

CHARTER COMMUNICATIONS INC /MO/

Form S-1

October 05, 2005

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As filed with the Securities and Exchange Commission on October 5, 2005

Registration No. 333-

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**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)*

**Paul E. Martin**

**Senior Vice President, Interim Chief Financial Officer, Principal Accounting Officer and Corporate Controller**

**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)*

**Copies to:**

**Dennis J. Friedman  
Gibson, Dunn & Crutcher LLP  
200 Park Avenue  
New York, NY 10166  
(212) 351-4000**

**Jeremy W. Dickens  
Brian A. Haskel  
Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, NY 10153  
(212) 310-8000**

**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.

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.

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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.

### CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Unit | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee(1) |
|--|-------------------------|--|---|-------------------------------|
| Class A Common Stock                               | 122,830,000 shares      | \$1.58                                   | \$193,457,250                             | \$22,770                      |

(1) Calculated pursuant to Rule 457(c) under the Securities Act solely for the purpose of calculating the registration fee on the basis of the average of the high and low prices of the Class A Common Stock as reported on the Nasdaq National Market on October 3, 2005.

**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 OCTOBER 5, 2005**

**PROSPECTUS**

**122,830,000 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 October 3, 2005 was \$1.50 per share.

**Investing in our Class A common stock involves risks. See Risk Factors beginning on page 11.**

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.

|                       | <u>Per Share</u> | <u>Total</u> |
|-----------------------|------------------|--------------|
| 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 short 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 senior notes. See Share Lending Agreement and Underwriting on pages 183 and 188, 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 SHARES OFFERED HEREBY ARE NOT BEING OFFERED TO, AND MAY NOT BE PURCHASED BY, ANY PERSON WHO HOLDS AN OPEN SHORT POSITION IN OUR CLASS A COMMON STOCK, ANY PERSON WHO IS PURCHASING THE SHARES ON BEHALF OF OR FOR THE ACCOUNT OF SUCH A PERSON OR ANY PERSON WHO HAS AN ARRANGEMENT OR UNDERSTANDING TO RESELL, LEND OR OTHERWISE TRANSFER (DIRECTLY OR INDIRECTLY) THE SHARES TO SUCH A PERSON. PURCHASERS IN THIS OFFERING WILL BE REQUIRED TO CERTIFY THE FOREGOING IN WRITING. SEE NOTICE TO INVESTORS ON PAGE ii OF THIS PROSPECTUS.

The shares of our Class A common stock are being offered on a best efforts basis. Best efforts means that Citigroup Global Markets Limited is not under any obligation to borrow and sell any of the shares offered hereby. Citigroup Global Markets Limited has informed us that it will use its best efforts to sell the shares offered pursuant to this prospectus, provided that it intends to borrow and sell the shares offered hereby only to the extent there is interest by investors in the 5.875% convertible senior notes in establishing hedge positions and there is corresponding demand by purchasers for the shares. Accordingly, there is no assurance that all or any portion of the shares offered hereby will be sold.

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The offering will be at a fixed price and will not be conducted on a continuous or delayed basis. The offering will terminate on or before \_\_\_\_\_, 2005, and the underwriter expects to deliver the shares to purchasers on or about \_\_\_\_\_, 2005.

## Citigroup

\_\_\_\_\_, 2005

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. We are offering to sell shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is complete and accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares.

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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, estimated and potential, among others. Important factors that may cause results to differ materially from the forward-looking statements we make in



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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:

the availability, in general, of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash flows from operating activities, further borrowings or other sources and, in particular, our ability to be able to provide under applicable debt instruments, such funds (by dividend, investment or otherwise) to the applicable obligor of such debt;

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

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

our ability to pay or refinance debt prior to or when it becomes due and/or to take advantage of market opportunities and market windows to refinance that debt in the capital markets, through new issuances, exchange offers or otherwise, including restructuring our balance sheet and leverage position;

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

general business conditions, economic uncertainty or slowdown; and

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

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

**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](http://www.sec.gov).

**NOTICE TO INVESTORS**

The shares offered hereby are not being offered to, and may not be purchased by, any person who has an open short position in Charter's Class A common stock at the time of the sale, any person who is purchasing the shares on behalf of or for the account of such a person or any person who has an arrangement or understanding to resell, lend or otherwise transfer (directly or indirectly) the shares to such a person.

Each purchaser of Charter's Class A common stock in this offering must execute and deliver the Investor Acknowledgement set forth on Annex A hereto to Citigroup by facsimile to (646) 843-3922.

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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 June 30, 2005.

*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 6.19 million customers at June 30, 2005. 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, 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. See Business Products and Services for further description of these terms, including customers.

At June 30, 2005, we served approximately 5.94 million analog video customers, of which approximately 2.69 million were also digital video customers. We also served approximately 2.02 million high-speed Internet customers (including approximately 234,600 who received only high-speed Internet services). We also provided telephone service to approximately 67,800 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](http://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:

improving the overall value to our customers of our service offerings, relative to pricing;

developing more sophisticated customer care capabilities through investment in our customer care and marketing infrastructure, including targeted marketing capabilities;

executing growth strategies for new services, including digital simulcast, VOD, telephone, 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 have begun an internal operational improvement initiative aimed at helping us gain new customers and retain existing customers, which is focused on customer care, technical operations and sales. We intend to continue efforts to focus management attention on instilling a customer service oriented culture throughout the company and to give those areas of our operations priority of resources for staffing levels, training budgets and financial incentives for employee performance in those areas.



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We believe that our high-speed Internet 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 Internet service to the business community, which we believe has shown an increasing interest in high-speed Internet service and private network services. Additionally, we plan to continue to prepare additional markets for telephone launches in 2005.

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 Internet services, as well as telephone in certain markets. 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 Internet, high definition television (in selected markets) and VOD (in selected markets).

We continue to pursue opportunities to improve our liquidity. Our efforts in this regard resulted in the completion of a number of transactions in 2004 and 2005, as follows:

the September 2005 exchange by Charter Communications Holdings, LLC ( Charter Holdings ), CCH I, LLC ( CCH I ) and CCH I Holdings, LLC ( CIH ) of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;

the August 2005 sale by, our subsidiaries, CCO Holdings, LLC ( CCO Holdings ) and CCO Holdings Capital Corp. of \$300 million of 8 3/4% senior notes due 2013;

the March and June 2005 issuance of \$333 million of Charter Communications Operating, LLC ( Charter Operating ) notes in exchange for \$346 million of Charter Holdings notes;

the March and June 2005 repurchase of \$131 million of our 4.75% convertible senior notes due 2006 leaving \$25 million in principal amount outstanding;

the March 2005 redemption of all of CC V Holdings, LLC 's outstanding 11.875% senior discount notes due 2008 at a total cost of \$122 million;

the December 2004 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp. of \$550 million of senior floating rate notes due 2010;

the November 2004 sale of the \$862.5 million of 5.875% convertible senior notes due 2009 and the December 2004 redemption of all of our outstanding 5.75% convertible senior notes due 2005 (\$588 million principal amount);

the April 2004 sale of \$1.5 billion of senior second lien notes by our subsidiary, Charter Operating, together with the concurrent refinancing of its credit facilities; and

the sale in the first half of 2004 of non-core cable systems for a total of \$735 million, the proceeds of which were used to reduce indebtedness.

### **Recent Events**

#### *Charter Holdings, CCH I and CIH Exchange Offer*

On September 28, 2005, Charter Holdings and its wholly owned subsidiaries, CCH I and CIH, completed the exchange of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities capturing \$545 million of discount and extending maturities. Holders of Charter Holdings notes due in 2009-2010 tendered \$3.4 billion principal amount of notes for \$2.9 billion principal amount of new 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011-2012 tendered \$845 million principal amount of notes for \$662 million principal amount of 11% CCH I notes due 2015. In addition, holders of Charter Holdings notes due 2011-2012 tendered \$2.5 billion principal amount of notes for \$2.5 billion principal amount of new CIH notes. Each series of new CIH notes have the same coupon and provisions for payment of cash interest as the series of old Charter Holdings notes for which such CIH notes were exchanged. In addition, the maturities for each series were extended three years.



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*New President and Chief Executive Officer*

On August 9, 2005, Neil Smit was appointed as our President and Chief Executive Officer, replacing Robert May effective August 22, 2005, who has served in both positions on an interim basis since January 2005. Mr. May will remain on our board of directors and serve as a member of our compensation committee and our strategic planning committee. During the last year, we have experienced a number of other changes in our senior management. See Risk Factors Risks Related to Our Business Recent management changes could disrupt operations.

*CCO Holdings Note Offering*

On August 17, 2005, CCO Holdings issued \$300 million in debt securities, the proceeds of which will be used for general corporate purposes, including the potential payment of dividends or distributions to its parent companies, including Charter Holdings, to pay interest expense.

*Consummation of Prior Share Borrow Transaction*

On July 29, 2005, we issued 27,170,000 shares of Class A common stock in a public offering (the prior share borrow transaction ). As with the shares offered hereby, the shares were issued pursuant to the share lending agreement described herein under Share Lending Agreement, pursuant to which we had previously agreed to loan up to 150 million shares to Citigroup Global Markets Limited ( CGML ). Because less than the full 150 million shares covered by the share lending agreement were sold in the prior share borrow transaction, we remain obligated to issue, at CGML s request, up to an additional 122,830,000 additional loaned shares in up to three additional subsequent registered public offerings pursuant to the share lending agreement. Those remaining shares constitute the shares offered hereby.

As with this offering, the prior share borrow transaction was conducted to facilitate transactions by which investors in Charter s 5.875% convertible senior notes due 2009 issued on November 22, 2004, hedged their investments in those convertible senior notes. Charter did not receive any of the proceeds from the sale of shares in the prior share borrow transaction. However, under the share lending agreement, Charter received a loan fee of \$.001 for each share that it lent to CGML.

*Approval and Funding of Litigation Settlement; Issuance of Shares*

On June 30, 2005, the Federal District Court for the Eastern District of Missouri entered its final approval of the Stipulation of Settlement, as amended, of certain shareholder class action and derivative lawsuits filed against Charter which are more fully described in Business Legal Proceedings. On July 8, 2005, Charter delivered to the claims administrator its portion of the settlement consideration under the Stipulation in the form of 13.4 million shares of Class A common stock and approximately \$63 million in cash, and Charter has paid \$4.5 million to its insurance carriers to satisfy certain outstanding claims in connection with the settlement. Two notices of appeal were filed relating to the settlement. On September 26, 2005, the U.S. Court of Appeals for the Eighth Circuit entered Judgment dismissing the appeals pursuant to stipulation by the parties. See Business Legal Proceedings.

*Hurricane Katrina*

We have cable, broadband and related operations in the parts of Louisiana, Mississippi and Georgia which were impacted by hurricane Katrina. Approximately 3% of our total customers lost service. Service to the majority of those customers has since been restored. However, we have only recently been allowed access to some service areas and are therefore in the early stages of assessing damages. As a result, we are not able to estimate the impact to our financial results at this time.

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**The Offering**

|   |   |
|---|---|
| Total shares of Class A common stock offered by us hereby                                 | 122,830,000 shares  |
| Approximate number of shares of Class A common stock to be outstanding after the offering | 471.4 million shares (including the shares offered hereby, 27.2 million shares issued on July 29, 2005 pursuant to the share lending agreement and 13.4 million shares issued on July 8, 2005 in connection with a litigation settlement) |
| Nasdaq National Market Symbol   | CHTR  |

The shares of our Class A common stock offered hereby are shares that we will loan 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 will receive a loan fee of \$.001 per share. We will not receive any proceeds from this offering. See Share Lending Agreement and Underwriting.

THE SHARES OFFERED HEREBY ARE NOT BEING OFFERED TO, AND MAY NOT BE PURCHASED BY, ANY PERSON WHO HOLDS AN OPEN SHORT POSITION IN OUR CLASS A COMMON STOCK, ANY PERSON WHO IS PURCHASING THE SHARES ON BEHALF OF OR FOR THE ACCOUNT OF SUCH A PERSON OR ANY PERSON WHO HAS AN ARRANGEMENT OR UNDERSTANDING TO RESELL, LEND OR OTHERWISE TRANSFER (DIRECTLY OR INDIRECTLY) THE SHARES TO SUCH A PERSON.

PURCHASERS IN THE OFFERING WILL BE REQUIRED TO CERTIFY THE FOREGOING IN WRITING. SEE NOTICE TO INVESTORS ON PAGE ii AND FORM OF INVESTOR ACKNOWLEDGMENT ON PAGE A-1.

**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 the organizational structure of Charter and its principal direct and indirect subsidiaries. The equity ownership, voting percentages and indebtedness amounts shown below are approximations as of June 30, 2005 on the pro forma basis described in Unaudited Pro Forma Consolidated Financial Statements (including giving effect to the issuance of the shares offered hereby) 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.

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- (1) Charter acts as the sole manager of Charter Holdco and its direct and indirect limited liability company subsidiaries. Charter's certificate of incorporation requires that its principal assets be securities of Charter Holdco, the terms of which mirror the terms of securities issued by Charter. See Description of Capital Stock and Membership Units. Also, on July 8, 2005, Charter issued 13.4 million shares of Class A common stock pursuant to a litigation settlement. See Business Legal Proceedings.
- (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 122.8 million shares of Class A common stock offered hereby as well as the 27.2 million shares of Class A common stock issued on July 29, 2005 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

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percentages exclude the 150 million mirror membership units issued or to be 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 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.

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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, 2004 and the unaudited consolidated financial statements of Charter and its subsidiaries for the six months ended June 30, 2005 and 2004. The consolidated financial statements of Charter and its subsidiaries for the years ended December 31, 2002 to 2004 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 March and April 2004 for total proceeds of \$735 million and the use of such proceeds in each case to pay down credit facilities;
- (2) the issuance and sale of \$550 million of CCO Holdings senior floating rate notes in December 2004 and \$1.5 billion of Charter Operating senior second lien notes in April 2004;
- (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 from 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;
- (5) the repayment of \$530 million of borrowings under the Charter Operating revolving credit facility with net proceeds from the issuance and sale of the CCO Holdings senior floating rate notes in December 2004, which were included in our cash balance at December 31, 2004;
- (6) the redemption of all of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 with cash on hand;
- (7) the issuance and sale of \$300 million of 8 3/4% CCO Holdings senior notes in August 2005 and the use of a portion of such proceeds to pay financing costs and accrued interest in the exchange transaction referenced below;
- (8) the exchange of \$3.4 billion principal amount of Charter Holdings' notes scheduled to mature in 2009 and 2010 for CCH I notes and the exchange of \$3.4 billion principal amount of Charter Holdings' notes scheduled to mature in 2011 and 2012 for CIH notes and CCH I notes; and
- (9) the issuance of 27.2 million shares in July 2005 and the shares offered hereby pursuant to the share lending agreement, the sole effect of which is to increase common shares issued and outstanding. See Share Lending Agreement.

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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.

|   | Year Ended December 31, |                |                |                      | Six Months Ended June 30, |                      |
|---|-------------------------|----------------|----------------|----------------------|---------------------------|----------------------|
|   | 2002<br>Actual          | 2003<br>Actual | 2004<br>Actual | 2004<br>Pro Forma(a) | 2004<br>Pro Forma(a)      | 2005<br>Pro Forma(a) |
| (Dollars in millions, except per share, share and customer data)  |                         |                |                |                      |                           |                      |
| <b>Statement of Operations Data:</b>                              |                         |                |                |                      |                           |                      |
| Revenues:   |                         |                |                |                      |                           |                      |
| Video   | \$ 3,420                | \$ 3,461       | \$ 3,373       | \$ 3,352             | \$ 1,674                  | \$ 1,703             |
| High-speed Internet   | 337                     | 556            | 741            | 738                  | 346                       | 441                  |
| Advertising sales   | 302                     | 263            | 289            | 288                  | 131                       | 140                  |
| Commercial  | 161                     | 204            | 238            | 236                  | 112                       | 134                  |
| Other   | 346                     | 335            | 336            | 334                  | 161                       | 176                  |
| <b>Total revenues</b>   | <b>4,566</b>            | <b>4,819</b>   | <b>4,977</b>   | <b>4,948(b)</b>      | <b>2,424</b>              | <b>2,594</b>         |
| Costs and Expenses:   |                         |                |                |                      |                           |                      |
| Operating (excluding depreciation and amortization)               | 1,807                   | 1,952          | 2,080          | 2,068                | 1,015                     | 1,128                |
| Selling, general and administrative                               | 963                     | 940            | 971            | 967                  | 479                       | 493                  |
| Depreciation and amortization                                     | 1,436                   | 1,453          | 1,495          | 1,489                | 728                       | 759                  |
| Impairment of franchises  | 4,638                   |                | 2,433          | 2,433                |                           |                      |
| Asset impairment charges  |                         |                |                |                      |                           | 39                   |
| (Gain) loss on sale of assets, net                                | 3                       | 5              | (86)           | 20                   | 2                         | 4                    |
| Option compensation expense, net                                  | 5                       | 4              | 31             | 31                   | 26                        | 8                    |
| Special charges, net  | 36                      | 21             | 104            | 104                  | 97                        | 2                    |
| Unfavorable contracts and other settlements                       |                         | (72)           | (5)            | (5)                  |                           |                      |
| <b>Total costs and expenses</b>                                   | <b>8,888</b>            | <b>4,303</b>   | <b>7,023</b>   | <b>7,107</b>         | <b>2,347</b>              | <b>2,433</b>         |
| Income (loss) from operations                                     | (4,322)                 | 516            | (2,046)        | (2,159)              | 77                        | 161                  |
| Interest expense, net   | (1,503)                 | (1,557)        | (1,670)        | (1,679)              | (829)                     | (850)                |
| Gain (loss) on derivative instruments and hedging activities, net | (115)                   | 65             | 69             | 69                   | 56                        | 26                   |
| Loss on debt to equity conversions                                |                         |                | (23)           | (23)                 | (23)                      |                      |
| Gain (loss) on extinguishment of debt                             |                         | 267            | (31)           |                      |                           | 13                   |
| Other, net  | (4)                     | (16)           | 3              | 3                    |                           | 21                   |



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|  |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Loss before minority interest, income taxes and cumulative effect of accounting change | (5,944)     | (725)       | (3,698)     | (3,789)     | (719)       | (629)       |
| Minority interest(c)   | 3,176       | 377         | 19          | 19          | (10)        | (6)         |
| Loss before income taxes and cumulative effect of accounting change                    | (2,768)     | (348)       | (3,679)     | (3,770)     | (729)       | (635)       |
| Income tax benefit (expense)   | 460         | 110         | 103         | 118         | (82)        | (46)        |
| Loss before cumulative effect of accounting change, net of tax                         | \$ (2,308)  | \$ (238)    | \$ (3,576)  | \$ (3,652)  | \$ (811)    | \$ (681)    |
| Loss per common share, basic and diluted(d)  | \$ (7.85)   | \$ (0.82)   | \$ (11.92)  | \$ (12.16)  | \$ (2.72)   | \$ (2.24)   |
| Weighted-average common shares outstanding, basic and diluted                          | 294,440,261 | 294,597,519 | 300,291,877 | 300,291,877 | 297,814,091 | 303,465,474 |
| <b>Other Financial Data:</b>   |             |             |             |             |             |             |
| Capital expenditures   | \$ 2,167    | \$ 854      | \$ 924      | \$ 922      | \$ 388      | \$ 542      |
| Deficiencies of earnings to cover fixed charges(e)                                     | \$ 5,944    | \$ 725      | \$ 3,698    | \$ 3,789    | \$ 719      | \$ 629      |

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|   | December 31,   |                   |                | June 30,       |                |
|---|----------------|-------------------|----------------|----------------|----------------|
|   | 2003<br>Actual | 2003<br>Pro Forma | 2004<br>Actual | 2004<br>Actual | 2005<br>Actual |
| <b>Operating Data (end of period)(f):</b> |                |                   |                |                |                |
| Analog video customers                    | 6,431,300      | 6,200,500         | 5,991,500      | 6,133,200      | 5,943,100      |
| Digital video customers                   | 2,671,900      | 2,588,600         | 2,674,700      | 2,650,200      | 2,685,600      |
| Residential high-speed Internet customers | 1,565,600      | 1,527,800         | 1,884,400      | 1,711,400      | 2,022,200      |
| Telephone customers                       | 24,900         | 24,900            | 45,400         | 31,200         | 67,800         |

**Pro Forma  
As of June 30,  
2005**

(Dollars in millions)

**Balance Sheet Data (end of period):**

|                                       |         |
|---------------------------------------|---------|
| Cash and cash equivalents             | \$ 157  |
| Total assets                          | 16,908  |
| Accounts payable and accrued expenses | 1,110   |
| Long-term debt(c)                     | 18,996  |
| Other long-term liabilities           | 682     |
| Minority interest(d)                  | 659     |
| Shareholders' deficit                 | (4,608) |

- (a) Actual revenues exceeded pro forma revenues for the year ended December 31, 2004 and the six months ended June 30, 2004 and 2005 by \$29 million, \$29 million and \$0, respectively. Pro forma loss before cumulative effect of accounting change, net of tax exceeded actual loss before cumulative effect of accounting change, net of tax by \$76 million and \$103 million for the year ended December 31, 2004 and the six months ended June 30, 2004, respectively. Actual loss before cumulative effect of accounting change, net of tax exceeded pro forma loss before cumulative effect of accounting change, net of tax by \$26 million for the six months ended June 30, 2005. 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 2004 revenue by quarter is as follows:

|                                | <b>2004<br/>Pro Forma<br/>Revenue</b> |
|--------------------------------|---------------------------------------|
|                                | (In millions)                         |
| 1st Quarter                    | \$ 1,185                              |
| 2nd Quarter                    | 1,239                                 |
| 3rd Quarter                    | 1,248                                 |
| 4th Quarter                    | 1,276                                 |
| <b>Total pro forma revenue</b> | <b>\$4,948</b>                        |

- (c) The pro forma balance sheet amounts of CIH and CCH I notes issued in exchange for Charter Holdings notes are presented in accordance with generally accepted accounting principles ( GAAP ). GAAP requires that the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings senior notes due 2009 be recorded at the current accreted values of the old Charter Holdings notes as opposed to the current accreted values of the new CIH or CCH I notes.

- (d) 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, 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 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. Effective January 1, 2005, Charter ceased recognizing minority interest in earnings or losses of CC VIII, LLC for financial reporting purposes until such time as the resolution of the issue is determinable or certain other events occur. Reported losses allocated to minority interest on the statement of operations are

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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 2004, Charter absorbs substantially all losses before income taxes that otherwise would have been allocated to minority interest. This resulted in an approximate additional \$2.0 billion of loss before cumulative effect of accounting change for the year ended December 31, 2004. Under our existing capital structure, Charter will absorb substantially all future losses.

- (e) 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.
- (f) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.
- (g) See Business Products and Services for definitions of the terms contained in this section.

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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 may not generate (or, in general, have available to the applicable obligor) sufficient cash flow or access to additional external liquidity sources to fund our capital expenditures, ongoing operations and debt obligations.***

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

our future operating performance;

the demand for our products and services;

general economic conditions and conditions affecting customer and advertiser spending;

competition and our ability to stabilize customer losses; and

legal and regulatory factors affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow and/or access additional external liquidity sources, we may not be able to service and repay our debt, operate our business, respond to competitive challenges or fund our other liquidity and capital needs. 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 interest payment and principal repayment obligations that come due in 2006 and we believe such amounts will not be sufficient to fund our operations and satisfy such obligations thereafter. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

Additionally, franchise valuations performed in accordance with the 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 \$870 million as of June 30, 2005. However, Charter Operating's access to these funds is subject to its satisfaction of the covenants and conditions to borrowing in those facilities that are more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Our Outstanding Debt—Charter Operating Credit Facilities and under Description of Certain Indebtedness—Charter Operating Credit Facilities in this prospectus.

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



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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.

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

Charter and its 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 June 30, 2005, after giving effect to the issuance and sale of the CCO Holdings senior notes and the exchange of \$3.4 billion principal amount of Charter Holdings notes scheduled to mature in 2009 and 2010 for CCH I notes and the exchange of \$3.4 billion principal amount of Charter Holdings notes scheduled to mature in 2011 and 2012 for CIH notes and CCH I notes, our total debt would have been approximately \$19.0 billion, our shareholders deficit would have been approximately \$4.6 billion and the deficiency of earnings to cover fixed charges for the six month period ended June 30, 2005 would have been approximately \$629 million. The maturities of these obligations are set forth in Description of Certain Indebtedness.

We will need to raise additional capital and/or receive distributions or payments from our subsidiaries in order to satisfy our debt obligations. However, because of our significant indebtedness, our ability to raise additional capital at reasonable rates or at all is uncertain, and the ability of our subsidiaries to make distributions or payments to us is subject to availability of funds and restrictions under our and our subsidiaries applicable debt instruments as more fully described in Description of Certain Indebtedness. 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.

Our significant amount of debt could have other important consequences to you. For example, the debt 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, if we need them, due to applicable financial and restrictive covenants in our debt; and

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

Due to our significant amount of debt, we did not pay dividends on our preferred stock at March 31 or June 30, 2005, because our Board of Directors was unable to conclude with sufficient certainty that we had surplus under Delaware law with which to pay such a dividend.

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. We and our subsidiaries may incur substantial additional debt in the future. If current debt levels increase, the related risks that we and you now face will intensify.

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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, as well as significantly affect our liquidity, and adversely affect you, as a shareholder.***

The Charter Operating credit facilities and the indentures governing our and our subsidiaries' public debt contain a number of significant covenants that could adversely affect our ability to operate our business, as well as significantly affect our liquidity, 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:

incur additional debt;

repurchase or redeem equity interests and debt;

issue equity;

make certain investments or acquisitions;

pay dividends or make other distributions;

receive distributions from our subsidiaries;

dispose of assets or merge;

enter into related party transactions;

grant liens; and

pledge assets.

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

The breach of any covenants or obligations in the foregoing indentures or credit facilities, not otherwise waived or amended, could result in a default under the applicable debt agreement or instrument and could trigger acceleration of the related debt, which in turn could trigger defaults under other agreements governing our long-term indebtedness. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." In addition, the secured lenders under the Charter Operating credit facilities and the holders of the Charter Operating senior second-lien notes could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under those credit facilities, 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 Charter Operating's credit facilities and other debt of our subsidiaries. See "Description of Certain Indebtedness" for a summary of outstanding indebtedness and a description of credit facilities and other indebtedness.

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

We may not have the ability to raise the funds necessary to fulfill our obligations under our 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, Charter may not have sufficient funds at the time of





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the change of control event to make the required repurchase of its 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 \$18.4 billion at June 30, 2005 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. Additionally, our subsidiaries may not have sufficient funds at the time of the change of control to make the required repurchases or repayments. 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 under these agreements and could result in a default under the indentures governing our convertible senior notes and our subsidiaries' credit facilities and 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 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.

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

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

Local telephone companies and electric utilities can offer video and other services in competition with us and they increasingly may do so in the future. Certain telephone companies have begun more extensive deployment of fiber in their networks that will enable them to begin providing video services, as well as telephone and high bandwidth Internet access services, to residential and business customers. Some of these telephone companies have obtained, and are now seeking, franchises or operating authorizations that are less burdensome than existing Charter franchises. The subscription television industry also faces competition from free broadcast television and from other communications and entertainment media.

Further loss of customers to DBS or other alternative video and Internet services could have a material negative impact on the value of our business and its performance.

With respect to our Internet access services, we face competition, including intensive marketing efforts and aggressive pricing, from dial-up and digital subscriber line (DSL). DSL service is competitive

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with high-speed Internet 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, DBS providers have entered into joint marketing arrangements with Internet access providers to offer bundled video and Internet service, which competes with our ability to provide bundled services to our customers.

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 a material adverse effect on our business and financial results.

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

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

### ***Charter's 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. If the Special Committee and Mr. Allen are unable to reach a resolution through an ongoing mediation process or to agree on an alternative dispute resolution process, the Special Committee intends to seek resolution of this dispute.

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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, declaratory relief as to the respective rights of the parties regarding this dispute and alternative forms of legal and equitable relief. 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 CC VIII 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 were filed in the U.S. District Court for the Eastern District of Missouri against Charter and certain of our former and present officers and directors alleging violations of securities laws, and were consolidated for pretrial purposes. In addition, a number of shareholder derivative lawsuits were filed against us in the same and other jurisdictions. A shareholders derivative suit was filed in the U.S. District Court for the Eastern District of Missouri against Charter and our then current directors. Also, three shareholder derivative suits were filed in Missouri state court against Charter, our then current directors and our former independent auditor. These state court actions were consolidated. The federal shareholder derivative suit and the consolidated derivative suit each alleged that the defendants breached their fiduciary duties.

Charter entered into Stipulations of Settlement setting forth proposed terms of settlement for the above-described class actions and derivative suits. On May 23, 2005 the United States District Court for the Eastern District of Missouri conducted the final fairness hearing for the actions, and it issued its final order approving the settlement on June 30, 2005. Members of the class had 30 days from the issuance of that order to file an appeal challenging the approval. Two notices of appeal were filed relating to the settlement. Those appeals were directed to the amount of fees that the attorneys for the class were to receive and to the fairness of the settlement. On September 26, 2005, the U.S. Court of Appeals for the Eighth Circuit entered Judgment dismissing the appeals pursuant to stipulation by the parties.

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, certain of which are described in Business Legal Proceedings. 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, proceedings and other legal matters to which we are a party, or in which we are otherwise involved, due to, among other things, (i) the inherent uncertainties of litigation and legal matters generally, (ii) the remaining conditions to the finalization of certain litigation and other settlements and resolutions to which we are parties, (iii) the outcome of appeals 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 settlements and resolutions of legal matters we have entered into.

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An unfavorable outcome in any of the lawsuits pending against us, or in any other legal matter, including those described herein, or our failure to comply with or properly implement the terms of the settlements and resolutions of legal matters we have entered into, 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 on our 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 \$2.3 billion for 2002, \$238 million for 2003 and \$3.6 billion for 2004 and \$708 million and \$707 million for the six months ended June 30, 2004 and 2005, respectively. Continued losses would reduce our cash available from operations to service our indebtedness, as well as limit our ability to finance our operations.

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

Programming has been, and is expected to continue to be, our largest operating expense item. In recent years, the cable industry has experienced a rapid escalation in the cost of programming, particularly sports programming. We expect programming costs to continue to increase because of a variety of factors, including inflationary or negotiated annual increases, additional programming being provided to customers and increased costs to purchase programming. The inability to fully pass these programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins. As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of July 7, 2005, approximately 9% of our current programming contracts were expired, and approximately another 21% were scheduled to expire at or before the end of 2005. There can be no assurance that these agreements will be renewed on favorable or comparable terms. Our programming costs increased by approximately 6% in 2004 and we expect our programming costs in 2005 to increase at a higher rate than in 2004. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable we may be forced to remove such programming channels from our line-up, which could result in a further loss of customers.

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

During the six months ended June 30, 2005, we spent approximately \$542 million on capital expenditures. During 2005, we expect capital expenditures to be approximately \$1 billion. The actual amount of our capital expenditures depends on the level of growth in high-speed Internet 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 Internet customers or in the delivery of other advanced services. If we cannot obtain such capital from increases in our cash flow from operating activities, additional borrowings or other sources, our growth, financial condition and results of operations could suffer materially.

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***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.

***Recent management changes could disrupt operations.***

Since August 2004, we have experienced a number of changes in our senior management, including changes in our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice President of Finance and Strategy and Interim co-Chief Financial Officer and our Executive Vice President, General Counsel and Secretary. The individual currently serving as Chief Financial Officer is serving in an interim capacity. In addition, Neil Smit assumed the positions of President and Chief Executive Officer effective August 22, 2005 and on September 26, 2005, it was announced that Grier Raclin will become the Executive Vice President, General Counsel and Corporate Secretary. These senior management changes could disrupt our ability to manage our business as we transition to and integrate a new management team, and any such disruption could adversely affect our operations, growth, financial condition and results of operations.

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

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

***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

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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, 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.

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

Mr. Allen has the ability to control us. Through his control as of August 31, 2005 of approximately 91% of the voting power of our capital stock prior to completion of this offering, Mr. Allen is entitled to elect all but one of our board members and effectively has the voting power to elect the remaining board member as well. Mr. Allen thus has the ability to control fundamental corporate transactions requiring





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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 Internet service, telephone or business and financial transactions conducted through broadband interactivity and Internet services. Mr. Allen may also engage in other businesses that compete or may in the future compete with us.

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. See "Certain Relationships and Related Transactions."

***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 our 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 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 had allocated net tax losses and net tax profits to its members

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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 discussion on the details of the tax allocation provisions 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 increase 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 June 30, 2005, Charter had approximately \$5.7 billion of tax net operating losses (resulting in a gross deferred tax asset of approximately \$2.3 billion) expiring in the years 2010 through 2025. 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 offset 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 could cause an ownership change. Such transactions include additional issuances of common stock by us (including but not limited to issuances upon future conversion of our 5.875% convertible senior notes or as contemplated in the proposed settlement of derivative class action litigation), 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 into our Class A common stock). Many of the foregoing transactions are beyond our control.

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

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

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

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

rules and regulations relating to subscriber privacy;

limited rate regulation;

requirements governing when a cable system must carry a particular broadcast station and when it must first obtain consent to carry a broadcast station;

rules 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

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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 11% of our video customers, were expired as of June 30, 2005. Approximately 4% of additional franchises, covering approximately an additional 5% 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 or a sustained failure to renew a franchise in one or more key markets could adversely affect our business in the affected geographic area.

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

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

Different legislative proposals have been introduced in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has already passed in at least one state but is now subject to court challenge. Although various legislative proposals provide certain regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants.

The existence of more than one cable system operating in the same territory is referred to as an overbuild. These overbuilds could adversely affect our growth, financial condition and results of operations by creating or increasing competition. As of June 30, 2005, 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 ( 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 last year made a recommendation to Congress against the imposition of an á la carte mandate, it is still possible that new marketing restrictions could be adopted in the future. Such restrictions could adversely affect our operations.

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

Pole attachments are cable wires that are attached to poles. Cable system attachments to public utility poles historically have been regulated at the federal or state level, generally resulting in favorable pole attachment rates for attachments used to provide cable service. The FCC clarified that a cable operator's favorable pole rates are not endangered by the provision of Internet access, and that approach ultimately was upheld by the Supreme Court of the United States. Despite the existing regulatory regime, utility pole owners in many areas are attempting to raise pole attachment fees and impose additional costs on cable operators and others. 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 cable wires 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 independent Internet service providers, or ISPs, have requested local authorities and the FCC to require cable operators to provide non-discriminatory access to cable's broadband infrastructure, so that these companies may deliver Internet services directly to customers over cable facilities. In a June 2005 ruling, commonly referred to as *Brand X*, the Supreme Court upheld an FCC decision (and overruled a conflicting Ninth Circuit opinion) making it much less likely that any non-discriminatory open access requirements (which are generally associated with common carrier regulation of telecommunications services) will be imposed on the cable industry by local, state or federal authorities. The Supreme Court held that the FCC was correct in classifying cable provided Internet service as an information service, rather than a telecommunications service. This favorable regulatory classification limits the ability of various governmental authorities to impose open access requirements on cable-provided Internet service. Given how recently *Brand X* was decided, however, the nature of any legislative or regulatory response remains uncertain. The imposition of open access requirements could materially affect our business.

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If we were required to allocate a portion of our bandwidth capacity to other Internet service providers, we believe that it would impair our ability to use our bandwidth in ways that would generate maximum revenues.

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

Cable operators also face significant regulation of their channel carriage. They currently can be required to devote substantial capacity to the carriage of programming that they would not carry voluntarily, including certain local broadcast signals, local public, educational and government access programming, and unaffiliated commercial leased access programming. This carriage burden could increase in the future, particularly if cable systems were required to carry both the analog and digital versions of local broadcast signals (dual carriage) or to carry multiple program streams included with a single digital broadcast transmission (multicast carriage). Additional government-mandated broadcast carriage obligations could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity and limit our ability to offer services that would maximize customer appeal and revenue potential. Although the FCC issued a decision in February 2005, confirming an earlier ruling against mandating either dual carriage or multicast carriage, that decision has been appealed. In addition, the FCC could reverse its own ruling or Congress could legislate additional carriage obligations.

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

In 2002, we began to offer voice communications services on a limited basis over our broadband network. We continue to explore development and deployment of Voice over Internet Protocol or VoIP services. The regulatory requirements applicable to VoIP service are unclear although the FCC has declared that certain VoIP services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of 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 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, including payments to the Federal Universal Service Fund and the intercarrier compensation regime, 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. The FCC has already determined that VoIP providers must comply with traditional 911 emergency service obligations ( E911 ) and has imposed a specific timeframe for VoIP providers to accommodate law enforcement wiretaps. Based on a recent FCC release, we are now seeking subscriber acknowledgement of E911 limitations so as to minimize the risk of potential sanctions. 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.

## **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

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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 has developed and could further 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.

In addition to the hedging transactions that were facilitated by the prior share borrow transaction, we understand that many holders of our 5.875% convertible senior notes have also been able to borrow shares of our Class A common stock for the purpose of establishing short positions in the stock. To the extent that those same holders seek to establish short positions with Citigroup through private hedging transactions in connection with this offering, we believe such holders are likely to seek to close out their existing share borrow arrangements using shares purchased in the open market. Such purchases could cause extreme volatility in the trading price of our Class A common stock, including temporary increases in the price as short term demand increases.

***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 June 30, 2005, 304,941,082 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 27,170,000 shares of Class A common stock were subsequently issued in the prior share borrow transaction. 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 29,067,828 shares were issuable upon the exercise of outstanding options under our option plans. Also, approximately 356 million shares are now issuable upon conversion of our recently issued 5.875% convertible senior notes due 2009. Furthermore, 13.4 million additional shares have been issued in connection with the settlement of certain outstanding litigation matters and will be available for immediate resale if and when released from escrow, 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 eligible for resale pursuant to a shelf registration statement. If less than all of the remaining 122,830,000 shares of Class A common stock covered by the share lending agreement are sold in this offering, Citigroup will have the right under the share lending agreement to borrow the unsold portion of those shares in the future, and a registration rights agreement will obligate Charter to file, at Citigroup's request, up to three additional registration statements with respect to these unsold shares until November 16, 2006. 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 failure to maintain a minimum share price of \$1.00 per share of Class A common stock could result in delisting of our shares on the Nasdaq National Market, which would harm the market price of our Class A common stock.***

In order to retain our listing on the Nasdaq National Market we are required to maintain a minimum bid price of \$1.00 per share. Although, as of October 3, 2005, the trading price of our Class A common stock was \$1.50 per share, our stock has traded below this \$1.00 minimum in the recent past. If the bid price falls below the \$1.00 minimum for more than 30 consecutive trading days, we will have

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180 days to satisfy the \$1.00 minimum bid price for a period of at least 10 trading days. If we are unable to take action to increase the bid price per share (either by reverse stock split or otherwise), we could be subject to delisting from the Nasdaq National Market.

The failure to maintain our listing on the Nasdaq National Market would harm the liquidity of our Class A common stock and would have adverse effect on the market price of our common stock. If the stock were to trade it would likely trade on the OTC pink sheets, which provide significantly less liquidity than does Nasdaq. As a result, the liquidity of our common stock would be impaired, not only in the number of shares which could be bought and sold, but also through delays in the timing of transactions, reduction in security analysts and news media's coverage and lower prices for our common stock than might otherwise be attained. In addition, our common stock would become subject to the low-priced security or so-called penny stock rules that impose additional sales practice requirements on broker-dealers who sell such securities.

***The effect of the issuance of our shares of Class A common stock pursuant to the share lending agreement and upon conversion of our 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 up to 150 million shares of our common stock, including the 122.8 million shares that are being offered pursuant to this prospectus and the 27.2 million shares issued in July 2005. In addition, in November 2004, we 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. In addition to the hedging transactions facilitated by the prior share borrow transaction, we understand that many investors in our 5.875% convertible senior notes have also already hedged their investment by selling additional shares of our Class A common stock short in order to establish initial hedge positions. This offering may result in establishment of hedged positions by other holders or in replacement of existing hedged position by those holders who are already hedged. We expect that all such hedged parties 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 Business Legal Proceedings, 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.

| <b>2005</b>                      | <b>High</b> | <b>Low</b> |
|----------------------------------|-------------|------------|
| First Quarter                    | \$2.30      | \$1.35     |
| Second Quarter                   | \$1.53      | \$0.90     |
| Third Quarter                    | \$1.71      | \$1.14     |
| Fourth Quarter through October 3 | \$1.50      | \$1.50     |
| <b>2004</b>                      | <b>High</b> | <b>Low</b> |
| First Quarter                    | \$5.43      | \$3.99     |
| Second Quarter                   | \$4.70      | \$3.61     |
| Third Quarter                    | \$3.90      | \$2.61     |
| Fourth Quarter                   | \$3.01      | \$2.03     |
| <b>2003</b>                      | <b>High</b> | <b>Low</b> |
| First Quarter                    | \$1.73      | \$0.76     |
| Second Quarter                   | \$4.18      | \$0.94     |
| Third Quarter                    | \$5.50      | \$3.32     |
| Fourth Quarter                   | \$4.71      | \$3.72     |
| <b>2002</b>                      | <b>High</b> | <b>Low</b> |
| 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 June 30, 2005, there were 3,797 holders of record of our Class A common stock, one holder of our Class B common stock, and 10 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 October 3, 2005 was \$1.50 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. In addition, we may only pay dividends from legally available surplus under Delaware law. Charter elected not to declare the March 31 and June 30, 2005 dividends on its Series A Convertible Redeemable Preferred Stock because it was unable to conclude with certainty that it had such surplus. Under the Certificate of Designation governing the Series A Convertible Redeemable Preferred Stock, we may not pay dividends on our common stock unless and until the full cumulative dividends on all outstanding shares of the Series A Preferred Stock have been paid for all past dividend periods and sufficient funds shall have been set aside for payment of the dividend on the Series A Convertible Redeemable Preferred Stock for the then current dividend period.



**Table of Contents****CAPITALIZATION**

The following table sets forth as of June 30, 2005, on a consolidated basis:

cash and cash equivalents;

the actual (historical) capitalization of Charter;

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

(1) the issuance and sale of \$300 million principal amount of CCO Holdings 8 3/4% senior notes due 2013 and the use of a portion of such proceeds to pay financing costs and accrued interest in the exchange transaction referenced below; and

(2) the exchange of \$3.4 billion principal amount of Charter Holdings notes scheduled to mature in 2009 and 2010 for CCH I notes and the exchange of \$3.4 billion principal amount of Charter Holdings notes scheduled to mature in 2011 and 2012 for CIH notes and CCH I notes.

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.

|   | <u>Historical</u>     | <u>Pro Forma</u> |
|---|-----------------------|------------------|
|   | (Dollars in millions) |                  |
| Cash and cash equivalents                   | \$ 40                 | \$ 157           |
| <b>Long-term debt:</b>                      |                       |                  |
| Charter Communications, Inc.:               |                       |                  |
| 5.875% convertible senior notes due 2009(a) | \$ 838                | \$ 838           |
| 4.75% convertible senior notes due 2006     | 25                    | 25               |
| Charter Holdings:                           |                       |                  |
| Senior and senior discount notes(b)         | 8,339                 | 1,728            |
| CIH:  |                       |                  |
| Senior and senior discount notes(c)(d)      |                       | 2,380            |
| CCH I:                                      |                       |                  |
| 11.00% senior notes due 2015(d)             |                       | 3,686            |
| CCH II:                                     |                       |                  |
| 10.250% senior notes due 2010               | 1,601                 | 1,601            |
| CCO Holdings:                               |                       |                  |
| 8 3/4% senior notes due 2013                | 500                   | 794              |
| Senior floating rate notes due 2010         | 550                   | 550              |
| Charter Operating:                          |                       |                  |
| 8.000% senior second lien notes due 2012    | 1,100                 | 1,100            |
| 8 3/8% senior second lien notes due 2014    | 733                   | 733              |
| Renaissance:                                |                       |                  |
| 10.00% senior discount notes due 2008       | 116                   | 116              |
| <b>Credit facilities:</b>                   |                       |                  |
| Charter Operating(e)                        | 5,445                 | 5,445            |
|   | <u>19,247</u>         | <u>18,996</u>    |
| <b>Preferred stock redeemable(f)</b>        | 55                    | 55               |
| <b>Minority interest(g)</b>                 | 659                   | 659              |

**Shareholders deficit:**

Class A common stock; \$.001 par value; 1.75 billion shares authorized;  
304,941,082 shares issued and outstanding(h)

Class B common stock; \$.001 par value; 750 million shares authorized;  
50,000 shares issued and outstanding

Preferred stock; \$.001 par value; 250 million shares authorized; no  
non-redeemable shares issued and outstanding

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|                                      | <u>Historical</u>     | <u>Pro Forma</u>  |
|--------------------------------------|-----------------------|-------------------|
|                                      | (Dollars in millions) |                   |
| Additional paid-in-capital           | 4,802                 | 4,802             |
| Accumulated deficit                  | (9,905)               | (9,411)           |
| Accumulated other comprehensive loss | 1                     | 1                 |
|                                      | <u>          </u>     | <u>          </u> |
| Total shareholders' deficit          | (5,102)               | (4,608)           |
|                                      | <u>          </u>     | <u>          </u> |
| Total capitalization                 | \$ 14,859             | \$ 15,102         |
|                                      | <u>          </u>     | <u>          </u> |

- (a) Represents \$863 million of 5.875% convertible senior notes of which \$30 million, related to certain provisions of the 5.875% convertible senior notes that for accounting purposes were derivatives which required bifurcation, was recorded as accounts payable and accrued expenses and other long-term liabilities with the resulting long-term debt of \$832 million. The debt has accreted to \$838 million at June 30, 2005 and will accrete to the \$863 million face value over three years, the duration of our pledged securities.

|  | <u>Historical</u>     | <u>Pro Forma</u>  |
|--|-----------------------|-------------------|
|  | (Dollars in millions) |                   |
| (b) Represents the following Charter Holdings notes: |                       |                   |
| 8.250% senior notes due 2007                         | \$ 105                | \$ 105            |
| 8.625% senior notes due 2009                         | 1,243                 | 293               |
| 9.920% senior discount notes due 2011                | 1,108                 | 198               |
| 10.000% senior notes due 2009                        | 640                   | 154               |
| 10.250% senior notes due 2010                        | 318                   | 49                |
| 11.750% senior discount notes due 2010               | 450                   | 43                |
| 10.750% senior notes due 2009                        | 874                   | 131               |
| 11.125% senior notes due 2011                        | 500                   | 217               |
| 13.500% senior discount notes due 2011               | 629                   | 88                |
| 9.625% senior notes due 2009                         | 638                   | 107               |
| 10.000% senior notes due 2011                        | 708                   | 136               |
| 11.750% senior discount notes due 2011               | 851                   | 113               |
| 12.125% senior discount notes due 2012               | 275                   | 94                |
|  | <u>          </u>     | <u>          </u> |
| Total  | \$ 8,339              | \$ 1,728          |
|  | <u>          </u>     | <u>          </u> |

|   | <u>Pro Forma</u>      |
|---|-----------------------|
|   | (Dollars in millions) |
| (c) Represents the following CIH notes: |                       |
| 11.125% senior notes due 2014           | \$ 151                |
| 9.920% senior discount notes due 2014   | 471                   |
| 10.000% senior notes due 2014           | 299                   |
| 11.750% senior discount notes due 2014  | 737                   |
| 13.500% senior discount notes due 2014  | 541                   |
| 12.125% senior discount notes due 2015  | 181                   |
|   | <u>          </u>     |
| Total                                   | \$ 2,380              |
|   | <u>          </u>     |

- (d) The pro forma balance sheet amounts of CIH and CCH I notes issued in exchange for Charter Holdings notes are presented in accordance with GAAP. GAAP requires that the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings senior notes due 2009 be recorded at the current accreted values of the old Charter Holdings notes as opposed to the current accreted values of the new CIH or CCH I notes.
- (e) Unused total potential availability under our credit facilities was \$870 million as of June 30, 2005. However, Charter Operating's access to these funds is subject to its satisfaction of the covenants and conditions to borrowing in those facilities that are more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations Description of Our Outstanding Debt Charter Operating Credit Facilities and Description of Certain Indebtedness Charter Operating Credit Facilities.
- (f) 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

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stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly or 7.75% if not paid but accrued. Beginning January 1, 2005, Charter is accruing the dividend on its Series A Convertible Redeemable Preferred Stock. 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.

- (g) Minority interest consists 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 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.
- (h) Although the shares offered by this prospectus and issued in July 2005 will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement. Pro forma for the issuance of these shares, at June 30, 2005 there were 454,941,082 shares issued and outstanding.

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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 January 1, 2004 (for the unaudited pro forma consolidated statement of operations) and as of June 30, 2005 for the unaudited pro forma consolidated balance sheet:

(1) the disposition of certain assets in March and April 2004 for total proceeds of \$735 million and the use of such proceeds in each case to pay down credit facilities;

(2) the issuance and sale of \$550 million of CCO Holdings senior floating rate notes in December 2004 and \$1.5 billion of Charter Operating senior second lien notes in April 2004;

(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 from 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;

(5) the repayment of \$530 million of borrowings under the Charter Operating revolving credit facility with net proceeds from the issuance and sale of the CCO Holdings senior floating rate notes in December 2004, which were included in our cash balance at December 31, 2004;

(6) the redemption of all of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 with cash on hand;

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

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

(9) the issuance of 27.2 million shares in July 2005 and the shares offered hereby pursuant to a share lending agreement, the sole effect of which is to increase common shares issued and outstanding. 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 such adjustments may be subject to change based on the finalization of the accounting for the above transactions. 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 Six Months Ended June 30, 2004**

|  | Historical         | Asset<br>Dispositions(a) | Financing<br>Transactions(b) | Pro Forma          |
|--|--------------------|--------------------------|------------------------------|--------------------|
| (Dollars in millions, except per share and share amounts)                                      |                    |                          |                              |                    |
| <b>Revenues</b>  |                    |                          |                              |                    |
| Video  | \$ 1,695           | \$ (21)                  | \$                           | \$ 1,674           |
| High-speed Internet  | 349                | (3)                      |                              | 346                |
| Advertising sales  | 132                | (1)                      |                              | 131                |
| Commercial   | 114                | (2)                      |                              | 112                |
| Other  | 163                | (2)                      |                              | 161                |
|  | <u>2,453</u>       | <u>(29)</u>              | <u>—</u>                     | <u>2,424</u>       |
| <b>Total</b>   | <u>2,453</u>       | <u>(29)</u>              | <u>—</u>                     | <u>2,424</u>       |
| <b>Costs and Expenses</b>  |                    |                          |                              |                    |
| Operating (excluding depreciation and amortization)  | 1,027              | (12)                     |                              | 1,015              |
| Selling, general and administrative  | 483                | (4)                      |                              | 479                |
| Depreciation and amortization  | 734                | (6)                      |                              | 728                |
| (Gain) loss on sale of assets, net   | (104)              | 106                      |                              | 2                  |
| Option compensation expense, net   | 26                 |                          |                              | 26                 |
| Special charges, net   | 97                 |                          |                              | 97                 |
|  | <u>2,263</u>       | <u>84</u>                | <u>—</u>                     | <u>2,347</u>       |
| <b>Income from operations</b>  | <u>190</u>         | <u>(113)</u>             | <u>—</u>                     | <u>77</u>          |
| Interest expense, net  | (803)              | 4                        | (30)                         | (829)              |
| Gain on derivative instruments and hedging activities, net                                     | 56                 |                          |                              | 56                 |
| Loss on debt to equity conversions   | (23)               |                          |                              | (23)               |
| Loss on extinguishment of debt   | (21)               |                          | 21                           |                    |
| Other, net   |                    |                          |                              |                    |
|  | <u>(791)</u>       | <u>4</u>                 | <u>(9)</u>                   | <u>(796)</u>       |
| <b>Loss before minority interest, income taxes, and cumulative effect of accounting change</b> | <u>(601)</u>       | <u>(109)</u>             | <u>(9)</u>                   | <u>(719)</u>       |
| Minority interest  | (10)               |                          |                              | (10)               |
| <b>Loss before income taxes and cumulative effect of accounting change</b>                     | <u>(611)</u>       | <u>(109)</u>             | <u>(9)</u>                   | <u>(729)</u>       |
| Income tax benefit   | (97)               | 15                       |                              | (82)               |
| <b>Loss before cumulative effect of accounting change</b>                                      | <u>\$ (708)</u>    | <u>\$ (94)</u>           | <u>\$ (9)</u>                | <u>\$ (811)</u>    |
| <b>Loss per common share, basic and diluted</b>  | <u>\$ (2.39)</u>   |                          |                              | <u>\$ (2.72)</u>   |
| <b>Weighted average common shares outstanding, basic and diluted(c)</b>                        | <u>297,814,091</u> |                          |                              | <u>297,814,091</u> |



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- (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.
- (b) Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions two through eight (in millions):

|  |              |
|--|--------------|
| Interest on the Charter Operating senior second lien notes issued in April 2004 and the amended and restated Charter Operating credit facilities | \$ 114       |
| Amortization of deferred financing costs   | 8            |
| Less Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid                              | (83)         |
|  | <u>39</u>    |
| Interest on \$863 million of 5.875% convertible senior notes issued in November 2004   | 25           |
| Amortization of deferred financing costs   | 2            |
| Less Interest from \$144 million of securities pledged for interest payments on convertible notes  | (1)          |
| Historical interest expense on \$588 million of 5.75% convertible senior notes retired with proceeds   | (19)         |
|  | <u>7</u>     |
| Interest on \$550 million of CCO Holdings senior floating rate notes issued in December 2004   | 18           |
| Amortization of deferred financing costs   | 1            |
| Less Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand in February 2005                     | (13)         |
| Historical interest expense for the CC V Holdings, LLC 11.875% senior discount notes repaid with cash on hand in March 2005                      | (7)          |
|  | <u>(1)</u>   |
| Interest on \$300 million of CCO Holdings 8 3/4% senior notes issued in August 2005  | 13           |
| Interest on new CCH I notes issued in September 2005 in exchange for CCH notes   | 186          |
| Amortization of deferred financing costs   | 3            |
| Less Historical interest expense on CCH notes exchanged for CCH I notes  | (217)        |
|  | <u>(28)</u>  |
| Net increase in interest expense   | <u>\$ 30</u> |

Adjustment to 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.

- (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. Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement.



**Table of Contents****CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Year Ended December 31, 2004**

|   | Historical         | Asset<br>Dispositions(a) | Financing<br>Transactions(b) | Pro Forma          |
|---|--------------------|--------------------------|------------------------------|--------------------|
| (Dollars in millions, except per share and share amounts)                               |                    |                          |                              |                    |
| <b>Revenues</b>   |                    |                          |                              |                    |
| Video   | \$ 3,373           | \$ (21)                  | \$                           | \$ 3,352           |
| High-speed Internet   | 741                | (3)                      |                              | 738                |
| Advertising sales   | 289                | (1)                      |                              | 288                |
| Commercial  | 238                | (2)                      |                              | 236                |
| Other   | 336                | (2)                      |                              | 334                |
|   | <u>4,977</u>       | <u>(29)</u>              | <u>—</u>                     | <u>4,948</u>       |
| <b>Costs and Expenses</b>   |                    |                          |                              |                    |
| Operating (excluding depreciation and amortization)                                     | 2,080              | (12)                     |                              | 2,068              |
| Selling, general and administrative   | 971                | (4)                      |                              | 967                |
| Depreciation and amortization   | 1,495              | (6)                      |                              | 1,489              |
| Impairments of franchises   | 2,433              |                          |                              | 2,433              |
| Gain (loss) on sale of assets, net  | (86)               | 106                      |                              | 20                 |
| Option compensation expense, net  | 31                 |                          |                              | 31                 |
| Special charges, net  | 104                |                          |                              | 104                |
| Unfavorable contracts and other settlements   | (5)                |                          |                              | (5)                |
|   | <u>7,023</u>       | <u>84</u>                | <u>—</u>                     | <u>7,107</u>       |
| Loss from operations  | (2,046)            | (113)                    |                              | (2,159)            |
| Interest expense, net   | (1,670)            | 4                        | (13)                         | (1,679)            |
| Gain on derivative instruments and hedging activities, net                              | 69                 |                          |                              | 69                 |
| Loss on debt to equity conversions  | (23)               |                          |                              | (23)               |
| Loss on extinguishment of debt  | (31)               |                          | 31                           |                    |
| Other, net  | 3                  |                          |                              | 3                  |
|   | <u>(1,652)</u>     | <u>4</u>                 | <u>18</u>                    | <u>(1,630)</u>     |
| Loss before minority interest, income taxes, and cumulative effect of accounting change | (3,698)            | (109)                    | 18                           | (3,789)            |
| Minority interest   | 19                 |                          |                              | 19                 |
| Loss before income taxes and cumulative effect of accounting change                     | (3,679)            | (109)                    | 18                           | (3,770)            |
| Income tax benefit  | 103                | 15                       |                              | 118                |
| Loss before cumulative effect of accounting change                                      | \$ (3,576)         | \$ (94)                  | \$ 18                        | \$ (3,652)         |
| Loss per common share, basic and diluted  | \$ (11.92)         |                          |                              | \$ (12.16)         |
|   | <u>300,291,877</u> |                          |                              | <u>300,291,877</u> |

Weighted average common shares outstanding,  
basic and diluted(c)

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- (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.
- (b) Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions two through eight (in millions):

|  |              |
|--|--------------|
| Interest on the Charter Operating senior second lien notes issued in April 2004 and the amended and restated Charter Operating credit facilities | \$ 114       |
| Amortization of deferred financing costs   | 8            |
| Less Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid                              | (83)         |
|  | <u>39</u>    |
| Interest on \$863 million of 5.875% convertible senior notes issued in November 2004   | 45           |
| Amortization of deferred financing costs   | 4            |
| Less Interest from \$144 million of securities pledged for interest payments on convertible notes  | (2)          |
| Historical interest expense on \$588 million of 5.75% convertible senior notes retired with proceeds   | (37)         |
|  | <u>10</u>    |
| Interest on \$550 million of CCO Holdings senior floating rate notes issued in December 2004   | 35           |
| Amortization of deferred financing costs   | 2            |
| Less Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand in February 2005                     | (30)         |
| Historical interest expense for the CC V Holdings, LLC 11.875% senior discount notes repaid with cash on hand in March 2005                      | (13)         |
|  | <u>(6)</u>   |
| Interest on \$300 million of CCO Holdings 8 3/4% senior notes issued in August 2005  | 27           |
| Interest on new CCH I notes issued in September 2005 in exchange for CCH notes   | 372          |
| Amortization of deferred financing costs   | 6            |
| Less Historical interest expense on CCH notes exchanged for CCH I notes  | (435)        |
|  | <u>(57)</u>  |
| Net increase in interest expense   | <u>\$ 13</u> |

Adjustment to 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 and the elimination of the premium paid to retire the 5.75% convertible senior notes and the write-off of the related deferred financing fees.

- (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. Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement.





**Table of Contents****CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Six Months Ended June 30, 2005**

|  | Historical   | Financing<br>Transactions(a) | Pro Forma    |
|--|--------------|------------------------------|--------------|
| (Dollars in millions, except per share and share amounts)        |              |                              |              |
| <b>Revenues</b>  |              |                              |              |
| Video  | \$ 1,703     | \$                           | \$ 1,703     |
| High-speed Internet  | 441          |                              | 441          |
| Advertising sales  | 140          |                              | 140          |
| Commercial   | 134          |                              | 134          |
| Other  | 176          |                              | 176          |
|  | <u>2,594</u> | <u>—</u>                     | <u>2,594</u> |
| <b>Costs and Expenses</b>  |              |                              |              |
| Operating (excluding depreciation and amortization)              | 1,128        |                              | 1,128        |
| Selling, general and administrative                              | 493          |                              | 493          |
| Depreciation and amortization                                    | 759          |                              | 759          |
| Asset impairment charges   | 39           |                              | 39           |
| Loss on sale of assets, net                                      | 4            |                              | 4            |
| Option compensation expense, net                                 | 8            |                              | 8            |
| Special charges, net   | 2            |                              | 2            |
|  | <u>2,433</u> | <u>—</u>                     | <u>2,433</u> |
| Income from operations   | 161          |                              | 161          |
| Interest expense, net  | (871)        | 21                           | (850)        |
| Gain on derivative instruments and hedging activities, net       | 26           |                              | 26           |
| Gain on extinguishment of debt                                   | 8            | 5                            | 13           |
| Gain on investments  | 21           |                              | 21           |
|  | <u>(816)</u> | <u>26</u>                    | <u>(790)</u> |
| Loss before minority interest and income taxes                   | (655)        | 26                           | (629)        |
| Minority interest  | (6)          |                              | (6)          |
| Loss before income taxes   | (661)        | 26                           | (635)        |
| Income tax expense   | (46)         |                              | (46)         |
| Loss before cumulative effect of accounting change               | \$ (707)     | \$ 26                        | \$ (681)     |
| Loss per common share, basic and diluted                         | \$ (2.34)    |                              | \$ (2.24)    |
| Weighted average common shares outstanding, basic and diluted(b) | 303,465,474  |                              | 303,465,474  |

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- (a) Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions five through eight (in millions):

|  |                |
|--|----------------|
| Less Historical interest expense for Charter Operating s revolving credit facility repaid with cash on hand in February 2005 | \$ (3)         |
| Historical interest expense for the CC V Holdings 11.875% senior discount notes repaid with cash on hand in March 2005       | (3)            |
|  | <u>(6)</u>     |
| Interest on \$300 million of CCO Holdings 8 3/4% senior notes issued in August 2005  | 13             |
| Interest on new CCH I notes issued in September 2005 in exchange for CCH notes   | 186            |
| Amortization of deferred financing costs   | 3              |
| Less Historical interest expense on CCH notes exchanged for CCH I notes  | (217)          |
|  | <u>(28)</u>    |
| Net increase in interest expense   | <u>\$ (21)</u> |

Adjustment to loss on extinguishment of debt represents the elimination of losses related to the redemption of CC V Holdings, LLC 11.875% notes due 2008.

- (b) 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. Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement.

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## CHARTER COMMUNICATIONS, INC.

## UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

As of June 30, 2005

|   | Historical       | Financing<br>Transactions | Pro Forma        |
|---|------------------|---------------------------|------------------|
| (Dollars in millions)                             |                  |                           |                  |
| <b>ASSETS</b>                                     |                  |                           |                  |
| <b>Current assets:</b>                            |                  |                           |                  |
| Cash and cash equivalents                         | \$ 40            | \$ 117(a)                 | \$ 157           |
| Accounts receivable, net                          | 183              |                           | 183              |
| Prepaid expenses and other current assets         | 82               |                           | 82               |
|   | <hr/>            | <hr/>                     | <hr/>            |
| Total current assets                              | 305              | 117                       | 422              |
| <b>Investment in cable properties:</b>            |                  |                           |                  |
| Property, plant and equipment, net                | 6,075            |                           | 6,075            |
| Franchises, net                                   | 9,839            |                           | 9,839            |
|   | <hr/>            | <hr/>                     | <hr/>            |
| Total investment in cable properties, net         | 15,914           |                           | 15,914           |
| <b>Other noncurrent assets</b>                    | <b>560</b>       | <b>12(b)</b>              | <b>572</b>       |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Total assets</b>                               | <b>\$ 16,779</b> | <b>\$ 129</b>             | <b>\$ 16,908</b> |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>       |                  |                           |                  |
| <b>Current liabilities:</b>                       |                  |                           |                  |
| Accounts payable and accrued expenses             | \$ 1,224         | \$(114)(c)                | \$ 1,110         |
|   | <hr/>            | <hr/>                     | <hr/>            |
| Total current liabilities                         | 1,224            | (114)                     | 1,110            |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Long-term debt</b>                             | <b>19,247</b>    | <b>(251)(d)</b>           | <b>18,996</b>    |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Deferred management fees related party</b>     | <b>14</b>        |                           | <b>14</b>        |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Other long-term liabilities</b>                | <b>682</b>       |                           | <b>682</b>       |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Minority interest</b>                          | <b>659</b>       |                           | <b>659</b>       |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Preferred stock redeemable</b>                 | <b>55</b>        |                           | <b>55</b>        |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Shareholders deficit:</b>                      |                  |                           |                  |
| Class A common stock                              |                  |                           |                  |
| Class B common stock                              |                  |                           |                  |
| Preferred stock                                   |                  |                           |                  |
| Additional paid-in capital                        | 4,802            |                           | 4,802            |
| Accumulated deficit                               | (9,905)          | 494(e)                    | (9,411)          |
| Accumulated other comprehensive income            | 1                |                           | 1                |
|   | <hr/>            | <hr/>                     | <hr/>            |
| Total shareholders deficit                        | (5,102)          | 494                       | (4,608)          |
|   | <hr/>            | <hr/>                     | <hr/>            |
| <b>Total liabilities and shareholders deficit</b> | <b>\$ 16,779</b> | <b>\$ 129</b>             | <b>\$ 16,908</b> |
|   | <hr/>            | <hr/>                     | <hr/>            |

- (a) Represents increase in cash as a result of \$289 million of net proceeds from the issuance of \$300 million principal amount of 8 3/4% CCO Holdings senior notes in August 2005 and the use of \$172 million of cash to repay \$114 million of accrued interest on CCH notes tendered for CCH I notes and to pay \$58 million of estimated financing fees in connection with the exchange offer.

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- (b) Represents \$5 million of deferred financing fees related to the CCO Holdings offering and \$39 million of deferred financing fees related to the exchange offer offset by \$32 million of deferred financing fees related to the old CCH notes tendered for CCH I notes that will be written off.
- (c) Represents accrued interest as of June 30, 2005 on CCH notes tendered for CCH I notes to be paid at closing of the exchange offer.
- (d) Represents the adjustment to debt as a result of the completion of the exchange offer and the issuance of \$300 million principal amount of 8 3/4% CCO Holdings senior notes.

|  |          |
|--|----------|
| CCH notes tendered   | \$ 6,611 |
| Less New CCH I notes issued  | (3,686)  |
| Book value of new CIH notes issued                                 | (2,380)  |
|  | <hr/>    |
| Net decrease in debt from exchange offer                           | 545      |
| Less Issuance of \$300 million of 8 3/4% CCO Holdings senior notes | (294)    |
|  | <hr/>    |
| Net decrease in debt   | \$ 251   |
|  | <hr/>    |

The pro forma balance sheet amounts of CIH and CCH I notes issued in exchange for Charter Holdings notes are presented in accordance with GAAP. GAAP requires that the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings senior notes due 2009 be recorded at the current accreted values of the old Charter Holdings notes as opposed to the current accreted values of the new CIH or CCH I notes.

- (e) Represents the adjustment to accumulated deficit as a result of the expected gain on extinguishment of debt related to the exchange offers.

|   |        |
|---|--------|
| Net discount captured on exchange offer   | \$ 545 |
| Less CCH deferred financing fees associated with notes tendered for CCH I notes to be written off | (32)   |
| Financing fees associated with CIH and CCH I notes not capitalizable                              | (19)   |
|   | <hr/>  |
| Expected gain on extinguishment of debt   | \$ 494 |
|   | <hr/>  |

**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 five years ended December 31, 2004 and (ii) the unaudited consolidated financial statements of Charter and its subsidiaries for the six months ended June 30, 2004 and 2005. The consolidated financial statements of Charter and its subsidiaries for each of the years ended December 31, 2000 to 2004 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, |          |          |          |          | Six Months Ended<br>June 30, |          |
|--|-------------------------|----------|----------|----------|----------|------------------------------|----------|
|  | 2000                    | 2001     | 2002     | 2003     | 2004     | 2004                         | 2005     |
| (Dollars in millions, except share and per share amounts)                              |                         |          |          |          |          |                              |          |
| <b>Statement of Operations Data:</b>   |                         |          |          |          |          |                              |          |
| Revenues   | \$ 3,141                | \$ 3,807 | \$ 4,566 | \$ 4,819 | \$ 4,977 | \$ 2,453                     | \$ 2,594 |
| Costs and Expenses:  |                         |          |          |          |          |                              |          |
| Operating (excluding depreciation and amortization)                                    | 1,187                   | 1,486    | 1,807    | 1,952    | 2,080    | 1,027                        | 1,128    |
| Selling, general and administrative  | 606                     | 826      | 963      | 940      | 971      | 483                          | 493      |
| Depreciation and amortization  | 2,398                   | 2,683    | 1,436    | 1,453    | 1,495    | 734                          | 759      |
| Impairment of franchises   |                         |          | 4,638    |          | 2,433    |                              |          |
| Asset impairment charges   |                         |          |          |          |          |                              | 39       |
| (Gain) loss on sale of assets, net   |                         | 10       | 3        | 5        | (86)     | (104)                        | 4        |
| Option compensation expense (income), net  | 38                      | (5)      | 5        | 4        | 31       | 26                           | 8        |
| Special charges, net   |                         | 18       | 36       | 21       | 104      | 97                           | 2        |
| Unfavorable contracts and other settlements  |                         |          |          | (72)     | (5)      |                              |          |
|  | 4,229                   | 5,018    | 8,888    | 4,303    | 7,023    | 2,263                        | 2,433    |
| Income (loss) from operations  | (1,088)                 | (1,211)  | (4,322)  | 516      | (2,046)  | 190                          | 161      |
| Interest expense, net  | (1,040)                 | (1,310)  | (1,503)  | (1,557)  | (1,670)  | (803)                        | (871)    |
| Gain (loss) on derivative instruments and hedging activities, net                      |                         | (50)     | (115)    | 65       | 69       | 56                           | 26       |
| Loss on debt to equity conversions   |                         |          |          |          | (23)     | (23)                         |          |
| Gain (loss) on extinguishment of debt  |                         |          |          | 267      | (31)     | (21)                         | 8        |
| Other, net   | (20)                    | (59)     | (4)      | (16)     | 3        |                              | 21       |
| Loss before minority interest, income taxes and cumulative effect of accounting change | (2,148)                 | (2,630)  | (5,944)  | (725)    | (3,698)  | (601)                        | (655)    |
| Minority interest(a)   | 1,280                   | 1,461    | 3,176    | 377      | 19       | (10)                         | (6)      |
|  | (868)                   | (1,169)  | (2,768)  | (348)    | (3,679)  | (611)                        | (661)    |

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|   |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Loss before income taxes and cumulative effect of accounting change |             |             |             |             |             |             |             |
| Income tax benefit (expense)  | 10          | 12          | 460         | 110         | 103         | (97)        | (46)        |
| Loss before cumulative effect of accounting change                  | (858)       | (1,157)     | (2,308)     | (238)       | (3,576)     | (708)       | (707)       |
| Cumulative effect of accounting change, net of tax                  |             | (10)        | (206)       |             | (765)       |             |             |
| Net loss  | (858)       | (1,167)     | (2,514)     | (238)       | (4,341)     | (708)       | (707)       |
| Dividends on preferred stock redeemable                             |             | (1)         | (3)         | (4)         | (4)         | (2)         | (2)         |
| Net loss applicable to common stock                                 | \$ (858)    | \$ (1,168)  | \$ (2,517)  | \$ (242)    | \$ (4,345)  | \$ (710)    | \$ (709)    |
| Loss per common share, basic and diluted                            | \$ (3.80)   | \$ (4.33)   | \$ (8.55)   | \$ (0.82)   | \$ (14.47)  | \$ (2.39)   | \$ (2.34)   |
| Weighted-average common shares outstanding, basic and diluted       | 225,697,775 | 269,594,386 | 294,440,261 | 294,597,519 | 300,291,877 | 297,814,091 | 303,465,474 |

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|   | Year Ended December 31, |          |          |          |          | Six Months Ended<br>June 30, |          |
|---|-------------------------|----------|----------|----------|----------|------------------------------|----------|
|   | 2000                    | 2001     | 2002     | 2003     | 2004     | 2004                         | 2005     |
| (Dollars in millions, except share and per share amounts) |                         |          |          |          |          |                              |          |
| <b>Other Data:</b>  |                         |          |          |          |          |                              |          |
| Deficiencies of earnings to cover fixed charges(a)        | \$ 2,148                | \$ 2,630 | \$ 5,944 | \$ 725   | \$ 3,698 | \$ 601                       | \$ 655   |
| <b>Balance Sheet Data (end of period):</b>                |                         |          |          |          |          |                              |          |
| Total assets  | \$24,352                | \$26,463 | \$22,384 | \$21,364 | \$17,673 | \$20,519                     | \$16,779 |
| Long-term debt  | 13,061                  | 16,343   | 18,671   | 18,647   | 19,464   | 18,411                       | 19,247   |
| Minority interest(b)                                      | 4,571                   | 4,434    | 1,050    | 689      | 648      | 713                          | 659      |
| Redeemable securities                                     | 1,104                   |          |          |          |          |                              |          |
| Preferred stock - redeemable                              |                         | 51       | 51       | 55       | 55       | 55                           | 55       |
| Shareholders' equity (deficit)                            | 2,767                   | 2,585    | 41       | (175)    | (4,406)  | (797)                        | (5,102)  |

- (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*. Effective January 1, 2005, Charter ceased recognizing minority interest in earnings and losses of CC VIII, LLC for financial reporting purposes until such time as the resolution of the issue is determinable or other events occur. 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 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 year ended December 31, 2004, no additional losses were allocated to minority interest, resulting in an approximate additional \$2.4 billion of net losses. Under our existing 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 (Dollars in millions, except share and per share amounts):

|  | <b>Three Months Ended<br/>March 31, 2005</b> | <b>Three Months Ended<br/>June 30, 2005</b> |
|--|--|---|
| Revenues                                       | \$ 1,271                                     | \$ 1,323                                    |
| Income from operations                         | 51   | 110   |
| Loss before minority interest and income taxes | (334)  | (321)                                       |
| Net loss applicable to common stock            | (353)  | (356)                                       |
| Basic and diluted loss per common share        | (1.16)                                       | (1.18)                                      |
| Weighted-average shares outstanding            | 303,308,880                                  | 303,620,347                                 |

**Year Ended December 31, 2004**

|  | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|--|----------------------|-----------------------|----------------------|-----------------------|
| Revenues   | \$ 1,214             | \$ 1,239              | \$ 1,248             | \$ 1,276              |
| Income (loss) from operations  | 175                  | 15                    | (2,344)              | 108                   |
| Loss before minority interest, income taxes and cumulative effect of accounting change | (235)                | (366)                 | (2,776)              | (321)                 |
| Net loss applicable to common stock  | (294)                | (416)                 | (3,295)              | (340)                 |
| Basic and diluted loss per common share before cumulative effect of accounting change  | (1.00)               | (1.39)                | (8.36)               | (1.12)                |
| Basic and diluted loss per common share  | (1.00)               | (1.39)                | (10.89)              | (1.12)                |
| Weighted-average shares outstanding  | 295,106,077          | 300,522,815           | 302,604,978          | 302,934,348           |

**Year Ended December 31, 2003**

|   | <b>First Quarter</b> | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
|---|----------------------|-----------------------|----------------------|-----------------------|
| Revenues  | \$ 1,178             | \$ 1,217              | \$ 1,207             | \$ 1,217              |
| Income from operations                                  | 77                   | 112                   | 117                  | 210                   |
| 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           |

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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, 2004, 2003 and 2002 and the unaudited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the six months ended June 30, 2005.

**Introduction**

In 2004 and 2005, we completed several transactions that improved our liquidity. Our efforts in this regard resulted in the completion of a number of transactions in 2004 and 2005, as follows:

the September 2005 exchange by Charter Holdings, CCH I and CIH of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;

the August 2005 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of \$300 million of 8 3/4% senior notes due 2013;

the March and June 2005 issuance of \$333 million of Charter Operating notes in exchange for \$346 million of Charter Holdings notes;

the March and June 2005 repurchase of \$131 million of our 4.75% convertible senior notes due 2006 leaving \$25 million in principal amount outstanding;

the March 2005 redemption of all of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 at a total cost of \$122 million;

the December 2004 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of \$550 million of senior floating rate notes due 2010;

the November 2004 sale of \$862.5 million of 5.875% convertible senior notes due 2009 and the December 2004 redemption of all of our outstanding 5.75% convertible senior notes due 2005 (\$588 million principal amount);

the April 2004 sale of \$1.5 billion of senior second-lien notes by our subsidiary, Charter Operating, together with the concurrent refinancing of its credit facilities; and

the sale in the first half of 2004 of non-core cable systems for a total of \$735 million, the proceeds of which were used to reduce indebtedness.

During the years 1999 through 2001, we grew significantly, principally through acquisitions of other cable businesses financed by debt and, to a lesser extent, equity. We have no current plans to pursue any significant acquisitions. However, we may pursue exchanges of non-strategic assets or divestitures, such as the sale of cable systems to Atlantic Broadband Finance, LLC discussed under Liquidity and Capital Resources Sale of Assets, below. 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 2004 and 2003 included competition from DBS providers and DSL service providers. See Business Competition. We believe that competition from DBS has resulted in net analog video customer losses and decreased growth rates for digital video customers. Competition from DSL providers combined with limited opportunities to expand our customer base now that approximately 30% of our analog video customers subscribe to our high-speed Internet services has resulted in decreased growth rates for high-speed Internet customers. In the recent past, we have grown revenues by offsetting video customer losses with price increases and sales of incremental advanced services such as high-speed Internet, video on demand, digital video recorders and high definition television. We expect to continue to grow revenues through continued growth in high-speed Internet and incremental new services including telephone, high definition television, VOD and DVR service.



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Historically, our ability to fund operations and investing activities has depended on our continued access to credit under our credit facilities. We expect we will continue to borrow under our credit facilities from time to time to fund cash needs. The occurrence of an event of default under our credit facilities could result in borrowings from these facilities being unavailable to us and could, in the event of a payment default or acceleration, trigger events of default under the indentures governing our outstanding notes and would have a material adverse effect on us. Approximately \$15 million of indebtedness under our credit facilities is scheduled to mature during the remainder of 2005. We expect to fund payment of such indebtedness through borrowings under our revolving credit facility. See Liquidity and Capital Resources.

**Acquisitions**

The following table sets forth information regarding our significant acquisitions from January 1, 2000 to December 31, 2002 (none in 2003, 2004 or 2005):

|                                    | Acquisition Date | Purchase Price |              |                                       | Total Price | Acquired Customers (approx) |
|------------------------------------|------------------|----------------|--------------|---------------------------------------|-------------|-----------------------------|
|                                    |                  | Cash Paid      | Assumed Debt | Securities Issued/Other Consideration |             |                             |
| (Dollars in millions)              |                  |                |              |                                       |             |                             |
| Interlake                          | 1/00             | \$ 13          | \$           | \$                                    | \$ 13       | 6,000                       |
| Bresnan                            | 2/00             | 1,100          | 963          | 1,014(a)                              | 3,077       | 695,800                     |
| Capital Cable                      | 4/00             | 60             |              |                                       | 60          | 23,200                      |
| Farmington                         | 4/00             | 15             |              |                                       | 15          | 5,700                       |
| Kalamazoo                          | 9/00             |                |              | 171(b)                                | 171         | 50,700                      |
| Total 2000 Acquisitions            |                  | \$ 1,188       | \$ 963       | \$ 1,185                              | \$ 3,336    | 781,400                     |
| AT&T Systems                       | 6/01             | \$ 1,711       | \$           | \$ 25                                 | \$ 1,736(c) | 551,100                     |
| Cable USA                          | 8/01             | 45             |              | 55(d)                                 | 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 2000-2002 Acquisitions       |                  | \$ 3,085       | \$ 963       | \$ 1,265                              | \$ 5,313    | 1,391,100                   |

(a) Comprised of \$385 million in equity in Charter Holdco and \$629 million of equity in CC VIII.

(b) In connection with this transaction, we acquired all of the outstanding stock of Cablevision of Michigan in exchange for 11,173,376 shares of Charter Class A common stock.

(c) Comprised of approximately \$1.7 billion, as adjusted, in cash and a cable system located in Florida valued at approximately \$25 million, as adjusted.

(d) 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.

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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 both the six months ended June 30, 2005 and for the year ended December 31, 2004, respectively, are attributable to monthly subscription fees charged to customers for our video, high-speed Internet, telephone and commercial services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 14% of revenue is derived primarily from advertising revenues, franchise fee revenues, which are collected by us but then paid to local franchising authorities, pay-per-view and VOD programming where users are charged a fee for individual programs viewed, installation or reconnection fees charged to customers to commence or reinstate service, and commissions related to the sale of merchandise by home shopping services. We have increased revenues during the past three years, primarily through the sale of digital video and high-speed Internet services to new and existing customers and price increases on video services offset in part by dispositions of systems. Going forward, our goal is to increase revenues by stabilizing our analog video customer base, implementing price increases on certain services and packages and increasing the number of our customers who purchase high-speed Internet services, digital video and new products and services such as telephone, VOD, high definition television and DVR service. 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 Internet 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.

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 \$190 million for the six months ended June 30, 2004 to \$161 million for the six months ended June 30, 2005. We had a positive operating margin (defined as income (loss) from operations divided by revenues) of 6% and 8% for the six months ended June 30, 2005 and 2004, respectively. The decline in income from operations and operating margin for the six months ended June 30, 2005 is principally due to the one-time gain as a result of the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC of approximately \$106 million, recognized in the six months ended June 30, 2004 offset by \$85 million recorded in special charges as part of the terms set forth in memoranda of understanding regarding settlement of the consolidated Federal Class Action and Federal Derivative Action which did not recur in 2005. For the years ended December 31, 2004 and 2002, loss from operations was \$2.0 billion and \$4.3 billion, respectively. For the year ended December 31, 2003, income from operations was \$516 million. Operating margin was 11% for the year ended December 31, 2003, whereas for the years ending December 31, 2004 and 2002, we had negative operating margin of

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41% and 95%, 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 systems. 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 on 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 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 \$2.4 billion of net loss for the year ended December 31, 2004. Under our existing capital structure, future losses will continue to be absorbed by Charter. Effective January 1, 2005, we ceased recognizing minority interest in earnings or losses of CC VIII, LLC for financial reporting purposes until the dispute between Charter and Mr. Allen regarding the preferred membership interests in CC VIII, LLC is determinable or other events occur.

### **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.

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

*Capitalization of labor and overhead costs.* The cable industry is capital intensive, and a large portion of our resources are spent on capital activities associated with extending, rebuilding, and upgrading our cable network. As of June 30, 2005 and December 31, 2004 and 2003, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$6.1 billion (representing 36% of total assets), \$6.3 billion (representing 36% of total assets) and \$7.0 billion (representing 33% of total assets), respectively. Total capital expenditures for the six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002 were approximately \$542 million, \$924 million, \$854 million and \$2.2 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.

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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.

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

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 Internet services);

Customer premise activities performed by in-house field technicians and third-party contractors in connection with customer installations, installation of network equipment in connection with the installation of expanded services and equipment replacement and betterment; and

Verifying the integrity of the customer's network connection by initiating test signals downstream from the headend to the customer's digital set-top 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.

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 \$91 million, \$164 million, \$174 million and \$335 million for the six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002, respectively. Capitalized internal direct labor and overhead costs significantly decreased in 2004 and 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. The effect of a one-year decrease in the weighted average remaining useful life of our property, plant and equipment would be an increase in



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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 \$753 million, \$1.5 billion, \$1.5 billion and \$1.4 billion, representing approximately 31%, 21%, 34% and 16% of costs and expenses, for the six months ended June 30, 2005 and for the years ended December 31, 2004, 2003 and 2002, respectively. Depreciation is recorded using the straight-line composite method over management's estimate of the estimated useful lives of the related assets as listed below:

|                                      |            |
|--------------------------------------|------------|
| Cable distribution systems           | 7-20 years |
| Customer equipment and installations | 3-5 years  |
| Vehicles and equipment               | 1-5 years  |
| Buildings and leasehold improvements | 5-15 years |
| Furniture 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 June 30, 2005, December 31, 2004 and 2003 was approximately \$9.8 billion (representing 59% of total assets), \$9.9 billion (representing 56% of total assets) and \$13.7 billion (representing 64% of total assets), respectively. Furthermore, our noncurrent assets included approximately \$52 million of goodwill.

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 based on valuations, or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite-life, we considered the exclusivity of the franchise, the expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not we are in compliance with any technology upgrading requirements. We have concluded that as of June 30, 2005, December 31, 2004, 2003 and 2002 more than 99% of our franchises qualify for indefinite-life treatment under SFAS No. 142, and that less than one percent of our franchises do not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. Costs of finite-lived franchises, along with costs associated with franchise renewals, are amortized on a straight-line basis over 10 years, which represents management's best estimate of the average remaining useful lives of such franchises. Franchise amortization expense was \$2 million and \$4 million for the six months ended June 30, 2005 and for the year ended December 31, 2004, respectively, and \$9 million for each of the years ended December 31, 2003 and 2002. We expect that amortization expense on franchise assets will be approximately \$3 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors. Our goodwill is also deemed to have an indefinite life under SFAS No. 142.

SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, requires that we evaluate the recoverability of our property, plant and equipment and franchise assets which did not qualify for indefinite-life treatment under SFAS No. 142 upon the occurrence of events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as the impairment of our indefinite life franchises under SFAS No. 142, changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or 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. No impairments of long-lived assets were recorded in the years ended December 31, 2004, 2003 or 2002. We were also required to evaluate the recoverability of our indefinite-life franchises, as well as goodwill, as of

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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 Internet, revenue growth rates, expected operating margins and capital expenditures. Considerable management judgment is necessary to estimate future cash flows, and such estimates include inherent uncertainties, including those relating to the timing and amount of future cash flows and the discount rate used in the calculation.

Based on the guidance prescribed in Emerging Issues Task Force ( EITF ) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of our cable systems into groups by which such systems are managed. Management believes such groupings represent the highest and best use of those assets. We determined that our franchises were impaired upon adoption of SFAS No. 142 on January 1, 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.

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

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

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

In September 2004, EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, was issued, which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. We performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total franchise impairment of approximately \$3.3 billion. We recorded a cumulative effect of accounting change of \$765 million

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(approximately \$875 million before tax effects of \$91 million and minority interest effects of \$19 million) for the year ended December 31, 2004 representing the portion of our total franchise impairment attributable to no longer including goodwill with franchise assets. The effect of the adoption was to increase net loss and loss per share by \$765 million and \$2.55 for the year ended December 31, 2004. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation and was recorded as impairment of franchises in our consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by us and our industry peers in the third quarter of 2004 primarily as a result of increased competition from DBS providers and decreased growth rates in our and our industry peers' high speed Internet customers in the third quarter of 2004, in part as a result of increased competition from DSL providers, led us to lower our projected growth rates and accordingly revise our estimates of future cash flows from those used at October 1, 2003. See Business Competition.

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

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

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

| Assumption                    | Percentage/<br>Percentage Point<br>Change | Impairment Charge<br>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, 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 provided for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Under the LLC Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units were allocated instead to membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. (the Special Loss Allocations ) to the extent of their respective capital account balances. After 2003, under the LLC Agreement, net tax losses of Charter Holdco are allocated to Charter, Vulcan Cable III Inc. and Charter Investment, Inc. based generally on their respective percentage ownership of outstanding common units to the extent of their respective capital

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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, 2004 and possibly later years, 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 Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII, to Vulcan Cable III Inc. and Charter Investment, Inc. instead have been and will 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, 2004 is approximately \$4.0 billion.

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 \$2.1 billion through December 31, 2003 and \$1.0 billion through December 31, 2004.

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

In addition, under their exchange agreement with Charter, Vulcan Cable III Inc. and Charter Investment, Inc. may exchange some or all of their membership units in Charter Holdco for Charter's

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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. The ability of Charter to utilize net operating loss carryforwards is potentially subject to certain limitations (see Risk Factors Risks Related to Mr. Allen's Controlling Position). If Charter were to become subject to such limitations (whether as a result of an exchange described above or otherwise), and as a result were to owe taxes resulting from the Special Profit Allocations, then Mr. Allen may not be obligated to reimburse Charter for such income taxes.

As of June 30, 2005 and December 31, 2004 and 2003, we have recorded net deferred income tax liabilities of \$259 million, \$216 million and \$417 million, respectively. Additionally, as of June 30, 2005, December 31, 2004 and 2003, we have deferred tax assets of \$3.8 billion, \$3.5 billion and \$1.7 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 \$3.4 billion, \$3.2 billion and \$1.3 billion at June 30, 2005, December 31, 2004 and 2003, respectively.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 2000, 2002 and 2003. Our results (excluding Charter and our indirect corporate subsidiaries) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants.

*Litigation.* Legal contingencies have a high degree of uncertainty. When a loss from a contingency becomes estimable and probable, a reserve is established. The reserve reflects management's best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately when the matter is brought to closure. We have established reserves for certain matters including those described in Business Legal Proceedings. If any of the litigation matters pending against us, including those 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****Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004**

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 per share and share data):

|   | Six Months Ended June 30, |      |             |      |
|---|---------------------------|------|-------------|------|
|   | 2005                      |      | 2004        |      |
| Revenues  | \$ 2,594                  | 100% | \$ 2,453    | 100% |
| Costs and expenses:   |                           |      |             |      |
| Operating (excluding depreciation and amortization)           | 1,128                     | 44%  | 1,027       | 42%  |
| Selling, general and administrative                           | 493                       | 19%  | 483         | 19%  |
| Depreciation and amortization                                 | 759                       | 29%  | 734         | 30%  |
| Asset impairment charges                                      | 39                        | 2%   |             |      |
| (Gain) loss on sale of assets, net                            | 4                         |      | (104)       | (4)% |
| Option compensation expense, net                              | 8                         |      | 26          | 1%   |
| Special charges, net  | 2                         |      | 97          | 4%   |
|   | 2,433                     | 94%  | 2,263       | 92%  |
| Income from operations  | 161                       | 6%   | 190         | 8%   |
| Interest expense, net   | (871)                     |      | (803)       |      |
| Gain on derivative instruments and hedging activities, net    | 26                        |      | 56          |      |
| Loss on debt to equity conversions                            |                           |      | (23)        |      |
| Gain (loss) on extinguishment of debt                         | 8                         |      | (21)        |      |
| Gain on investments   | 21                        |      |             |      |
|   | (816)                     |      | (791)       |      |
| Loss before minority interest and income taxes                | (655)                     |      | (601)       |      |
| Minority interest   | (6)                       |      | (10)        |      |
| Loss before income taxes                                      | (661)                     |      | (611)       |      |
| Income tax expense  | (46)                      |      | (97)        |      |
| Net loss  | (707)                     |      | (708)       |      |
| Dividends on preferred stock - redeemable                     | (2)                       |      | (2)         |      |
| Net loss applicable to common stock                           | \$ (709)                  |      | \$ (710)    |      |
| Loss per common share, basic and diluted                      | \$ (2.34)                 |      | \$ (2.39)   |      |
| Weighted average common shares outstanding, basic and diluted | 303,465,474               |      | 297,814,091 |      |

*Revenues.* Revenues increased by \$141 million, or 6%, from \$2.5 billion for the six months ended June 30, 2004 to \$2.6 billion for the six months ended June 30, 2005. This increase is principally the result of an increase of 310,800 and 35,400 high-speed Internet and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 190,100 analog video customers. The cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 (referred to in this section as the System Sales ) reduced the increase in revenues by \$29 million. Our goal is to increase revenues by improving customer service which we believe will stabilize our analog video customer base, implementing price increases on certain services and packages and increasing the number of customers who purchase high-speed Internet services, digital video and advanced products and services such as telephone, VOD, high definition television and digital video recorder service.

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Average monthly revenue per analog video customer increased to \$72.38 for the six months ended June 30, 2005 from \$65.39 for the six months ended June 30, 2004 primarily as a result of incremental revenues from advanced services and price increases. Average monthly revenue per analog video customer represents total revenue for the six months ended during the respective period, divided by six, divided by the average number of analog video customers during the respective period.

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

|                     | Six Months Ended June 30, |               |                 |               |                |           |
|---------------------|---------------------------|---------------|-----------------|---------------|----------------|-----------|
|                     | 2005                      |               | 2004            |               | 2005 over 2004 |           |
|                     | Revenues                  | % of Revenues | Revenues        | % of Revenues | Change         | % Change  |
| Video               | \$ 1,703                  | 66%           | \$ 1,695        | 69%           | \$ 8           |           |
| High-speed Internet | 441                       | 17%           | 349             | 14%           | 92             | 26%       |
| Advertising sales   | 140                       | 5%            | 132             | 5%            | 8              | 6%        |
| Commercial          | 134                       | 5%            | 114             | 5%            | 20             | 18%       |
| Other               | 176                       | 7%            | 163             | 7%            | 13             | 8%        |
|                     | <u>\$ 2,594</u>           | <u>100%</u>   | <u>\$ 2,453</u> | <u>100%</u>   | <u>\$ 141</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 \$8 million for the six months ended June 30, 2005 compared to the six months ended June 30, 2004. Approximately \$68 million of the increase was the result of price increases and incremental video revenues from existing customers and approximately \$8 million resulted from an increase in digital video customers. The increases were offset by decreases of approximately \$21 million resulting from the System Sales and approximately an additional \$47 million related to a decrease in analog video customers.

Revenues from high-speed Internet services provided to our non-commercial customers increased \$92 million, or 26%, from \$349 million for the six months ended June 30, 2004 to \$441 million for the six months ended June 30, 2005. Approximately \$68 million of the increase related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$27 million related to the increase in average price of the service. The increase in high-speed Internet revenues was reduced by approximately \$3 million as a result of the System Sales.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$8 million, or 6%, from \$132 million for the six months ended June 30, 2004 to \$140 million for the six months ended June 30, 2005, primarily as a result of an increase in new advertising sales customers and in advertising rates. The increase was offset by a decrease of \$1 million as a result of the System Sales. For the six months ended June 30, 2005 and 2004, we received \$7 million and \$6 million in advertising sales revenues from vendors.

Commercial revenues consist primarily of revenues from cable video and high-speed Internet services to our commercial customers. Commercial revenues increased \$20 million, or 18%, from \$114 million for the six months ended June 30, 2004 to \$134 million for the six months ended June 30, 2005, primarily as a result of an increase in commercial high-speed Internet revenues. The increase was reduced by approximately \$2 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, telephone revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. Other revenues increased \$13 million, or 8%, from \$163 million for the six months ended June 30, 2004 to \$176 million for the six months ended June 30, 2005. The increase was primarily the result of an increase in telephone revenue of \$6 million, installation revenue of \$5 million and franchise fees of \$4 million and was partially offset by approximately \$2 million as a result of the System Sales.



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*Operating Expenses.* Operating expenses increased \$101 million, or 10%, from \$1.0 billion for the six months ended June 30, 2004 to \$1.1 billion for the six months ended June 30, 2005. The increase in operating expenses was reduced by \$12 million as a result of the System Sales. Programming costs included in the accompanying condensed consolidated statements of operations were \$709 million and \$663 million, representing 29% of total costs and expenses for each of the six months ended June 30, 2005 and 2004, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

|                   | Six Months Ended June 30, |               |                 |               |                |            |
|-------------------|---------------------------|---------------|-----------------|---------------|----------------|------------|
|                   | 2005                      |               | 2004            |               | 2005 over 2004 |            |
|                   | Expenses                  | % of Revenues | Expenses        | % of Revenues | Change         | % Change   |
| Programming       | \$ 709                    | 28%           | \$ 663          | 27%           | \$ 46          | 7%         |
| Advertising sales | 50                        | 2%            | 48              | 2%            | 2              | 4%         |
| Service           | 369                       | 14%           | 316             | 13%           | 53             | 17%        |
|                   | <u>\$ 1,128</u>           | <u>44%</u>    | <u>\$ 1,027</u> | <u>42%</u>    | <u>\$ 101</u>  | <u>10%</u> |

Programming costs consist primarily of costs paid to programmers for analog, premium, digital channels, VOD and pay-per-view programming. The increase in programming costs of \$46 million, or 7%, for the six months ended June 30, 2005 over the six months ended June 30, 2004 was a result of price increases, particularly in sports programming, partially offset by decreases in analog video customers. Additionally, the increase in programming costs was reduced by \$9 million as a result of the System Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$18 million and \$28 million for the six months ended June 30, 2005 and 2004, respectively. Programming costs for the six months ended June 30, 2004 also include a \$4 million reduction related to the settlement of a dispute with TechTV, Inc. See Note 17 to the condensed consolidated financial statements included elsewhere in this prospectus.

Our cable programming costs have increased in every year we have operated in excess of U.S. inflation and cost-of-living increases, and we expect them to continue to increase because of a variety of factors, including inflationary or negotiated annual increases, additional programming being provided to customers and increased costs to purchase programming. In 2005, programming costs have increased and we expect they will continue to increase at a higher rate than in 2004. These costs will be determined in part on the outcome of programming negotiations in 2005 and will likely be subject to offsetting events or otherwise affected by factors similar to the ones mentioned in the preceding paragraph. 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 Internet 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 \$2 million, or 4%, primarily as a result of increased salary, benefit and commission costs. 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 \$53 million, or 17%, resulted primarily from increased labor and maintenance costs to support our infrastructure, increased equipment maintenance, an increase in franchise fees as a result of increased revenues and higher fuel prices. The increase in service costs was reduced by \$3 million as a result of the System Sales.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$10 million, or 2%, from \$483 million for the six months ended June 30, 2004 to \$493 million for the six months ended June 30, 2005. The increase in selling, general and administrative expenses was reduced

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by \$4 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

|                            | Six Months Ended June 30, |               |          |               |                |          |
|----------------------------|---------------------------|---------------|----------|---------------|----------------|----------|
|                            | 2005                      |               | 2004     |               | 2005 over 2004 |          |
|                            | Expenses                  | % of Revenues | Expenses | % of Revenues | Change         | % Change |
| General and administrative | \$ 427                    | 16%           | \$ 416   | 17%           | \$ 11          | 3%       |
| Marketing                  | 66                        | 3%            | 67       | 2%            | (1)            | (1)%     |
|                            | —                         | —             | —        | —             | —              | —        |
|                            | \$ 493                    | 19%           | \$ 483   | 19%           | \$ 10          | 2%       |
|                            | —                         | —             | —        | —             | —              | —        |

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 \$11 million, or 3%, resulted primarily from increases in professional fees of \$15 million and salaries and benefits of \$13 million, offset by the System Sales of \$4 million and decreases in bad debt expense of \$10 million.

Marketing expenses decreased \$1 million, or 1%, as a result of a decrease in expenditures as a result of disciplined spending and more targeted marketing tactics. We expect marketing expenditures to increase for the remainder of 2005.

*Depreciation and Amortization.* Depreciation and amortization expense increased by \$25 million, or 3%, from \$734 million for the six months ended June 30, 2004 to \$759 million for the six months ended June 30, 2005. The increase in depreciation was related to an increase in capital expenditures.

*Asset Impairment Charges.* Asset impairment charges for the six months ended June 30, 2005 represent the write-down of assets related to three pending cable asset sales to fair value less costs to sell. See Note 3 to the condensed consolidated financial statements included elsewhere in this prospectus.

*(Gain) Loss on Sale of Assets, Net.* Loss on sale of assets of \$4 million for the six months ended June 30, 2005 primarily represents the loss recognized on the disposition of plant and equipment. Gain on sale of assets of \$104 million for the six months ended June 30, 2004 primarily represents the pretax gain realized on the sale of systems to Atlantic Broadband Finance, LLC which closed on March 1 and April 30, 2004.

*Option Compensation Expense, Net.* Option compensation expense of \$8 million for the six months ended June 30, 2005 primarily represents options expensed in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. Option compensation expense of \$26 million for the six months ended June 30, 2004 primarily represents the expense of approximately \$8 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 six months ended June 30, 2004, we recognized approximately \$6 million related to the performance shares granted under the Charter Long-Term Incentive Program and approximately \$12 million related to options granted following the adoption of SFAS No. 123.

*Special Charges, Net.* Special charges of \$2 million for the six months ended June 30, 2005 represents \$4 million of severance and related costs of our management realignment offset by approximately \$2 million related to an agreed upon cash discount on settlement of the consolidated Federal Class Action and Federal Derivative Action. See Legal Proceedings. Special charges of \$97 million for the six months ended June 30, 2004 represents approximately \$85 million as part of the terms set forth in memoranda of understanding regarding settlement of the consolidated Federal Class Action and Federal Derivative Action and approximately \$9 million of litigation costs related to the tentative settlement of the South Carolina national class action suit, which settlements are subject to final

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documentation and court approval and approximately \$3 million of severance and related costs of our workforce reduction.

*Interest Expense, Net.* Net interest expense increased by \$68 million, or 8%, from \$803 million for the six months ended June 30, 2004 to \$871 million for the six months ended June 30, 2005. The increase in net interest expense was a result of approximately \$9 million of liquidated damages on our 5.875% convertible senior notes combined with an increase in our average borrowing rate from 8.50% in the six months ended June 30, 2004 to 8.89% in the six months ended June 30, 2005 and an increase of \$997 million in average debt outstanding from \$18.4 billion for the six months ended June 30, 2004 compared to \$19.4 billion for the six months ended June 30, 2005. This was offset partially by \$27 million in gains related to embedded derivatives in Charter's 5.875% convertible senior notes issued in November 2004. See Note 9 to the condensed consolidated financial statements included elsewhere in this prospectus.

*Gain on Derivative Instruments and Hedging Activities, Net.* Net gain on derivative instruments and hedging activities decreased \$30 million from \$56 million for the six months ended June 30, 2004 to \$26 million for the six months ended June 30, 2005. The decrease is primarily a result of a decrease in gains on interest rate agreements, which do not qualify for hedge accounting under SFAS No. 133, which decreased from \$54 million for the six months ended June 30, 2004 to \$25 million for the six months ended June 30, 2005.

*Loss on debt to equity conversions.* Loss on debt to equity conversions of \$23 million for the six months ended June 30, 2004 represents the loss recognized from privately negotiated exchanges in the aggregate 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, which resulted in the issuance of more shares in the exchange transaction than would have been issued under the original terms of the convertible senior notes.

*Gain (loss) on extinguishment of debt.* Gain on extinguishment of debt of \$8 million for the six months ended June 30, 2005 primarily represents approximately \$10 million related to the issuance of Charter Operating notes in exchange for Charter Holdings notes and approximately \$4 million related to the repurchase of \$131 million principal amount of our 4.75% convertible senior notes due 2006. These gains were offset by approximately \$5 million of losses related to the redemption of our subsidiary's, CC V Holdings, LLC, 11.875% notes due 2008. See Note 6 to the condensed consolidated financial statements included elsewhere in this prospectus. Loss on extinguishment of debt of \$21 million for the six months ended June 30, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Operating refinancing in April 2004.

*Gain on investments.* Gain on investments of \$21 million for the six months ended June 30, 2005 primarily represents a gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise.

*Minority Interest.* Minority interest represents the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC, and in 2004, the pro rata share of the profits and losses of CC VIII, LLC. Effective January 1, 2005, we ceased recognizing minority interest in earnings or losses of CC VIII for financial reporting purposes until the dispute between Charter and Mr. Allen regarding the preferred membership interests in CC VIII is resolved. See Note 7 to the condensed consolidated financial statements included elsewhere in this prospectus. Additionally, 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 is substantially eliminated, Charter absorbs substantially all losses before income taxes that otherwise would be allocated to minority interest. Subject to any changes in Charter Holdco's capital structure, future losses will continue to be substantially absorbed by Charter.

*Income Tax Expense.* Income tax expense of \$46 million and \$97 million was recognized for the six months ended June 30, 2005 and 2004, respectively. The income tax expense is recognized through increases in deferred tax liabilities related to our investment in Charter Holdco, as well as through current

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federal and state income tax expense and increases in the deferred tax liabilities of certain of our indirect corporate subsidiaries. Additionally, the sale of certain systems to Atlantic Broadband Finance, LLC on March 1, 2004 resulted in income tax expense of \$15 million for the six months ended June 30, 2004.

*Net Loss.* Net loss decreased by \$1 million, from \$708 million for the six months ended June 30, 2004 to \$707 million for the six months ended June 30, 2005 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 quarterly cumulative cash dividends at an annual rate of 5.75% if paid or 7.75% if accrued on a liquidation preference of \$100 per share. Beginning January 1, 2005, Charter is accruing the dividend on its Series A Convertible Redeemable Preferred Stock.

*Loss Per Common Share.* The loss per common share decreased by \$0.05, from \$2.39 per common share for the six months ended June 30, 2004 to \$2.34 per common share for the six months ended June 30, 2005 as a result of the factors described above.

**Year Ended December 31, 2004, December 31, 2003 and December 31, 2002**

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, |       |          |      |          |       |
|--|-------------------------|-------|----------|------|----------|-------|
|  | 2004                    |       | 2003     |      | 2002     |       |
| Revenues   | \$ 4,977                | 100%  | \$ 4,819 | 100% | \$ 4,566 | 100%  |
| Costs and Expenses:  |                         |       |          |      |          |       |
| Operating (excluding depreciation and amortization)                                    | 2,080                   | 42%   | 1,952    | 40%  | 1,807    | 40%   |
| Selling, general and administrative  | 971                     | 19%   | 940      | 20%  | 963      | 21%   |
| Depreciation and amortization  | 1,495                   | 30%   | 1,453    | 30%  | 1,436    | 31%   |
| Impairment of franchises   | 2,433                   | 49%   |          |      | 4,638    | 102%  |
| (Gain) loss on sale of assets, net   | (86)                    | (2)%  | 5        |      | 3        |       |
| Option compensation expense, net   | 31                      | 1%    | 4        |      | 5        |       |
| Special charges, net   | 104                     | 2%    | 21       |      | 36       | 1%    |
| Unfavorable contracts and other settlements  | (5)                     |       | (72)     | (1)% |          |       |
|  | 7,023                   | 141%  | 4,303    | 89%  | 8,888    | 195%  |
| Income (loss) from operations  | (2,046)                 | (41)% | 516      | 11%  | (4,322)  | (95)% |
| Interest expense, net  | (1,670)                 |       | (1,557)  |      | (1,503)  |       |
| Gain (loss) on derivative instruments and hedging activities, net                      | 69                      |       | 65       |      | (115)    |       |
| Loss on debt to equity conversions   | (23)                    |       |          |      |          |       |
| Gain (loss) on extinguishment of debt  | (31)                    |       | 267      |      |          |       |
| Other, net   | 3                       |       | (16)     |      | (4)      |       |
| Loss before minority interest, income taxes and cumulative effect of accounting change | (3,698)                 |       | (725)    |      | (5,944)  |       |
| Minority interest  | 19                      |       | 377      |      | 3,176    |       |
| Loss before income taxes and cumulative effect of accounting change                    | (3,679)                 |       | (348)    |      | (2,768)  |       |
| Income tax benefit   | 103                     |       | 110      |      | 460      |       |

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|  |              |                   |              |
|--|--------------|-------------------|--------------|
| Loss before cumulative effect of accounting change | (3,576)      | (238)             | (2,308)      |
| Cumulative effect of accounting change, net of tax | <u>(765)</u> | <u>          </u> | <u>(206)</u> |

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|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2004                    | 2003        | 2002        |
| Net loss                                   | (4,341)                 | (238)       | (2,514)     |
| Dividends on preferred stock redeemable    | (4)                     | (4)         | (3)         |
| Net loss applicable to common stock        | \$ (4,345)              | \$ (242)    | \$ (2,517)  |
| Loss per common share, basic and diluted   | \$ (14.47)              | \$ (0.82)   | \$ (8.55)   |
| Weighted average common shares outstanding | 300,291,877             | 294,597,519 | 294,440,261 |

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

*Revenues.* Revenues increased by \$158 million, or 3%, from \$4.8 billion for the year ended December 31, 2003 to \$5.0 billion for the year ended December 31, 2004. This increase is principally the result of an increase of 318,800 and 2,800 high-speed Internet customers and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 439,800 analog video customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed Internet customers are 230,800 analog video customers, 83,300 digital video customers and 37,800 high-speed Internet customers sold in the cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 (collectively, with the cable system sale to WaveDivision Holdings, LLC in October 2003, referred to in this section as the System Sales ). The System Sales reduced the increase in revenues by \$160 million.

Average monthly revenue per analog video customer increased from \$61.92 for the year ended December 31, 2003 to \$68.02 for the year ended December 31, 2004 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

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

|                     | Year Ended December 31, |               |          |               |                |          |
|---------------------|-------------------------|---------------|----------|---------------|----------------|----------|
|                     | 2004                    |               | 2003     |               | 2004 over 2003 |          |
|                     | Revenues                | % of Revenues | Revenues | % of Revenues | Change         | % Change |
| Video               | \$3,373                 | 68%           | \$3,461  | 72%           | \$ (88)        | (3)%     |
| High-speed Internet | 741                     | 15%           | 556      | 12%           | 185            | 33%      |
| Advertising sales   | 289                     | 6%            | 263      | 5%            | 26             | 10%      |
| Commercial          | 238                     | 4%            | 204      | 4%            | 34             | 17%      |
| Other               | 336                     | 7%            | 335      | 7%            | 1              |          |
|                     | \$4,977                 | 100%          | \$4,819  | 100%          | \$ 158         | 3%       |

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues decreased by \$88 million, or 3%, from \$3.5 billion for the year ended December 31, 2003 to \$3.4 billion for the year ended December 31, 2004. Approximately \$116 million of the decrease was the result of the System Sales and approximately an additional \$65 million related to a decline in analog video customers. These decreases were offset by increases of approximately \$66 million resulting from price

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increases and incremental video revenues from existing customers and approximately \$27 million resulting from an increase in digital video customers.

Revenues from high-speed Internet services provided to our non-commercial customers increased \$185 million, or 33%, from \$556 million for the year ended December 31, 2003 to \$741 million for the year ended December 31, 2004. Approximately \$163 million of the increase related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$35 million related to the increase in average price of the service. The increase in high-speed Internet revenues was reduced by approximately \$12 million as a result of the System Sales.

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Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$26 million, or 10%, from \$263 million for the year ended December 31, 2003 to \$289 million for the year ended December 31, 2004 primarily as a result of an increase in national advertising campaigns and election related advertising. The increase was offset by a decrease of \$7 million as a result of the System Sales. For the years ended December 31, 2004 and 2003, we received \$16 million and \$15 million, respectively, in advertising revenue from vendors.

Commercial revenues consist primarily of revenues from cable video and high-speed Internet services to our commercial customers. Commercial revenues increased \$34 million, or 17%, from \$204 million for the year ended December 31, 2003, to \$238 million for the year ended December 31, 2004, primarily as a result of an increase in commercial high-speed Internet revenues. The increase was reduced by approximately \$14 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, telephone revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the year ended December 31, 2004 and 2003, franchise fees represented approximately 49% and 48%, respectively, of total other revenues. Other revenues increased \$1 million from \$335 million for the year ended December 31, 2003 to \$336 million for the year ended December 31, 2004. The increase was primarily the result of an increase in home shopping and infomercial revenue and was partially offset by approximately \$11 million as a result of the System Sales.

*Operating expenses.* Operating expenses increased \$128 million, or 7%, from \$2.0 billion for the year ended December 31, 2003 to \$2.1 billion for the year ended December 31, 2004. The increase in operating expenses was reduced by approximately \$59 million as a result of the System Sales. Programming costs included in the accompanying consolidated statements of operations were \$1.3 billion and \$1.2 billion, representing 63% and 64% of total operating expenses for the years ended December 31, 2004 and 2003, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

|                   | Year Ended December 31, |               |                 |               |                |           |
|-------------------|-------------------------|---------------|-----------------|---------------|----------------|-----------|
|                   | 2004                    |               | 2003            |               | 2004 over 2003 |           |
|                   | Expenses                | % of Revenues | Expenses        | % of Revenues | Change         | % Change  |
| Programming       | \$ 1,319                | 27%           | \$ 1,249        | 26%           | \$ 70          | 6%        |
| Advertising sales | 98                      | 2%            | 88              | 2%            | 10             | 11%       |
| Service           | 663                     | 13%           | 615             | 12%           | 48             | 8%        |
|                   | <u>\$ 2,080</u>         | <u>42%</u>    | <u>\$ 1,952</u> | <u>40%</u>    | <u>\$ 128</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 \$70 million, or 6%, for the year ended December 31, 2004 over the year ended December 31, 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 a decrease in analog video customers. Additionally, the increase in programming costs was reduced by \$42 million as a result of the System Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$59 million and \$62 million for the years ended December 31, 2004 and 2003, respectively. Programming costs for the year ended December 31, 2004 also include a \$5 million reduction related to the settlement of a dispute with TechTV, Inc., a related party. See Note 22 to the consolidated financial statement