receive an annual bonus in an amount to be determined by our board of directors, with a contractual minimum for 2003 of \$203,125. Commencing in 2004, Ms. Bellville would have been eligible to receive a target annual bonus equal to 100% of her base salary for the applicable year at the discretion of the board of directors, 50% to be based on personal performance goals and 50% to be based on overall company performance. Under a prior offer letter dated December 3, 2002, Ms. Bellville was granted 500,000 options to purchase shares of our Class A common stock, which vested 25% on the date of the grant (December 9, 2002), with the balance to vest in 36 equal installments commencing January 2003. Ms. Bellville's employment agreement provided that if she was terminated without cause or if she terminated the agreement for good reason (including due to a change in control or if Ms. Bellville was required to report, directly or indirectly, to persons other than the Chief Executive Officer), we would pay Ms. Bellville an amount equal to the aggregate base salary due to Ms. Bellville during the remainder of the term, or renewal term and a full prorated bonus for the year in which the termination occurs, within thirty days of termination. Ms. Bellville's agreement included a covenant not to compete for the balance of the initial term or any renewal term, but no more than one year, in the event of termination without cause or by her with good reason. Her agreement further provided that she was entitled to participate in any disability insurance, pension or other benefit plan afforded to employees generally or to our executives, including our LTIP. Ms. Bellville was entitled to a monthly car allowance and reimbursement for all business expenses associated with the use of such car. Ms. Bellville's agreement provided that she was entitled to the reimbursement of dues for her membership in a country club of her choice, and reimbursement for up to \$5,000 per year for tax, legal and financial planning services. Her base salary may have been increased at the discretion of our board of directors. Ms. Bellville's agreement provided for automatic one-year renewals.

On September 16, 2004, Charter entered into an agreement with Ms. Bellville governing the terms and conditions of her resignation as an officer and employee of Charter. Under the terms of this agreement, Ms. Bellville will have the right to receive 65 weeks of base pay based on an annual base of \$625,000, plus usual compensation for all accrued vacation and other leave time. Her options to purchase 700,000 shares of Class A common stock will continue to vest during the salary continuation period. Ms. Bellville will have 60 days after the expiration of the salary continuation period to exercise any outstanding vested options at the applicable exercise prices established at each grant date. To date, Ms. Bellville has exercised her options to purchase 350,000 shares. Ms. Bellville is entitled to receive relocation benefits under Charter's current relocation policy with respect to a move to a specified geographic area and will be provided outplacement

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assistance for 6 months following the date of her separation from Charter. Her resignation was effective September 30, 2004. The Agreement provided that the previously existing Employment Agreement would terminate, except for certain ongoing obligations on Ms. Bellville's part concerning confidentiality, non-solicitation and non-disparagement. The contractual restriction on her ability to solicit current Charter employees does not apply to persons who, at the time of solicitation, have not worked for Charter in the prior 6 months and are not receiving severance from Charter. In addition, the non-competition provisions of her Employment Agreement were waived. Under the Agreement, Ms. Bellville waived a right to any bonus or incentive plan and released Charter from any claims arising out of or based upon any facts occurring prior to the date of the Agreement, but Charter will continue to provide Ms. Bellville certain indemnification rights for that period.

In addition to the indemnification provisions which apply to all employees under our bylaws, Mr. Vogel's & Ms. Bellville's agreements provide that we 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 or her duties. Each of the above agreements also contains confidentiality and non-solicitation provisions.

We have established separation guidelines which generally apply to all employees in situations where management determines that an employee is entitled to severance benefits. Severance benefits are granted solely in management's discretion and are not an employee entitlement or guaranteed benefit. The guidelines provide that persons employed at the level of Senior Vice President may be eligible to receive between six and fifteen months of severance benefits and persons employed at the level of Executive Vice President may be eligible to receive between nine and eighteen months of severance benefits in the event of separation under certain circumstances generally including the elimination of a position, work unit or general staff reduction. Separation benefits are contingent upon the signing of a separation agreement containing certain provisions including a release of all claims against us. Severance amounts paid under these guidelines are distinct and separate from any one-time, special or enhanced severance programs that may be approved by us from time to time.

Limitation of Directors' Liability and Indemnification Matters

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

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

Our bylaws provide that we will indemnify all persons whom we may indemnify pursuant thereto to the fullest extent permitted by law.

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

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

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The following table sets forth certain information regarding beneficial ownership of Charter's Class A common stock as of December 31, 2004 by:

each person currently serving as a director of Charter;

the current chief executive officer and the other individuals named in the Summary Compensation Table;

all persons currently serving as directors and officers of Charter, as a group; and

each person known by us to own beneficially 5% or more of the outstanding Class A common stock.

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

each holder of Class A common stock is entitled to one vote per share; and

each holder of Class B common stock is entitled to (i) ten votes per share of Class B common stock held by such holder and its affiliates and (ii) ten votes per share of Class B Common Stock for which membership units in Charter Holdco held by such holder and its affiliates are exchangeable.

Name and Address of Beneficial Owner	Number of Class A Shares (Voting and Investment Power)(1)	Unvested Restricted Class A Shares (Voting Power Only)(2)	Class A Shares Receivable on Exercise of Vested Options or Other Convertible Securities(3)	Number of Class B Shares Owned	Class B Shares Issuable upon Exchange or Conversion of Units(4)	% of Equity (4)(5)	% of Voting Power (5)(6)
Paul G. Allen(7)	29,126,463	15,823	10,000	50,000	339,132,031	57.16%	92.53%
Charter Investment, Inc.(8)					222,818,858	42.19%	*
Vulcan Cable III Inc.(9)					116,313,173	27.59%	*
Robert P. May(10)		19,685				*	*
John H. Tory	14,182	15,823	40,000			*	*
Marc B. Nathanson	399,882	15,823	50,000			*	*
Charles M. Lillis(11)	11,429	18,416				*	*
David C. Merritt	9,882	15,823				*	*
Jo Allen Patton(12)		10,977				*	*
W. Lance Conn(13)		19,231				*	*
Jonathan L. Dolgen(10)		19,685				*	*
Larry W. Wangberg	12,882	15,823	40,000			*	*
Derek Chang	22,500	37,500	121,250				
Curtis S. Shaw	5,000		489,250			*	*
Michael J. Lovett	7,500	0	44,375			*	*
All current directors and executive officers as a group (16 persons)	29,615,970	229,823	1,100,953	50,000	339,132,031	57.29%	92.55%
Carl E. Vogel	89,583	690,417	847,917			*	*
Margaret A. Bellville(14)			95,833			*	*
Steven A. Schumm(15)	12,440	108,768	234,378			*	*
Mark Cuban(16)	19,000,000					6.22%	*
Wallace R. Weitz & Company(17)	26,000,000					8.52%	*
UBS Americas Inc.(18)	19,520,000					6.39%	*
Amaranth L.L.C.(19)	1,953,469		21,942,147			7.30%	

* 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.

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- (2) Includes unvested shares of restricted stock issued under the Charter Communications, Inc. 2001 Stock Incentive Plan (including those issued in the February 2004 option exchange for those eligible employees who elected to participate), as to which the applicable director or employee has sole voting power but not investment power.
- (3) Includes shares of Class A common stock issuable upon exercise of options that have vested or will vest on or before March 1, 2005, under the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan.
- (4) Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act. The beneficial owners at December 31, 2004 of Class B common stock, Charter Holdco membership units and convertible senior notes of Charter are deemed to be beneficial owners of an equal number of shares of Class A common stock because such holdings are either convertible into Class A shares (in the case of Class B shares and convertible senior notes) or exchangeable (directly or indirectly) for Class A shares (in the case of the membership units) on a one-for-one basis. Unless otherwise noted, the named holders have sole investment and voting power with respect to the shares listed as beneficially owned. 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, LLC membership interests following the consummation of the Bresnan put transaction on June 6, 2003. See Certain Relationships and Related Party Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.
- (5) The calculation of this percentage assumes for each person that:

305,203,770 shares of Class A common stock are issued and outstanding as of December 31, 2004;

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 March 1, 2005; and

that none of the other listed persons or entities has received any shares of Class A common stock that are issuable to any of such persons pursuant to the exercise of options or otherwise.

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

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

222,818,858 membership units in Charter Holdco held by Charter Investment, Inc.; and

116,313,173 membership units in Charter Holdco held by Vulcan Cable III Inc.

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The listed total excludes 24,273,943 shares of Class A common stock issuable upon exchange of units of Charter Holdco, which may be issuable to Charter Investment, Inc. (which is owned by Mr. Allen) as a consequence of the closing of his purchase of the membership interests in CC VIII, LLC that were put to Mr. Allen and were purchased by him on June 6, 2003. An issue has arisen regarding the ultimate ownership of such CC VIII, LLC membership interests following the consummation of such put transaction. See Certain Relationships and Related Party Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.

- (8) Includes 222,818,858 membership units in Charter Holdco which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is Charter Plaza, 12405 Powerscourt Drive, St. Louis, MO 63131.
- (9) Includes 116,313,173 membership units in Charter Holdco which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.
- (10) Mr. May and Mr. Dolgen were elected to the Board of Directors of Charter on October 21, 2004 and were granted 19,685 shares on October 21, 2004 which will fully vest on October 21, 2005.
- (11) Mr. Lillis was granted 11,429 shares of restricted Class A common stock on October 3, 2003, which vested fully on October 3, 2004. He was granted 18,416 shares of restricted Class A common stock on October 3, 2004, which will vest fully on October 3, 2005.
- (12) Ms. Patton was appointed to the board of directors of Charter on April 27, 2004 and was granted 10,997 shares on that date which will vest fully on April 27, 2005.
- (13) Mr. Conn was elected to the Board of Directors of Charter on September 24, 2004 and was granted 19,231 shares on September 30, 2004, which will vest fully on September 30, 2005.
- (14) Ms. Bellville resigned from Charter effective September 30, 2004. Under the terms of her separation agreement, her options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (15) Includes 1,000 shares for which Mr. Schumm has shared investment and voting power.
- (16) The equity ownership reported in this table is based upon holder's Schedule 13G filed with the SEC May 19, 2003. The address of this person is: 5424 Deloache, Dallas, Texas 75220.
- (17) The equity ownership reported in this table, for both the named holder and its president and primary owner, Wallace R. Weitz, is based upon holder's Schedule 13G filed with the SEC on January 12, 2005, and reflects the holder's 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.
- (18) The equity ownership reported in this table is based upon holder's Schedule 13G filed with the SEC February 19, 2004. The address of this person is: 677 Washington Blvd., Stamford, Connecticut 06901. This person disclaims beneficial ownership of all of these shares. In addition, these shares include all of the shares described in footnote 16 above.
- (19) The equity ownership reported in this table is based upon holder's Schedule 13G filed with the SEC November 29, 2004. The address of this person is: c/o Amaranth Advisors L.L.C., One American Lane, Greenwich, Connecticut, 06831.

Table of Contents**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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

Transactions in which Mr. Allen has an interest that arise directly out of Mr. Allen's investment in Charter and Charter Holdco. A large number of the transactions described below arise out of Mr. Allen's direct and indirect (through Charter Investment, Inc., or the Vulcan entities, each of which Mr. Allen controls) investment in Charter and its subsidiaries, as well as commitments made as consideration for the investments themselves.

Transactions with third party providers of products, services and content in which Mr. Allen has a material interest. Mr. Allen has numerous investments 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 have a limited number of transactions in which certain of the officers, directors and principal shareholders of Charter and its subsidiaries, other than Mr. Allen, have an interest.

A number of our debt instruments and those of our subsidiaries require delivery of fairness opinions for transactions with Mr. Allen or his affiliates involving more than \$50 million. Such fairness opinions have been obtained whenever required. All of our transactions with Mr. Allen or his affiliates have been considered for approval either by the board of directors of Charter or a committee of the board of directors and, in compliance with corporate governance requirements, all related party transactions are considered by Charter's Audit Committee comprised entirely of independent directors. All of our transactions with Mr. Allen or his affiliates have been deemed by the board of directors or a committee of the board of directors to be in our best interest. Except where noted below, we do not believe that these transactions present any unusual risks for us that would not be present in any similar commercial transaction.

The chart below summarizes certain information with respect to these transactions. Additional information regarding these transactions is provided following the chart.

Transaction	Interested Related Party	Description of Transaction
Intercompany Management Arrangements	Paul G. Allen	Subsidiaries of Charter Holdco paid Charter approximately \$69 million, \$79 million, \$84 million and \$65 million for management services rendered in 2001, 2002 and 2003 and the nine months ended September 30, 2004, respectively.
Mutual Services Agreement	Paul G. Allen	Charter paid Charter Holdco approximately \$51 million, \$70 million, \$73 million and \$54 million for services rendered in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively.
Management Agreement	Paul G. Allen	No fees were paid in 2001, 2002, 2003 or 2004, although total management fees payable to Charter Investment, Inc., exclusive of interest, were approximately \$14 million at December 31, 2001 and 2002, 2003 and September 30, 2004.

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Transaction	Interested Related Party	Description of Transaction
Tax Provisions of Charter Holdco's Operating Agreement	Paul G. Allen	In 2001 and 2002, the operating agreement of Charter Holdco allocated certain of our tax losses to entities controlled by Paul Allen.
Channel Access Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	At Vulcan Ventures' request, we will provide Vulcan Ventures with exclusive rights for carriage on eight of our digital cable channels as partial consideration for a prior capital contribution of \$1.3 billion.
Equity Put Rights	Paul G. Allen	Certain sellers of cable systems that we acquired were granted, or previously had, the right, as described below, to put to Paul Allen equity in us (in the case of Rifkin and Falcon), Charter Holdco (in the case of Rifkin) and CC VIII, LLC (in the case of Bresnan) issued to such sellers in connection with such acquisitions.
Previous Funding Commitment of Vulcan Inc.	Paul G. Allen W. Lance Conn Jo Allen Patton	Pursuant to a commitment letter dated April 14, 2003, Vulcan Inc., which is an affiliate of Paul Allen, agreed to lend, under certain circumstances, or cause an affiliate to lend to Charter Holdings or any of its subsidiaries a total amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. In November 2003, the commitment was terminated. We incurred expenses to Vulcan Inc. totaling \$5 million in connection with the commitment prior to termination.
High Speed Access Corp. Asset Purchase Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	In February 2002, 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 approximately \$8 million, and all of Vulcan Ventures' shares of High Speed Access common stock.
High Speed Access Corp.	Paul G. Allen	In January 2002, we granted to High Speed Access a royalty free right to use intellectual property purchased by Charter Communications Holding Company, LLC, received approximately \$4 million in management fees and approximately \$17 million in revenues and paid approximately \$2 million under agreements that have terminated.

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Transaction	Interested Related Party	Description of Transaction
TechTV Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton William D. Savoy Larry W. Wangberg	We recorded approximately \$9 million, \$4 million, \$1 million and \$5 million from TechTV under the Carriage Agreement in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively, related to launch incentives as a reduction of programming expense. We paid TechTV approximately \$0, \$0.2 million, \$80,600 and \$1 million in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively.
Oxygen Media Corporation Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	We paid Oxygen Media approximately \$3 million, \$6 million, \$9 million and \$10 million under a carriage agreement in exchange for programming in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively. We recorded approximately \$2 million, \$1 million and \$1 million in 2002, 2003 and the nine months ended September 30, 2004, respectively, from Oxygen Media related to launch incentives as a reduction of programming expense. We hold warrants to purchase 2.4 million shares of Oxygen Media common stock and have the right to receive 1 million shares of Oxygen Preferred Stock to be issued on or prior to February 1, 2005 with a liquidation preference of \$33.10 per share. We recognized approximately \$3 million, \$6 million, \$9 million and \$10 million as a reduction of programming expense in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively, in recognition of the guaranteed value of the investment.
Portland Trail Blazers Carriage Agreement	Paul G. Allen	We paid approximately \$1 million for rights to carry the cable broadcast of certain Trail Blazers basketball games in both 2001 and 2002, and approximately \$135,200 in 2003 and \$73,500 for the nine months ended September 30, 2004.
Action Sports Cable Network Carriage Agreement	Paul G. Allen	We paid approximately \$0.4 million and \$1 million for rights to carry its programming in 2001 and 2002, respectively.
Click2learn, Inc. Software License Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	We paid approximately \$250,000, \$57,100 and \$0 under the Software License Agreement in 2002, 2003 and the nine months ended September 30, 2004, respectively.

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Transaction	Interested Related Party	Description of Transaction
Digeo, Inc. Broadband Carriage Agreement	Paul G. Allen William D. Savoy Carl E. Vogel	We paid Digeo approximately \$0, \$3 million, \$4 million and \$2 million for customized development of the i-channels and the local content tool kit in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively. We entered into a license agreement in 2004 for the Digeo software that runs DVR units purchased from a third party. In 2004 we executed a purchase agreement for the purchase of up to 70,000 DVR units and a related software license agreement, both subject to satisfaction of certain conditions.
USA Networks/ Home Shopping Network	Paul G. Allen William D. Savoy	For the year ended December 31, 2001, we received approximately \$12 million from USA Networks under the affiliation agreement and for commissions from USA Networks for home shopping sales generated by its customers and/or promotion of the Home Shopping Network. For the year ended December 31, 2001, we paid USA Networks approximately \$39 million for cable television programming.
Viacom Networks	Jonathan L. Dolgen	We are party to certain affiliation agreements with networks of Viacom, pursuant to which Viacom provides Charter with programming for distribution via our cable systems. For the years ended December 31, 2001, 2002 and 2003 and for the nine months ended September 30, 2004, Charter paid Viacom approximately \$147 million, \$177 million, \$188 million and \$146 million, respectively, for programming, and Charter recorded as receivables approximately \$11 million, \$5 million, \$5 million and \$2 million from Viacom for launch incentives and marketing support for the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, respectively.
ADC Telecommunications Inc.	Larry W. Wangberg	We paid \$759,600 and \$60,100 and \$263,900 to purchase certain access/network equipment in 2002, 2003 and the nine months ended September 30, 2004, respectively.

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Transaction	Interested Related Party	Description of Transaction
HDNet and HDNet Movies Network	Mark Cuban	Charter Holdco is party to an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. We paid HDNet and HDNet Movies approximately \$21,900 in 2003 and \$323,900 in the nine months ended September 30, 2004.
Office lease agreement	David L. McCall	We paid \$117,600, \$117,600, \$189,200 and \$43,400 in 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively, under an office lease agreement to a partnership controlled by Mr. McCall, a former executive officer who resigned in January 2003.
Construction Services	David L. McCall	In 2001, 2002 and 2003, we paid \$571,600, \$644,800 and \$381,300, respectively, to a construction company controlled by Mr. McCall's brother and \$462,100, \$3 million and \$373,800, respectively, to a construction company controlled by Mr. McCall's son.
Lease Arrangements	Marc B. Nathanson	We paid approximately \$127,000, \$76,000 and \$16,600 in 2001, 2002 and 2003, respectively, to companies controlled by Mr. Nathanson under a warehouse lease agreement and in 2001 we paid approximately \$204,000 in rent under an office lease agreement and \$639,000 to terminate such lease.
Carriage fees	David Merritt	We paid approximately \$702,000, \$1.1 million, \$1.1 million and \$818,000 in 2001, 2002, 2003 and the nine months ended September 30, 2004 to carry The Outdoor Channel. Mr. Merritt is a director of an affiliate of this channel.
Charter airplane	Howard L. Wood	In 2001, Mr. Wood received a benefit of \$118,500 for the cost of two individuals to operate an airplane for a company controlled by Mr. Wood. In addition, Mr. Wood also used Charter's airplane for occasional personal use in 2001, a benefit valued at \$12,500 for the year ended December 31, 2001.

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Transaction	Interested Related Party	Description of Transaction
Payment for relatives' services	Howard L. Wood Jerald R. Kent Carl E. Vogel	In 1999, one of Mr. Wood's daughters, received a bonus in the form of a three-year promissory note bearing interest at 7% per year. The amount of principal and interest forgiven on this note for the year ended December 31, 2001, was \$85,500, and the outstanding balance on the note was forgiven effective as of February 22, 2002. Another daughter of Mr. Wood received approximately \$70,200 during the year ended December 31, 2001 for event planning services performed by her company. In 2001, a travel agency owned and operated by Mr. Kent's mother-in-law received approximately \$132,000 for travel arrangements made for Charter by her company. Since June 2003, Mr. Vogel's brother-in-law has been an employee of Charter Holdco and has received a salary commensurate with his position in the engineering department.
Replay TV Joint Venture	Paul G. Allen	Charter Communications Ventures received management fees of \$1 million for the year ended December 31, 2001.
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 approximately \$2 million, \$1 million, \$469,300 and \$0 in 2001, 2002, 2003, and the nine months ended September 30, 2004, respectively, by providing management services to the Enstar Limited Partnerships.
Indemnification Advances	Directors and current and former officers named in certain legal proceedings	Charter has reimbursed certain of its current and former directors and executive officers a total of approximately \$3 million, \$8 million and \$2.6 million for costs incurred in connection with certain litigation matters in 2002, 2003 and the nine months ended September 30, 2004, respectively.

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

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

As noted above, a number of our related party transactions arise out of Mr. Allen's investment in Charter and its subsidiaries. Some of these transactions are with Charter Investment, Inc. and Vulcan Ventures (both owned 100% by Mr. Allen), Charter (controlled by Mr. Allen) and Charter Holdco

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(approximately 47% owned by us and 53% owned by other affiliates of Mr. Allen). See [Summary](#) [Organizational Structure](#) for more information regarding the ownership by Mr. Allen and certain of his affiliates.

Intercompany Management Arrangements

Charter is a party to management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable systems owned or operated by its subsidiaries. These management agreements provide for reimbursement to Charter for all costs and expenses incurred by it attributable to the ownership and operation of the managed cable systems (referred to as [company expenses](#)), plus an additional management fee to cover additional costs incurred by Charter 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 to 5% of their respective 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, LLC, where the operating agreement limits management fees payable to amounts allowed under the CC VIII Credit Agreement.

However, the total amount paid by Charter Holdco and all of its subsidiaries is limited to the amount necessary to reimburse Charter for all of its expenses, costs, losses, liabilities and damages paid or incurred by it in connection with the performance of its services under the various management agreements and in connection with its corporate overhead, administration, salary expense and similar items. The expenses subject to reimbursement include fees Charter is obligated to pay under the mutual services agreement with Charter Investment, Inc. Payment of management fees by Charter's operating subsidiaries is subject to certain restrictions under the credit facilities and indentures of such subsidiaries and the indentures governing the Charter Holdings public debt. If any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per year, compounded annually, from the date it was due and payable until the date it is paid. For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, the subsidiaries of Charter Holdings paid approximately \$69 million, \$79 million, \$84 million and \$65 million, respectively, in management fees to Charter.

Mutual Services Agreement

Charter, Charter Holdco and Charter Investment, Inc. are parties to a mutual services agreement whereby each party shall provide rights and services to the other parties as may be reasonably requested for the management of the entities involved and their subsidiaries, including the cable systems owned by their subsidiaries all on a cost-reimbursement basis. The officers and employees of each party are available to the other parties to provide these rights and services, and all expenses and costs incurred in providing these rights and services are paid by Charter. Each of the parties will indemnify and hold harmless the other parties and their directors, officers and employees from and against any and all claims that may be made against any of them in connection with the mutual services agreement except due to its or their gross negligence or willful misconduct. The mutual services agreement expires on November 12, 2009, and may be terminated at any time by any party upon thirty days written notice to the other. For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, Charter paid approximately \$51 million, \$70 million, \$73 million and \$54 million to Charter Holdco for services rendered pursuant to the mutual services agreement. All such amounts are reimbursable to Charter pursuant to a management arrangement with our subsidiaries. See [Intercompany Management Arrangements](#). The accounts and balances related to these services eliminate in consolidation. Charter Investment, Inc. no longer provides services pursuant to this agreement.

Previous Management Agreement with Charter Investment, Inc.

Prior to November 12, 1999, Charter Investment, Inc. 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

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reimbursement of expenses. The balance of management fees payable under the previous management agreement was accrued with payment at the discretion of Charter Investment, Inc., with interest payable on unpaid amounts. For the years ended December 31, 2001, 2002 and 2003, and the nine months ended September 30, 2004, Charter's subsidiaries did not pay any fees to Charter Investment, Inc. to reduce management fees payable. As of December 31, 2001, 2002 and 2003 and September 30, 2004, total management fees payable by our subsidiaries to Charter Investment, Inc. were approximately \$14 million, exclusive of any interest that may be charged.

Charter Communications Holding Company, LLC Limited Liability Agreement Taxes

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

Vulcan Ventures Channel Access Agreement

Vulcan Ventures, an entity controlled by Mr. Allen, Charter, Charter Investment and Charter Holdco are parties to an agreement dated September 21, 1999 granting to Vulcan Ventures the right to use up to eight of our digital cable channels as partial consideration for a prior capital contribution of \$1.325 billion. Specifically, at Vulcan Ventures' request, we will provide Vulcan Ventures with exclusive rights for carriage of up to eight digital cable television programming services or channels on each of the digital cable systems with local and to the extent available, national control of the digital product owned, operated, controlled or managed by Charter or its subsidiaries now or in the future of 550 megahertz or more. If the system offers digital services but has less than 550 megahertz of capacity, then the programming services will be equitably reduced. Upon request of Vulcan Ventures, we will attempt to reach a comprehensive programming agreement pursuant to which it will pay the programmer, if possible, a fee per digital video customer. If such fee arrangement is not achieved, then we and the programmer shall enter into a standard programming agreement. The initial term of the channel access agreement was 10 years, and the term extends by one additional year (such that the remaining term continues to be 10 years) on each anniversary date of the agreement unless either party provides the other with notice to the contrary at least 60 days prior to such anniversary date. To date, Vulcan Ventures has not requested to use any of these channels. However, in the future it is possible that Vulcan Ventures could require us to carry programming that is less profitable to us than the programming that we would otherwise carry and our results would suffer accordingly.

Equity Put Rights

CC VIII. As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, Charter's indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the CC VIII interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the Comcast sellers). While held by the Comcast sellers, the CC VIII interest was entitled to a 2% priority return on its initial capital account and such priority return was entitled to preferential distributions from available cash and upon liquidation of CC VIII. While held by the Comcast sellers, the CC VIII interest generally did not share in the profits and losses of CC VIII. Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast put right). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen has become the holder of the CC VIII interest, indirectly through an affiliate. Consequently, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter will be allocated his pro rata share (based

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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 be entitled to a priority distribution with respect to the 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC and Mr. Allen in proportion to CC V Holdings, LLC's capital account and Mr. Allen's capital account (which will equal the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003). The limited liability company agreement of CC VIII does not provide for a mandatory redemption of the CC VIII interest.

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. Specifically, under the terms of the Bresnan transaction documents that were entered into in June 1999, the Comcast sellers originally would have received, after adjustments, 24,273,943 Charter Holdco membership units, but due to an FCC regulatory issue raised by the Comcast sellers shortly before closing, the Bresnan transaction was modified to provide that the Comcast sellers instead would receive the preferred equity interests in CC VIII represented by the CC VIII interest. As part of the last-minute changes to the Bresnan transaction documents, a draft amended version of the Charter Holdco limited liability company agreement was prepared, and contract provisions were drafted for that agreement that would have required an automatic exchange of the CC VIII interest for 24,273,943 Charter Holdco membership units if the Comcast sellers exercised the Comcast put right and sold the CC VIII interest to Mr. Allen or his affiliates. However, the provisions that would have required this automatic exchange did not appear in the final version of the Charter Holdco limited liability company agreement that was delivered and executed at the closing of the Bresnan transaction. The law firm that prepared the documents for the Bresnan transaction brought this matter to the attention of Charter and representatives of Mr. Allen in 2002.

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

Mr. Allen disagrees with the Special Committee's determinations described above and has so notified the Special Committee. Mr. Allen contends that the transaction is accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures.

The parties engaged in a process of non-binding mediation to seek to resolve this matter, without success. The Special Committee is evaluating what further actions or processes it may undertake to resolve this dispute. To accommodate further deliberation, each party has agreed to refrain from initiating legal proceedings over this matter until it has given at least ten days' prior notice to the other. In addition, the Special Committee and Mr. Allen have determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute. If the Special Committee and Mr. Allen are unable to reach a resolution through that mediation process or to agree on an alternative dispute resolution process, the Special Committee intends to seek resolution of this dispute through judicial proceedings in an action that would be commenced, after appropriate notice, in the Delaware Court of Chancery against Mr. Allen and his affiliates seeking contract reformation,

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declaratory relief as to the respective rights of the parties regarding this dispute and alternative forms of legal and equitable relief. The ultimate resolution and financial impact of the dispute are not determinable at this time.

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

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

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

Previous Funding Commitment of Vulcan Inc.

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

Allocation of Business Opportunities with Mr. Allen

As described under Third Party Business Relationships in which Mr. Allen has or had an Interest in this section, Mr. Allen and a number of his affiliates have interests in various entities that provide services or programming to our subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter and Charter Holdco, under the terms of their respective organizational documents, may not, and may not allow their subsidiaries, to engage in any business transaction outside the cable transmission business except for the Digeo, Inc. joint venture; a joint venture to develop a digital video recorder set-top terminal; an existing investment in Cable Sports Southeast, LLC, a provider of regional sports programming; as an owner of the business of Interactive Broadcaster Services Corporation or, Chat TV, an investment in @Security Broadband Corp., a company developing broadband security applications; and incidental businesses engaged in as of the closing of Charter's initial public offering in November 1999. This

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restriction will remain in effect until all of the shares of Charter's high-vote Class B common stock have been converted into shares of Charter Class A common stock due to Mr. Allen's equity ownership falling below specified thresholds.

Should Charter or Charter Holdco 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 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 and the limited liability company agreement of Charter Holdco would need to be amended accordingly to modify the current restrictions on the ability of such entities to engage in any business other than the cable transmission business. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable systems owned, operated or managed by Charter, Charter Holdco or any of their subsidiaries from time to time.

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

Also, conflicts could arise with respect to the allocation of corporate opportunities between us and Mr. Allen and his affiliates in connection with his investments in businesses in which we are permitted to engage under Charter's restated certificate of incorporation. Certain of the indentures of Charter and its subsidiaries, including the indenture governing the original notes and the new notes, require the applicable issuer of notes to obtain, under certain circumstances, approval of the board of directors of Charter and, where a transaction is valued at or in excess of \$50 million, a fairness opinion with respect to transactions in which Mr. Allen has an interest. We have not instituted any other formal plan or arrangement to address potential conflicts of interest.

The restrictive provisions of the 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.

Mirror Notes

Charter is a holding company and its principal assets are its equity interest in Charter Holdco and certain mirror notes payable by Charter Holdco to Charter, which have the same principal amount and terms as those of Charter's convertible senior notes. In 2003, Charter Holdco paid to Charter \$68 million related to interest on the mirror notes. In connection with our repurchase of approximately \$477 million of our outstanding 4.75% senior convertible notes due 2006 and approximately \$132 million of our outstanding 5.75% senior convertible notes due 2005, \$520 million of CCH II 10.25% senior notes were transferred (through a series of distributions) by CCH II to Charter Holdco, which in turn assigned those CCH II senior notes to us in exchange for the cancellation of mirror notes of each series having a principal amount equal to the amount of convertible notes of that series repurchased by us. As part of the closing of that transaction, Charter Holdco also paid to Charter cash in the amount of \$10 million, which represented the sum of (a) all accrued and unpaid interest on the portions of the mirror notes transferred by Charter to Charter Holdco, to, but not including, the date of the closing, on the basis set forth in the mirror notes, (b) an amount equal to the total amount of cash payable by Charter in lieu of fractional interests in the 10.25% CCH II senior notes which would have otherwise been due to the holders as a consequence of the exchange and (c) the costs and expenses relating to such transactions. In addition, in connection with our recent sale of \$862.5 million principal amount of 5.875% convertible senior notes due 2009, Charter Holdco issued to us mirror notes in identical principal amount in exchange for the proceeds

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of that offering, purchased and pledged certain U.S. government securities to us as security for the mirror notes (which were in turn repledged by us to the trustee of for the benefit of holders of our 5.875% convertible notes and which we expect to use to fund the first six interest payments on the notes), agreed to lend common units to us, the terms of which will, to the extent practicable, mirror the terms of the shares offered hereby, and agreed to redeem the remaining \$588 million principal amount of the mirror notes in respect of our 5.75% convertible senior notes due 2005 concurrently with our December 23, 2004 redemption of our 5.75% convertible senior notes.

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

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

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.

In February 2001, Charter entered into certain of the purchase agreements related to the AT&T transactions and in June 2001, it assigned its rights and obligations under these contracts to certain of its subsidiaries which purchased the assets from AT&T. In August 2001, the systems acquired in the Cable USA transaction by Charter and Charter Holdco, were contributed through Charter Holdings to certain of its subsidiaries, which are now our subsidiaries and which own and operate these systems.

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 entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity owned by Mr. Allen, and Charter Holdco 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 Holdco (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 Holdco 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.

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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 Holdco. 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 performed certain management services formerly performed by High Speed Access, for which it received approximately \$4 million in January and February 2002. Concurrently with the asset purchase, all of the other agreements between Charter Holdco 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 Charter Holdco and its subsidiaries 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 Holdco). Following the consummation of the asset purchase, neither Charter Holdco nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

On May 12, 2000, Charter entered into a five-year network services agreement with High Speed Access, which was assigned by Charter Communications, Inc. to Charter Holdco on August 1, 2000. With respect to each system launched or intended to be launched, we paid a per customer fee to High Speed Access according to agreed pricing terms. In addition, we compensated High Speed Access for services exceeding certain minimum thresholds. For the year ended December 31, 2001, we paid High Speed Access approximately \$13 million under this agreement and a 1998 network services agreement.

In 2001, Charter Holdco was a party to a systems access and investment agreement with Vulcan Ventures and High Speed Access and a related network services agreement with High Speed Access. These agreements provided High Speed Access with exclusive access to certain of our homes passed. The term of the network services agreement was, as to a particular cable system, five years from the date revenue billing commenced for that cable system. The programming content agreement provided each of Vulcan Ventures and High Speed Access with a license to use certain content and materials of the other on a non-exclusive, royalty-free basis. The revenues we earned from High Speed Access for the year ended December 31, 2001 were approximately \$8 million.

Under the above described transactions, we also earned certain warrants to purchase High Speed Access stock. These warrants were cancelled in February 2002 in connection with the asset purchase described above. As a result of the transaction with High Speed Access described above, we neither paid to, nor received, any amounts from High Speed Access in 2003.

TechTV, Inc.

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

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other

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things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter's interactive television platforms through December 31, 2006 (exclusive for the first year). For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, we recognized approximately \$9 million, \$4 million, \$1 million and \$5 million, respectively, of the Vulcan Programming payment as an offset to programming expense and paid approximately \$0, \$0.2 million, \$80,600 and \$1 million, respectively, to TechTV under the affiliation agreement.

We believe that Vulcan Programming, which is 100% owned by Mr. Allen, owned an approximate 98% equity interest in TechTV at the time of the transaction. Until September 2003, Mr. Savoy, a former Charter director, was the president and director of Vulcan Programming and was a director of TechTV. Mr. Wangberg, one of Charter's directors, was the chairman, chief executive officer and a director of TechTV. Mr. Wangberg resigned as the chief executive officer of TechTV in July 2002. He remained a director of TechTV along with Mr. Allen until Vulcan Programming sold TechTV to an unrelated third party in May 2004.

Oxygen Media Corporation

Oxygen Media LLC (Oxygen) provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen, whereby we agreed to carry programming content from Oxygen. Under the carriage agreement, we currently make Oxygen programming available to approximately 5 million of our video customers. The term of the carriage agreement was retroactive to February 1, 2000, the date of launch of Oxygen programming by us, and runs for a period of five years from that date. For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, we paid Oxygen approximately \$3 million, \$6 million, \$9 million and \$10 million, respectively, for programming content. In addition, Oxygen pays us marketing support fees for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. We recorded approximately \$2 million, \$1 million and \$1 million related to these launch incentives as a reduction of programming expense for each of the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2004, respectively.

Concurrently with the execution of the carriage agreement, Charter Holdco entered into an equity issuance agreement pursuant to which Oxygen's parent company, Oxygen Media Corporation (Oxygen Media), granted a subsidiary of Charter Holdco a warrant to purchase 2.4 million shares of Oxygen Media common stock for an exercise price of \$22.00 per share. Charter Holdco was also to receive unregistered shares of Oxygen Media common stock with a guaranteed 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.

We recognize the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, we recorded approximately \$3 million, \$6 million, \$9 million and \$10 million, respectively, as a reduction of programming expense. The carrying value of our investment in Oxygen was approximately \$4 million, \$10 million, \$19 million and \$29 million as of December 31, 2001, 2002, 2003 and September 30, 2004, respectively.

In August 2004, Charter Holdco and Oxygen entered into agreements that amend and renew the carriage agreement. The amendment to the carriage agreement (a) revises the number of our customers to

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which Oxygen programming must be carried and for which we must pay, (b) releases Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) requires Oxygen to make payment on outstanding receivables for marketing support fees due to us under the affiliation agreement; and (d) requires that Oxygen provide its programming content to us on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than us. The renewal of the carriage agreement (a) extends the period that we will carry Oxygen programming to our customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks.

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

As of September 30, 2004, through Vulcan Programming, Mr. Allen owned an approximate 31% interest in Oxygen assuming no exercises of outstanding warrants or conversion or exchange of convertible or exchangeable securities. Ms. Jo Allen Patton is a director and the President of Vulcan Programming. Mr. Lance Conn is a Vice President of Vulcan Programming.

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

Portland Trail Blazers 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 the 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. For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, we paid approximately \$1 million, \$1 million, \$135,200 and \$73,500, respectively, in connection with the cable broadcast of Portland Trail Blazers basketball games under the October 1996 cable television agreement and subsequent local cable distribution agreements.

On July 1, 2001, Charter Holdco 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 Holdco 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, 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 Holdco ceased carriage of the service. For the years ended December 31, 2001 and 2002, we paid Action Sports approximately \$0.4 million and \$1 million, respectively, for rights to carry its programming. We believe that the failure of this network will not materially affect our business or results of operations.

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Click2learn

Charter Holdco executed a Software License Agreement with Click2learn, Inc. (Click2learn) effective September 30, 2002. Since October 1999, Charter Holdco has purchased professional services, software and maintenance from Click2learn, a company which provides enterprise software for organizations seeking to capture, manage and disseminate knowledge throughout their extended enterprise. As of December 31, 2003, Mr. Allen owned an approximate 21% interest in Click2learn through 616,120 shares held of record by Vulcan Ventures and 387,096 shares issuable upon exercise of a warrant issued to Vulcan Ventures. Mr. Allen owns 100% of Vulcan Ventures. Ms. Jo Allen Patton is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is Executive Vice President of Vulcan Ventures. For the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2004, we paid approximately \$250,000, \$57,100 and \$0, respectively, to Click2learn.

Digeo, Inc.

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

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

On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment supersedes the amendment of September 27, 2001. It provides for the development by Digeo Interactive of future features to be included in the Basic i-TV service provided by Digeo and for Digeo's development of an interactive toolkit to enable Charter to develop interactive local content. Furthermore, Charter may request that Digeo Interactive manage local content for a fee. The amendment provides for Charter to pay for development of the Basic i-TV service as well as license fees for customers who receive the service, and for Charter and Digeo to split certain revenues earned from the service. In 2001, 2002, 2003 and the nine months ended September 30, 2004, we paid Digeo Interactive approximately \$0, \$3 million, \$4 million and \$2 million, respectively, for customized development of the i-channels and the local content tool kit. We received no revenues under the broadband carriage agreement in 2003. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

On June 30, 2003, Charter Holdco entered into an agreement with Motorola, Inc. for the purchase of 100,000 digital video recorder (DVR) units. The software for these DVR units is being supplied by Digeo Interactive under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deploys from a maximum of 10 headends through year-end 2004. This maximum number of headends was increased from 10 to 15 pursuant to a letter agreement executed on June 11, 2004 and was increased again from 15 to 20 pursuant to a second letter agreement dated August 4, 2004. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Total license and maintenance fees during the term of the agreement are expected to be approximately \$3 million. The agreement provides that Charter

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is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer.

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

Charter and Digeo entered into a letter agreement effective September 28, 2004 amending the April 2004 license agreement to reduce certain fees payable to Digeo by Charter and to increase the maximum number of headends in which Charter has the right to deploy the DVR units from a maximum of 20 by year end 2004, to a maximum of 30 by June 30, 2005.

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Product development and testing is continuing. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$42 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances.

In March 2001, Charter Ventures and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures Incorporated. The equity interest is subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Vulcan Ventures also agreed to make, through January 24, 2004, certain additional contributions through DBroadband Holdings, LLC to acquire additional equity in Digeo as necessary to maintain Charter Ventures' pro rata interest in Digeo in the event of certain future Digeo equity financings by the founders of Digeo. These additional equity interests are also subject to a priority return of capital to Vulcan Ventures up to amounts contributed by Vulcan Ventures on Charter Ventures' behalf. DBroadband Holdings, LLC is therefore not included in our consolidated financial statements. Pursuant to an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$224 million to Digeo, of which approximately \$56 million was contributed on Charter Ventures' behalf.

We believe that Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 67% equity interest in Digeo, Inc., on a fully-converted basis. Mr. Allen is a director of Digeo, and Mr. Vogel was a director of Digeo in 2002, 2003 and 2004. During 2002, 2003 and 2004, Mr. Vogel held options to purchase 10,000 shares of Digeo common stock.

Other Miscellaneous Relationships

Viacom Networks

Pursuant to certain affiliation agreements with networks of Viacom, Inc. (Viacom), including MTV, MTV2, Nickelodeon, VH1, TVLand, CMT, Spike TV, Comedy Central, Viacom Digital Suite, CBS-owned and operated broadcast stations, Showtime, The Movie Channel, and Flix, Viacom provides Charter with programming for distribution via our cable systems. The affiliation agreements provide for, among other things, rates and terms of carriage, advertising on the Viacom networks, which Charter can sell to local advertisers and marketing support. For the years ended December 31, 2001, 2002 and 2003 and the

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nine months ended September 30, 2004, Charter paid Viacom approximately \$147 million, \$177 million, \$188 million and \$146 million, respectively, for programming. Charter recorded approximately \$11 million, \$5 million, \$5 million and \$2 million as receivables from Viacom networks related to launch incentives for certain channels and marketing support, respectively, for the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004. Mr. Dolgen is a Senior Advisor to Viacom, and from April 1994 to July 2004, served as Chairman and Chief Executive Officer of the Viacom Entertainment Group.

ADC Telecommunications Inc.

Charter and Charter Holdco 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 years ended December 31, 2002 and 2003 and the nine months ended September 30, 2004, we paid \$759,600, \$60,100 and \$263,900, respectively, to ADC Telecommunications 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. We paid HDNet and HDNet Movies approximately \$21,900 in 2003 and \$323,900 for the nine months ended September 30, 2004. We believe that entities controlled by Mr. Cuban owned approximately 81% of HDNet as of September 30, 2004. As of September 30, 2004, we believe that Mark Cuban, co-founder and president of HDNet, owned approximately 19,000,000 shares, or 6.2% of the total common equity in Charter based on a Schedule 13G filed with the SEC on May 19, 2003.

Affiliate Leases and Agreements

David L. McCall, who served as Senior Vice President Operations Eastern Division during 2002 and January 2003, 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, \$117,600, \$189,200 and \$43,400 pursuant to such lease and related agreements for the years ended December 31, 2001, 2002, 2003 and the nine months ended September 30, 2004, respectively. In addition, during 2001, 2002 and 2003, we paid approximately \$571,600, \$644,800 and \$381,300, respectively, for construction services to a construction company controlled by Mr. McCall's brother under a construction agreement that expired on December 31, 2003. We also paid approximately \$462,100, \$3 million and \$373,800 during 2001, 2002 and 2003, respectively, for construction services to a construction company controlled by Mr. McCall's son under several agreements, the last of which expired January 31, 2004.

Companies controlled by Mr. Nathanson, a director of Charter, leased certain office space in Pasadena, California, and warehouse space in Riverside, California, to our subsidiaries. For the Pasadena office lease, which Charter terminated in April 2001 in exchange for a payment of \$639,000, total rent of \$204,000 was paid from January 1, 2001 to April 2001. For the years ended December 31, 2001, 2002 and 2003, total rent paid for the Riverside warehouse space was approximately \$127,000, \$76,000 and \$16,600, respectively, under a lease agreement which expired March 15, 2003.

We have carried The Outdoor Channel on a month-to-month basis since the expiration of an affiliation agreement in July 2002. We paid approximately \$702,000, \$1.1 million, \$1.1 million and \$818,000 to The Outdoor Channel during 2001, 2002, 2003 and the nine months ended September 30,

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2004, respectively. In December 2003, Mr. Merritt became director of Outdoor Channel Holdings, Inc., an affiliate of The Outdoor Channel, Inc.

Charter Airplane

Howard L. Wood resigned as a director of Charter in December 2001. In 2001, the benefit to a company controlled by Mr. Wood that owned an airplane for the full annual cost of two individuals qualified to operate the plane, who were otherwise available to Charter in connection with its own flight operations, was approximately \$118,500 for annual compensation to the pilots. Charter was entitled to reimbursement for these amounts. In addition, Mr. Wood also used Charter's airplane for occasional personal use in 2001, a benefit valued at \$12,500 for the year ended December 31, 2001.

Payments for Relative's Services

Additionally, in 1999, one of Mr. Wood's daughters, who resigned as a Vice President of Charter Holdco in February 2002, received a bonus in the form of a three-year promissory note bearing interest at 7% per year. One-third of the original outstanding principal amount of the note and interest were forgiven as long as she remained employed by Charter Holdco at the end of each of the first three anniversaries of the issue date in February 1999. The amount of principal and interest forgiven on this note for the year ended December 31, 2001, was \$85,500, and the outstanding balance on the note was forgiven effective as of February 22, 2002. Another daughter of Mr. Wood received approximately \$70,200 during the year ended December 31, 2001 for event planning services performed by her company.

Since June 2003, Charter Holdco has employed the brother-in-law of Carl E. Vogel, Charter's former President, Chief Executive Officer and a director. Mr. Vogel's brother-in-law receives a salary commensurate with his position in our engineering department.

Travel Service

Jerald L. Kent resigned as President, Chief Executive Officer and a director of Charter in September 2001. In 2001, a travel agency owned and operated by Mr. Kent's mother-in-law received approximately \$132,000 for travel arrangements made for Charter by her company.

Replay TV Joint Venture

Charter Communications Ventures was party to a joint venture with General Instrument Corporation (doing business as Broadband Communications Sector of Motorola, Inc.), Replay TV Inc. and Interval Research Corporation, an entity controlled by Mr. Allen, to develop and integrate digital video recording capabilities in advanced digital set-top terminals. The joint venture focused on creating a set-top based digital recording platform designed for storing video, audio and Internet content. Prior to the dissolution of the joint venture in 2001, Charter Communications Ventures received management fees of approximately \$1 million for the year ended December 31, 2001, which is included in other revenues in the accompanying consolidated statement of operations.

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 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 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,

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including approximately \$41 million assigned to franchises and \$4 million assigned to other intangible assets amortized over a useful life of three years.

In addition, Enstar Cable Corporation, the manager of the Enstar limited partnerships through a management agreement, engaged Holdco to manage the Enstar limited partnerships. Pursuant to the management agreement, Charter Holdco provides management services to the Enstar limited partnerships in exchange for management fees. The Enstar limited partnerships also purchase basic and premium programming for their systems at cost from Charter Communications Holding Company, LLC. For the years ended December 31, 2001, 2002, 2003 and the nine months ended September 30, 2004, Charter Holdco earned approximately \$2 million, \$1 million, \$469,300 and \$0, respectively, by providing management services to the Enstar limited partnerships. In September 2003 the Enstar limited partnerships completed sales of all their remaining assets, and as a result no further management fees were paid in 2004. In November 2004, the Enstar limited partnerships were dissolved.

All of the executive officers of Charter (with the exception of Mr. Allen), Charter Holdco and Charter Holdings act as officers of Enstar Communications Corporation.

Indemnification Advances

Pursuant to Charter's bylaws (and the employment agreements of certain of our current and former officers), Charter is obligated (subject to certain limitations) to indemnify and hold harmless, to the fullest extent permitted by law, any officer, director or employee against all expense, liability and loss (including, among other things, attorneys' fees) reasonably incurred or suffered by such officer, director or employee as a result of the fact that he or she is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding by reason of the fact that he or she is or was a director, officer or employee of Charter. In addition, Charter is obligated to pay, as an advancement of its indemnification obligation, the expenses (including attorneys' fees) incurred by any officer, director or employee in defending any such action, suit or proceeding in advance of its final disposition, subject to an obligation to repay those amounts under certain circumstances. Pursuant to these indemnification arrangements and as an advancement of costs, Charter has reimbursed certain of its current and former directors and executive officers a total of approximately \$3 million, \$8 million and \$2.6 million in respect of invoices received in 2002, 2003 and the nine months ended September 30, 2004, respectively, in connection with their defense of certain legal actions described herein. See Business Legal Proceedings. Those current and former directors and officers include: Paul G. Allen, David C. Andersen, David G. Barford, Mary Pat Blake, J. Christian Fenger, Kent D. Kalkwarf, Ralph G. Kelly, Jerald L. Kent, Paul E. Martin, David L. McCall, Ronald L. Nelson, Nancy B. Peretsman, John C. Pietri, William D. Savoy, Steven A. Schumm, Curtis S. Shaw, William J. Shreffler, Stephen E. Silva, James Trey Smith and Carl E. Vogel. These amounts have been submitted to Charter's director and officer insurance carrier for reimbursement. The carrier has raised various objections to portions of these amounts, and Charter is in negotiations with the carrier regarding their reimbursement.

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As of September 30, 2004, our actual total debt was approximately \$18.5 billion and on the pro forma basis described in Unaudited Pro Forma Consolidated Financial Statements, our long-term debt outstanding would have been approximately \$18.9 billion, as summarized below (dollars in millions):

	Actual September 30, 2004		Pro Forma September 30, 2004		Interest payment dates	Start date for cash interest payment on discount notes	Maturity date(b)
	Face value	Accreted value(a)	Face value	Accreted value			
Charter Communications, Inc.:							
5.750% convertible senior notes due 2005	\$ 588	\$ 588	\$	\$	4/15 & 10/15		10/15/05
4.750% convertible senior notes due 2006	156	156	156	156	12/1 & 6/1		6/1/06
5.875% convertible senior notes due 2009			863	832	5/16 & 11/16		11/16/09
Charter Holdings:							
8.250% senior notes due 2007	451	451	451	451	4/1 & 10/1		4/1/07
8.625% senior notes due 2009	1,244	1,242	1,244	1,242	4/1 & 10/1		4/1/09
9.920% senior discount notes due 2011	1,108	1,108	1,108	1,108	4/1 & 10/1	10/1/04	4/1/11
10.000% senior notes due 2009	640	640	640	640	4/1 & 10/1		4/1/09
10.250% senior notes due 2010	318	318	318	318	1/15 & 7/15		1/15/10
11.750% senior discount notes due 2010	450	435	450	435	1/15 & 7/15	7/15/05	1/15/10
10.750% senior notes due 2009	874	874	874	874	4/1 & 10/1		10/1/09
11.125% senior notes due 2011	500	500	500	500	1/15 & 7/15		1/15/11
13.500% senior discount notes due 2011	675	571	675	571	1/15 & 7/15	7/15/06	1/15/11
9.625% senior notes due 2009	640	638	640	638	5/15 & 11/15		11/15/09
10.000% senior notes due 2011	710	708	710	708	5/15 & 11/15		5/15/11
11.750% senior discount notes due 2011	939	780	939	780	5/15 & 11/15	11/15/06	5/15/11
12.125% senior discount notes due 2012	330	252	330	252	1/15 & 7/15	7/15/07	1/15/12
CCH II:							
10.250% senior notes due 2010	1,601	1,601	1,601	1,601	3/15 & 9/15		9/15/10
CCO Holdings:							
8.750% senior notes due 2013	500	500	500	500	5/15 & 11/15		11/15/13
Senior floating rate notes due 2010			550	550	3/15, 6/15, 9/15 & 12/15		12/15/10
Charter Operating:							
8% senior second lien notes due 2012	1,100	1,100	1,100	1,100	4/30 & 10/30		4/30/12
8 3/8% senior second lien notes due 2014	400	400	400	400	4/30 & 10/30		4/30/14
Renaissance:							
10.000% senior discount notes due 2008	114	116	114	116	4/15 & 10/15	10/15/03	4/15/08
CC V Holdings:							
11.875% senior discount notes due 2008	113	113	113	113	6/1 & 12/1	6/1/04	12/1/08
Credit Facilities							
Charter Operating	5,393	5,393	4,993	4,993			
	<u>\$18,844</u>	<u>\$18,484</u>	<u>\$19,269</u>	<u>\$18,878</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, the obligors have the right to redeem all of the notes set forth in the above table (except with respect to the 5.875% convertible senior notes due 2009 and the Charter Holdings notes with terms of eight years) in whole or part at their option, beginning at various times prior to their stated maturity dates, subject to certain conditions, upon the payment of the outstanding principal amount (plus a specified redemption premium) and all accrued and unpaid interest. We redeemed the remaining 5.75% convertible senior notes due 2005 on December 23, 2004. While we are required to redeem the CC V Holdings notes under the circumstances described in Outstanding Notes CC V Holdings, LLC Notes and Charter Communications Operating, LLC Notes, we are not required to redeem any of the other notes described above prior to their stated maturity dates. For additional information, see Note 9 to our consolidated financial statements as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 included elsewhere in this prospectus.

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As of September 30, 2004 and December 31, 2003, long-term debt totaled approximately \$18.5 billion and \$18.6 billion, respectively. This