

CHARTER COMMUNICATIONS INC /MO/

Form 424B3

July 20, 2005

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**Filed Pursuant to Rule 424(b)(3)  
Registration Statement No. 333-121561**

**PROSPECTUS**

**\$862,500,000 5.875% Convertible Senior Notes due 2009**

**356,404,924 Shares of Class A Common Stock Issuable Upon  
Conversion of the 5.875% Convertible Senior Notes due 2009**

This prospectus relates to \$862,500,000 aggregate principal amount of 5.875% Convertible Senior Notes due 2009 of Charter Communications, Inc., and 356,404,924 shares of Class A common stock of Charter Communications, Inc., which are initially issuable upon conversion of the notes, plus an indeterminate number of shares as may become issuable upon conversion as a result of adjustments to the conversion rate.

The convertible senior notes were originally issued and sold by Charter Communications, Inc. to certain initial purchasers in a private placement. The convertible senior notes and shares offered by this prospectus are to be sold for the account of the holders. Holders of the convertible senior notes may convert the convertible senior notes into shares of Charter Communications, Inc. Class A common stock at any time before their maturity or their prior redemption or repurchase by Charter Communications, Inc.

The convertible senior notes are issued only in denominations of \$1,000 and integral multiples of \$1,000. The convertible senior notes are currently designated for trading in the Private Offerings, Resale and Trading through Automated Linkages (PORTAL) Market of the National Association of Securities Dealers, Inc. Charter Communications, Inc.'s 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 July 18, 2005 was \$1.33 per share.

The principal terms of the convertible senior notes include the following:

Interest	accrues from November 22, 2004 at the rate of 5.875% per year, payable semi-annually on each May 16 and November 16, commencing on May 16, 2005.
Maturity Date	November 16, 2009
Conversion Rate	413.2231 shares of Class A common stock per each \$1,000 principal amount of notes, subject to adjustment. This is equivalent to an initial conversion price of approximately \$2.42 per share. Upon conversion, we will have the right to deliver, in lieu of our Class A common stock, cash or a combination of cash and Class A common stock.
Ranking	rank equally with any of Charter Communications, Inc.'s existing and future senior unsecured indebtedness, but are effectively subordinated to our secured indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.
Redemption	Following the earlier of (1) the sale of the notes pursuant to an effective registration statement or (2) November 22, 2006, we may redeem the notes in whole or in part at any time at a redemption price equal to 100% of the accreted principal amount of the notes plus any accrued and unpaid interest and liquidated damages, if any, on the notes to but not including the redemption date, if the closing price of our Class A common stock has exceeded a specified percentage of the conversion price for at least 20 trading days in any consecutive 30 trading day period.

**Make Whole Provisions**

If you convert your notes at any time prior to November 16, 2007, you will receive, in addition to shares of our Class A common stock, or cash in lieu thereof, the remaining portion of a portfolio of U.S. government securities pledged as security in respect of the notes you converted, subject to certain limitations. If you convert notes that have been called for redemption, you will receive an additional redemption make whole amount. In addition, if certain corporate transactions that constitute a change of control occur on or prior to November 16, 2009, we will increase the conversion rate in certain circumstances, unless such transaction constitutes a public acquirer change of control and we elect to modify the conversion into public acquirer common stock, as described in this prospectus.

The convertible senior notes and the shares of Class A common stock offered by this prospectus may be offered in negotiated transactions, ordinary brokerage transactions or otherwise, at negotiated prices or at the market prices prevailing at the time of sale.

**See Risk Factors beginning on page 14 of this prospectus to read about important factors you should consider before buying the convertible senior notes or shares of our Class A common stock.**

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this prospectus and the offering and sale of the convertible senior notes or Class A common stock in certain jurisdictions may be restricted by law. Charter Communications, Inc. requires persons into whose possession this prospectus comes to inform themselves about and to observe any such restrictions. This prospectus does not constitute an offer of, or an invitation to purchase, any of the convertible senior notes or shares of Class A common stock in any jurisdiction in which such offer or invitation would be unlawful.

Neither Charter Communications, Inc. nor any of its representatives is making any representation to any offeree or purchaser of the convertible senior notes or shares of Class A common stock regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each purchaser should consult with his own advisors as to legal, tax, business, financial and related aspects of a purchase of the notes or shares of Class A common stock.

Prospectus dated July 19, 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 the notes and shares offered hereby 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 securities.

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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, and others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this prospectus are set forth in this prospectus and in other reports or documents that we file from time to time with the Securities and Exchange Commission, or SEC, and include, but are not limited to:

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

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

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 as it becomes due;

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).

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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 the notes or our Class A common stock. For a more complete understanding of an investment in the notes or our Class A common stock, you should read this entire prospectus. Unless otherwise noted, all business data in this summary is as of March 31, 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 6.23 million customers at March 31, 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 (which we refer to as high-speed data service), advanced broadband cable services (such as video on demand ( VOD ), high definition television service, and interactive television) and, in some of our markets, we offer telephone service (which we refer to as telephony). See Business Products and Services for further description of these terms, including customers.

At March 31, 2005, we served approximately 5.98 million analog video customers, of which approximately 2.69 million were also digital video customers. We also served approximately 1.98 million high-speed data customers (including approximately 229,400 who received only high-speed data services). We also provided telephony service to approximately 55,300 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 the notes or our Class A common stock.

**Strategy**

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

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

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

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

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

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

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

We 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



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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.

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

the December 2004 sale by our subsidiaries, CCO Holdings, LLC 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;

the December 2004 redemption of all of our 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 Communications Operating, LLC ( 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**

#### *Approval and Funding of Litigation Settlement*

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. See Business Legal Proceedings.

#### *Issuance of Charter Operating Notes in Exchange for Charter Holdings Notes; Repurchase of Convertible Notes*

In June 2005, our subsidiary, Charter Operating, consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placements, approximately \$62 million principal amount of new notes with terms identical to Charter Operating's 8.375% senior second lien notes due 2014 in exchange for approximately \$62 million of the Charter Holdings 8.25% senior notes due 2007. Since March 31, 2005, we repurchased, in private transactions from a small number of institutional holders, a total of \$97 million principal amount of our 4.75% convertible senior notes due 2006 leaving \$25 million principal amount outstanding.



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*Principal Management Changes*

On January 17, 2005, Robert P. May was appointed as Interim President and Chief Executive Officer of Charter, replacing Carl E. Vogel who, effective on the same date, resigned his position as President, Chief Executive Officer, and a member of the board of directors of Charter and each of Charter's subsidiaries for which Mr. Vogel served as a director and officer. Additionally, Mr. May was appointed to the Executive Committee of Charter's board of directors and will continue to serve on the board's Strategic Planning Committee. He was also appointed as an officer and director of Charter's subsidiaries for which Mr. Vogel was a director and officer.

Charter's board of directors has formed an Executive Search Committee to oversee Charter's search for a permanent President and Chief Executive Officer.

In April 2005, Michael J. Lovett was appointed to the position of Executive Vice President and Chief Operating Officer. Prior to that appointment, Mr. Lovett had been serving as Charter's Executive Vice President, Operations and Customer Care. In April 2005, we also named Paul E. Martin Interim Chief Financial Officer. Mr. Martin had been serving as co-Interim Chief Financial Officer along with Derek Chang, our former Executive Vice President of Finance and Strategy. Mr. Chang resigned all positions with Charter effective April 15, 2005. Curtis S. Shaw, former Executive Vice President, General Counsel and Secretary, also resigned effective April 15, 2005.

*Sale of 5.875% Convertible Senior Notes and Redemption of 5.75% Convertible Senior Notes*

On November 22, 2004, we issued and sold \$862.5 million total principal amount of 5.875% convertible senior notes due 2009, which are convertible into shares of our Class A common stock, par value \$.001 per share, at a rate of 413.2231 shares per \$1,000 principal amount of notes (or approximately \$2.42 per share), subject to adjustment in certain circumstances. At the time of the issuance of the notes, we agreed to file the registration statement containing this prospectus for resale of the notes and shares of Class A common stock issuable upon conversion of the notes by the holders thereof. On December 23, 2004, we used a portion of the proceeds from the sale of the notes to redeem all of our outstanding 5.75% convertible senior notes due 2005 (total principal amount of \$588 million). We also used a portion of the proceeds from the sale of the notes to purchase certain U.S. government securities which were pledged as security for the notes and which we expect to use to fund the first six interest payments on the notes.

In connection with the initial sale of the notes, we filed a registration statement with the Securities and Exchange Commission that can be used by Citigroup Global Markets Inc. to sell up to 150 million shares of our Class A common stock that we will loan to an affiliate of Citigroup Global Markets Inc. pursuant to a share lending agreement. That registration statement was declared effective on July 18, 2005.

For additional terms of the notes and the arrangements governing the loan of shares of our Class A common stock, see "Registered Borrow Facility" and "Description of Notes."

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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 March 31, 2005 on the pro forma basis described in Unaudited Pro Forma Consolidated Financial Statements (including giving effect to the issuance of the shares pursuant to the share lending agreement) 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.

- (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. Since March 31, 2005 Charter repurchased \$97 million in principal amount of the convertible notes then outstanding.
- (2) These membership units are held by Charter Investment, Inc. and Vulcan Cable III Inc., each of which is 100% owned by Paul G. Allen, our Chairman and controlling shareholder. They are exchangeable at any time on a one-for-one basis for shares of Charter Class A common stock.
- (3) The percentages shown in this table reflect the issuance of the 150 million shares of Class A common stock by Charter pursuant to the share lending agreement and the corresponding issuance of an equal number of mirror membership units by Charter Holdco to Charter. However, for accounting purposes, Charter's common equity interest in Charter Holdco will remain at 47%, and Paul G. Allen's ownership of Charter Holdco will remain at 53%. These percentages exclude the 150 million mirror membership units issued to Charter due to the required return of the issued mirror units upon return of the shares pursuant to the share lending agreement. See Registered Borrow Facility.
- (4) In June 2005, Charter Operating issued approximately \$62 million of additional notes in exchange for \$62 million of Charter Holdings senior notes. See Recent Events.
- (5) 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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**The Notes**

Issuer	Charter Communications, Inc. ( Charter )
Notes Offered	\$862,500,000 original principal amount of 5.875% Convertible Senior Notes due 2009.
Maturity Date	November 16, 2009.
Interest	5.875% per annum on the accreted principal amount, payable semi-annually in arrears on May 16 and November 16 of each year, commencing May 16, 2005. If we elect to accrete the principal amount of the notes to pay any liquidated damages we owe, we will be entitled to defer any interest, which we refer to as the deferred interest, that accrues with respect to the excess of the accreted principal amount over the original principal amount until May 16, 2008, or any earlier repurchase, redemption or acceleration of the notes. We will not pay any interest on such deferred interest.
Security	Our subsidiary, Charter Communications Holding Company, LLC ( Charter Holdco ), has purchased and pledged to us as security for an intercompany note, and we have repledged to the trustee under the indenture as security for the benefit of the holders of the notes, approximately \$144 million of U.S. government securities, which we refer to as the Pledged Securities. We believe that the total amount of the Pledged Securities will be sufficient, upon receipt of scheduled payments thereon, to provide for the payment in full of the first six scheduled interest payments due on the original principal amount of the notes, but not any liquidated damages we may owe or any deferred interest in respect of the accretion of the principal amount of the notes. The notes will not otherwise be secured. See Description of the Notes Security. Holders who convert their notes prior to November 16, 2007 will receive the cash proceeds from the liquidation of a portion of the Pledged Securities, as described below in Interest Make Whole Upon Conversion.
Ranking	The notes will be unsecured (except to the extent described above under Security ) and unsubordinated obligations and will rank, in right of payment, the same as all of Charter s existing and future senior unsecured indebtedness. The notes will rank senior in right of payment to all of Charter s subordinated indebtedness and will be effectively subordinated to any of Charter s secured indebtedness and structurally subordinated to indebtedness and other liabilities of our subsidiaries. As of March 31, 2005, Charter had no secured indebtedness and our subsidiaries had total indebtedness and other liabilities of \$20.5 billion, excluding intercompany obligations.
Conversion Rights	<p> Holders may convert their notes at the conversion rate at any time prior to the close of business on the business day prior to the maturity date.</p> <p>The initial conversion rate will be 413.2231 shares of our Class A common stock, par value \$.001 per share, per \$1,000 original principal amount of notes. This represents an initial</p>



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conversion price of approximately \$2.42 per share of our Class A common stock. We will increase the conversion rate in the same proportion that the principal amount of the notes increases if we elect to accrete the principal amount of the notes to pay certain liquidated damages instead of paying them in cash. In addition, if certain corporate transactions that constitute a change of control occur on or prior to the maturity date, we will increase the conversion rate in certain circumstances, unless such transaction constitutes a public acquirer change of control and we elect to satisfy our conversion obligation with public acquirer common stock. See

Description of Notes Conversion Rights Make Whole Amount and Public Acquirer Change of Control.

Notwithstanding the foregoing, no holder of notes will be entitled to receive shares of our Class A common stock upon conversion to the extent, but only to the extent, that such receipt would cause such holder to become, directly or indirectly, a beneficial owner of more than the specified percentage of the shares of Class A common stock outstanding at such time. With respect to any conversion prior to November 16, 2008, the specified percentage will be 4.9%, and with respect to any conversion thereafter, the specified percentage will be 9.9%. See Description of Notes Conversion Rights Limitation on Beneficial Ownership.

Upon conversion, we will have the right to deliver, in lieu of shares of our Class A common stock, cash or a combination of cash and our Class A common stock. If we elect to pay holders cash upon conversion, such payment will be based on the average of the sale prices of our Class A common stock over the 20 trading day period beginning on the third trading day immediately following the conversion date of the notes, which we refer to as the average price.

As described in this prospectus, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividend on our Class A common stock, but will not be adjusted for accrued and unpaid interest. By delivering to the holder shares of our Class A common stock, and in certain circumstances cash, we will satisfy our obligations with respect to the notes subject to the conversion, subject to our obligations described under Description of Notes Conversion Rights Interest Make Whole Upon Conversion below. Except to the extent we are required to pay any Early Conversion Make Whole Amount or Redemption Make Whole Amount, upon conversion of a note, accrued and unpaid interest will be paid or deemed to be paid in full, rather than canceled, extinguished or forfeited.

The notes called for redemption may be surrendered for conversion prior to the close of business on the business day immediately preceding the redemption date.

Interest Make Whole Upon Conversion

Holders who convert their notes prior to November 16, 2007 will receive, in addition to a number of shares of our Class A

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common stock calculated at the conversion rate for the accreted principal amount of notes, or cash in lieu thereof, the cash proceeds of the sale by the trustee of the Pledged Securities remaining with respect to the notes being converted, which we refer to as the Early Conversion Make Whole Amount, subject to the limitation described under Description of Notes Conversion Rights Interest Make Whole Upon Conversion . The percentage of the remaining Pledged Securities to be sold will be determined based on the aggregate original principal amount of notes being converted as a percentage of the total original principal amount of notes then outstanding. The trustee will liquidate the Pledged Securities to be released, rounded down to the nearest whole multiple of the minimum denomination of such Pledged Securities, and deliver the cash value thereof to the converting holder. The Early Conversion Make Whole Amount will not compensate a converting holder for interest such holder would have earned in respect of any increase in the principal amount of the notes if we elect to accrete such principal amount to pay any liquidated damages we may owe.

Holders who convert notes that have been called for redemption will receive, in addition to the Early Conversion Make Whole Amount, the amount of any deferred interest and the present value of the interest on the notes converted that would have been payable for the period from and including November 16, 2007, or if later, the redemption date, to but excluding November 16, 2009, which we refer to as the Redemption Make Whole Amount. The Redemption Make Whole Amount will be calculated by discounting the amount of such interest on a semi-annual basis using a discount rate equal to 3.0% plus the published U.S. Treasury rate for the maturity most closely approximating the period from and including the redemption date to but excluding November 16, 2009. We may pay the Redemption Make Whole Amount in cash or in shares of our Class A common stock, with the number of such shares determined based on the average of the sale prices of our Class A common stock over the 10 trading days immediately preceding the applicable conversion date. If we elect to pay the Redemption Make Whole Amount in shares of our Class A common stock, the number of shares we deliver, together with the shares deliverable upon conversion, will not exceed 462 per \$1,000 original principal amount of notes, subject to the anti-dilution adjustments, and we must deliver cash with respect to the remainder of the Redemption Make Whole Amount, if any.

Exchange in Lieu of Conversion Unless we have called the relevant notes for redemption, we may, in lieu of delivering shares of our Class A common stock, or cash in lieu thereof, upon conversion, direct the conversion agent to surrender notes a holder has tendered for conversion to a financial institution designated by us for exchange in lieu of conversion. In order to accept any such notes, the designated institution must agree to deliver, in exchange for such notes, a number of shares of our Class A common stock calculated using the applicable conversion rate for the accreted principal amount

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of the notes, plus cash for any fractional shares, or, at its option, cash or a combination of cash and shares of our Class A common stock in lieu thereof, calculated based on the average price. If the designated institution accepts any such notes, it will deliver the appropriate number of shares of our Class A common stock (and cash, if any), or cash in lieu thereof, to the conversion agent and the conversion agent will deliver those shares or cash to the holder. Such designated institution will also deliver cash equal to any Early Conversion Make Whole Amount we would owe such holder if we had paid it the conversion value of its notes. Any notes exchanged by the designated institution will remain outstanding. If the designated institution agrees to accept any notes for exchange but does not timely deliver the related consideration, we will, as promptly as practical thereafter, but not later than the third business day following (1) the conversion date or (2) if the designated institution elects to deliver cash or a combination of cash and shares of our Class A common stock, the determination of the average price, convert the notes and deliver shares of our Class A common stock, as described under

Description of Notes Conversion Rights General, or, at our option cash in lieu thereof based on the average price, along with any applicable Early Conversion Make Whole Amount. See Description of Notes Exchange in Lieu of Conversion.

**Fundamental Change**

Upon a fundamental change, each holder of the notes may require us to repurchase some or all of its notes at a purchase price equal to 100% of the accreted principal amount of the notes, plus any accrued and unpaid interest, including any liquidated damages and deferred interest. See Description of Notes Fundamental Change Requires Us to Repurchase Notes at the Option of the Holder.

**Make Whole Amount and Public Acquirer Change of Control**

If certain transactions that constitute a change of control occur on or prior to the maturity date, under certain circumstances, we will increase the conversion rate by a number of additional shares for any conversion of notes in connection with such transactions, as described under Description of Notes Conversion Rights Make Whole Amount and Public Acquirer Change of Control. The number of additional shares will be determined based on the date such transaction becomes effective and the price paid per share of our Class A common stock in such transaction. However, if such transaction constitutes a public acquirer change of control, in lieu of increasing the conversion rate, we may elect to adjust our conversion obligation such that upon conversion of the notes, we will deliver acquirer common stock or cash in lieu thereof as described under Description of Notes Conversion Rights Make Whole Amount and Public Acquirer Change of Control.

**Redemption**

Following the earlier of (1) the sale of any notes pursuant to an effective registration statement or (2) November 22, 2006, we may redeem the notes (or, in the case of clause (1) above, any such notes that have been sold pursuant to an effective

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registration statement) in whole or in part for cash at any time at a redemption price equal to 100% of the accreted principal amount of the notes plus any accrued and unpaid interest, deferred interest and liquidated damages, if any, on the notes to but not including the redemption date, if the closing price of our Class A common stock has exceeded, for at least 20 trading days in any consecutive 30 trading day period, 180% of the conversion price if such 30 day trading period is prior to November 16, 2007 and 150% if such 30 trading day period begins thereafter. The conversion price as of any day will equal the accreted principal amount of \$1,000 original principal amount of notes divided by the conversion rate in effect on such day.

**Sinking Fund**

None.

**Registered Borrow Facility**

We filed and agreed to use our reasonable best efforts to cause to become effective within 130 calendar days after the issue date of the notes, a registration statement with the Securities and Exchange Commission covering our Class A common stock that can be used by Citigroup Global Markets Inc., one of the initial purchasers of the notes, which we refer to as Citigroup, to sell up to 150 million shares that we will loan to an affiliate of Citigroup.

The registration statement relating to the registered borrow facility was declared effective on July 18, 2005, after the required deadline of April 1, 2005. As a result, we incurred liquidated damages during the period from April 2, 2005 until July 17, 2005 at a rate per month equal to 0.25% of the accreted principal amount of the notes for the first 60 days of such failure and 0.50% of the accreted principal amount of the notes thereafter, in each case with such damages accruing daily and paid monthly. All such liquidated damages have been or will be paid in cash.

We have been advised by Citigroup that it intends to use the short sales of our Class A common stock registered pursuant to such registration statement to facilitate transactions by which investors in the notes will hedge their investment in the notes. We will not receive any of the proceeds from such short sales of Class A common stock, but we will receive a loan fee of \$.001 for each share that we lend pursuant to the share lending agreement.

**United States Federal Income  
Tax Considerations**

Under the indenture governing the notes, we have agreed, and by acceptance of a beneficial interest in the notes each holder of a note is deemed to have agreed, to treat the notes for United States federal income tax purposes as debt instruments that are subject to the U.S. Treasury regulations governing contingent payment debt instruments. For United States federal income tax



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purposes, interest will accrue from the issue date of the notes at a constant rate of 15% per year (subject to certain adjustments), compounded semi-annually, which represents the yield on our comparable nonconvertible, fixed-rate debt instruments with terms and conditions otherwise similar to the notes. U.S. Holders (as defined herein) will be required to include interest in income as it accrues regardless of their method of tax accounting. The rate at which interest accrues for United States federal income tax purposes generally will exceed the cash payments of interest.

U.S. Holders will recognize gain or loss on the sale, exchange, conversion, redemption or repurchase of a note in an amount equal to the difference between the amount realized, including the fair market value of any common stock received upon conversion, and their adjusted tax basis in the note. Any gain recognized by a U.S. Holder on the sale, exchange, conversion, redemption or repurchase of a note generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income, and, thereafter, capital loss. See United States Federal Income Tax Considerations.

Use of Proceeds	We will not receive any proceeds from the sales of notes or shares offered hereby by the selling security holders.
Events of Default	Customary events of default, including a default caused by the failure to pay interest or principal at maturity and the acceleration of indebtedness for borrowed money aggregating \$100 million or more.
Trading	The notes are designated as eligible for trading in the PORTAL Market. Our Class A common stock is quoted on the Nasdaq National Market under the symbol CHTR.

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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 three months ended March 31, 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 and the use of proceeds in each case to pay down credit facilities;
- (2) the issuance and sale of the CCO Holdings senior floating rate notes in December 2004 and the 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 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;
- (5) the redemption of all of CC V Holdings' outstanding 11.875% senior discount notes due 2008 with cash on hand;
- (6) the establishment of a registered borrow facility for the issuance of up to 150 million shares of our Class A common stock pursuant to a share lending agreement the sole effect of which is to increase common shares issued and outstanding. See Registered Borrow Facility; and
- (7) 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.

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, Registered Borrow Facility and the historical consolidated financial

statements and related notes included elsewhere in this prospectus.

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	Year Ended December 31,				Three Months Ended March 31,	
	2002 Actual	2003 Actual	2004 Actual	2004 Pro Forma(a)	2004 Pro Forma(a)	2005 Actual
(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	\$ 828	\$ 842
High-speed data	337	556	741	738	165	215
Advertising sales	302	263	289	288	58	64
Commercial	161	204	238	236	54	65
Other	346	335	336	334	80	85
<b>Total revenues</b>	4,566	4,819	4,977	4,948(b)	1,185	1,271
Costs and Expenses:						
Operating (excluding depreciation and amortization)	1,807	1,952	2,080	2,068	500	559
Selling, general and administrative	963	940	971	967	235	237
Depreciation and amortization	1,436	1,453	1,495	1,489	364	381
Impairment of franchises	4,638		2,433	2,433		
Asset impairment charges						31
(Gain) loss on sale of assets, net	3	5	(86)	19	(1)	4
Option compensation expense (income), net	5	4	31	31	14	4

Special charges, net	36	21	104	104	10	4
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>7,106</b>	<b>1,122</b>	<b>1,220</b>
Income (loss) from operations	(4,322)	516	(2,046)	(2,158)	63	51
Interest expense, net	(1,503)	(1,557)	(1,670)	(1,709)	(422)	(420)
Gain (loss) on derivative instruments and hedging activities, net	(115)	65	69	69	(7)	27
Loss on debt to equity conversions			(23)	(23)	(8)	
Gain (loss) on extinguishment of debt		267	(31)			7
Other, net	(4)	(16)	3	3	(2)	1
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,944)	(725)	(3,698)	(3,818)	(376)	(334)
Minority interest(c)	3,176	377	19	19	(4)	(3)
Loss before income taxes and cumulative effect of accounting change	(2,768)	(348)	(3,679)	(3,799)	(380)	(337)
Income tax benefit (expense)	460	110	103	117	(40)	(15)

Loss before cumulative effect of accounting change	\$	(2,308)	\$	(238)	\$	(3,576)	\$	(3,682)	\$	(420)	\$	(352)
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Loss per common share, basic and diluted(d)	\$	(7.85)	\$	(0.82)	\$	(11.92)	\$	(12.27)	\$	(1.43)	\$	(1.16)
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Weighted-average common shares outstanding, basic and diluted	294,440,261	294,597,519	300,291,877	300,291,877	295,106,077	303,308,880
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**Other Financial Data:**

Capital expenditures	\$	2,167	\$	854	\$	924	\$	922	\$	188	\$	211
Deficiencies of earnings to cover fixed charges(e)	\$	5,944	\$	725	\$	3,698	\$	3,818	\$	376	\$	334

**December 31,**

**March 31,**

**2003  
Actual**

**2003  
Pro Forma**

**2004  
Actual**

**2004  
Actual**

**2005  
Actual**

**Operating Data (end of period)(f):**

Analog video customers	6,431,300	6,200,500	5,991,500	6,192,000	5,984,800
Digital video customers	2,671,900	2,588,600	2,674,700	2,657,400	2,694,600
Residential high-speed data customers	1,565,600	1,527,800	1,884,400	1,653,000	1,978,400
Telephony customers	24,900	24,900	45,400	26,300	55,300

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	<b>Actual As of March 31, 2005</b>
	<b>(Dollars in millions)</b>
<b>Balance Sheet Data (end of period):</b>	
Cash and cash equivalents	\$ 32
Total assets	16,794
Accounts payable and accrued expenses	1,256
Long-term debt	18,929
Other long-term liabilities	635
Minority interest(c)	656
Shareholders deficit	(4,751)

(a) Actual revenues exceeded pro forma revenues for the year ended December 31, 2004 and the three months ended March 31, 2004 by \$29 million and \$29 million, 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 \$106 million and \$127 million for the year ended December 31, 2004 and the three months ended March 31, 2004, respectively. The unaudited pro forma financial information required allocation of certain revenues and expenses and such information has been presented for comparative purposes and is not intended (a) to provide any indication of what our actual financial position or results of operations would have been had the transactions described above been completed on the dates indicated or (b) to project our results of operations for any future date.

(b) Pro forma 2004 revenue by quarter is as follows:

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

(c) 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 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.

- (d) Loss per common share, basic and diluted, assumes none of the membership units of Charter Communications Holding Company, LLC are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Communications Holding Company, LLC that are automatically exchanged for Charter common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock-redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same.
- (e) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.
- (f) See Business Products and Services for definitions of the terms contained in this section.



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**RISK FACTORS**

*An investment in the notes or 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 the notes or our Class A common stock.*

**Risks Related to Significant Indebtedness of Us and Our Subsidiaries**

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

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 March 31, 2005, our total debt was approximately \$18.9 billion, and our shareholders' deficit was approximately \$4.8 billion. The deficiency of earnings to cover fixed charges for the three month period ended March 31, 2005 was approximately \$334 million. In 2006 and beyond, significant amounts will become due under our remaining long-term debt obligations. For instance, in 2009 \$5.0 billion of our debt matures. The maturities of these obligations are set forth in Description of Certain Indebtedness.

We believe that as a result of our significant levels of debt and operating performance, our access to the debt markets could be limited. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not available to us from borrowings under our credit facilities or from other sources, we may not be able to repay our debt, fund our other liquidity and capital needs, grow our business or respond to competitive challenges. Further, if we are unable to repay or refinance our debt, as it becomes due, we could be forced to restructure our obligations or seek protection under the bankruptcy laws. If we were to raise capital through the issuance of additional equity or to engage in a recapitalization or other similar transaction, our shareholders could suffer significant dilution and our noteholders might not receive principal and interest payments to which they are contractually entitled on a timely basis or at all.

Our significant amount of debt could have other important consequences to you. For example, 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, 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 bondholders.

Due to our significant amount of debt, we did not pay dividends on our preferred stock at March 31, and 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.

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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 the notes and our other convertible notes. We may not have the ability to fund our obligations under the notes in the event of such a default. If current debt levels increase, the related risks that we and you now face will intensify.

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

Our principal assets are our equity interests in Charter Holdco (which in turn holds indirect equity interests in our operating subsidiaries) and certain mirror debt instruments issued to us by Charter Holdco, the terms of which match our existing outstanding indebtedness. We have no operating assets. Accordingly, except for those interest payments to be funded by the Pledged Securities, we will need to receive distributions from our subsidiaries or raise additional financing in order to service our debt. Our subsidiaries are separate and distinct legal entities and are not obligated to make funds available to us in the form of loans, distributions or otherwise for payment of the notes or our existing senior convertible notes or other obligations.

Our subsidiaries' ability to make distributions to us are restricted by the terms of their credit facilities and indentures. Our indirect subsidiaries include the borrowers and guarantors under the Charter Operating credit facilities. Some of our subsidiaries are also obligors under several series of senior high-yield notes issued by them. The notes are structurally subordinated in right of payment to indebtedness and other liabilities of our subsidiaries, the total principal amount of which was \$20.5 billion as of March 31, 2005 excluding intercompany obligations.

The indentures governing the senior notes and senior discount notes of Charter Communications Holdings, LLC ( Charter Holdings ) permit Charter Holdings to make distributions to Charter Holdco for payment of interest on the notes and our existing convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under its indentures and other specified tests are met. For the quarter ended March 31, 2005, there was no default under Charter Holdings' indentures and other specified tests were met. However, Charter Holdings did not meet the leverage ratio of 8.75 to 1.0 based on March 31, 2005 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco are currently restricted and will continue to be restricted until that test is met.

During this restriction period, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures. As of March 31, 2005, Charter Holdco was owed \$161 million in intercompany loans from its subsidiaries, which amount was available to pay principal and interest on Charter's convertible senior notes. In addition, Charter has \$145 million of securities pledged as security for the first six interest payments on Charter's 5.875% convertible senior notes.

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

the lenders under our subsidiaries' credit facilities and the holders of their other debt instruments will have the right to be paid before us from any of our subsidiaries' assets; and

although Mr. Allen's indirect ownership interest in CC VIII, LLC is currently the subject of a dispute, Paul G. Allen, as an indirect holder of preferred membership interests in our subsidiary, CC VIII, LLC, may have a claim on a portion of its assets that would reduce the amounts available for repayment to holders of the notes. See Risk Factors - Risks Related to Our Business - Our dispute with Paul G. Allen concerning the ownership of an interest in CC VIII, LLC could adversely impact our ability to repay our debt, the value of our common stock and our ability to obtain future financing.

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In addition, the notes are unsecured and will rank equally with all other existing and future senior unsecured indebtedness of Charter and will be effectively subordinated in right of payment to all existing secured debt and any future secured debt we may incur to the extent of the value of the assets securing such debt. Our subsidiaries' credit facilities are secured by pledges of equity interests and intercompany notes. See Description of Certain Indebtedness for a summary of our outstanding indebtedness and a description of our credit facilities and other indebtedness.

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

The Charter Operating credit facilities and the indentures governing our and our subsidiaries' other debt contain a number of significant covenants that could adversely affect our ability to operate our business, and therefore could adversely affect our results of operations, our ability to repay the notes 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, the Charter Operating credit facilities require us 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 details on our debt covenants. 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 indenture governing the notes or the indentures governing our other 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 the notes, our other notes and Charter Operating's credit facilities and other debt of our subsidiaries. See Description of Certain Indebtedness.

***We may not generate sufficient cash flow to fund our capital expenditures, ongoing operations and debt obligations, including our payment obligations under the notes.***

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

our future operating performance;

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the demand for our products and services;

general economic conditions and conditions affecting customer and advertiser spending;

competition and our ability to stabilize customer losses; and

legal and regulatory factors affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow, we may not be able to service and repay our debt (including the notes), 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 principal repayment obligations that come due in 2006 and, we believe, such amounts will not be sufficient to fund our operations and satisfy such repayment obligations thereafter.

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 \$1.2 billion as of March 31, 2005. However, Charter Operating's access to these funds is subject to its satisfaction of the covenants and conditions to borrowing in those facilities.

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

***All of our and our subsidiaries' outstanding debt is subject to change 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 the notes, our other 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 the notes and our other convertible senior notes, upon the occurrence of specified change of control events, including certain specified dispositions of stock by Mr. Allen, 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 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 \$18.0 billion at March 31, 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 the notes and our other convertible senior notes.

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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 the notes and our other 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 the notes and our other convertible senior notes and our subsidiaries' credit facilities and notes.

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

None of our direct or indirect equity holders, directors, officers, employees or affiliates, including, without limitation, Mr. Allen or his affiliates, Charter Investment, Inc. or Vulcan Cable III Inc., will be an obligor or guarantor under the notes. The indenture governing the notes expressly provides that these parties will not have any liability for our obligations under the notes or the indenture governing the notes. If we do not fulfill our obligations to you under the notes, you will have no recourse against any of our direct or indirect equity holders, directors, officers, employees or affiliates including, without limitation, Mr. Allen, Charter Investment, Inc. or Vulcan Cable III Inc.

***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 Charter, 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 telephony 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.

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Further loss of customers to DBS or other alternative video and data 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 with high-speed data service over cable systems. Telephone companies (which already have telephone lines into the household, an existing customer base and other operational functions in place) and other companies offer DSL service. In addition, 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 an adverse effect on our business and financial results.

Mergers, joint ventures and alliances among franchised, wireless or private cable operators, satellite television providers, local exchange carriers and others 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.

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

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

We are in a dispute with Mr. Allen as to whether he is entitled to retain the CC VIII interest, or whether he must exchange that interest for units of our subsidiary, Charter Holdco. The dispute concerns whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. The law firm that prepared the documents for the Bresnan transaction brought this matter to the attention of Charter and representatives of Mr. Allen in 2002. After subsequently conducting an investigation of the relevant facts and circumstances, a Special Committee of Charter's Board of Directors determined that a scrivener's error had occurred in February 2000 in connection with the preparation of the Bresnan transaction documents, resulting in the inadvertent deletion of a provision that would have required an automatic exchange of the CC VIII interest for 24,273,943 Charter Holdco membership units if the Comcast sellers exercised the Comcast put right and sold the CC VIII interest to Mr. Allen or his



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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 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 to holders of the notes or our other 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 (which also could affect the trading value of the notes). 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, which were filed in the U.S. District Court for the Eastern District of Missouri against us 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 us and our then current directors. Also, three shareholder derivative suits were filed in Missouri state court against us, 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 have 30 days from the issuance of that order to file an appeal challenging the approval. A notice of appeal has been filed relating to the settlement, but Charter does not yet know the specific issues presented by such appeal. There can be no assurance that there will not be other appeals, or that any such appeal would not be successful. See *Business* *Legal Proceedings*.

In October 2001, two customers, Nikki Nicholls and Geraldine M. Barber, filed a class action suit against Charter Holdco in South Carolina state court purportedly on behalf of a class of Charter Holdco's customers, alleging, among other things, that Charter Holdco improperly charged them a wire maintenance fee without request or permission. They also claimed that Charter Holdco improperly required them to rent analog and/or digital set-top terminals even though their television sets were cable ready. A substantively identical case was filed in the Superior Court of Athens Clarke County, Georgia by Emma S. Tobar on March 26, 2002,

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alleging a nationwide class for these claims. Following mediation the parties reached a tentative settlement, subject to final documentation and court approval. On November 10, 2004, the court granted final approval of the settlement, rejecting the positions advanced by two objectors to the settlement. On December 13, 2004, the court entered a written order formally approving that settlement. On January 11, 2005, certain class members appealed the order entered by the Georgia court. Those objectors voluntarily dismissed their appeal with prejudice on February 8, 2005. On February 9, 2005, the South Carolina Court of Common Pleas entered a court order of dismissal for the South Carolina Class Action. Additionally, in November 2004, one of the objectors to this settlement filed a similar, but not identical, lawsuit in Massachusetts state court. The action purports to be brought on behalf of three different classes of customers and generally alleges that the putative class members were overcharged for converter boxes and remote controls.

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

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

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

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

We have had a history of net losses and expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the interest costs we incur because of our high level of debt, the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties, and the amortization and impairment of our franchise intangibles. We expect that these expenses (other than amortization and impairment of franchises) will remain significant, and we expect to continue to report net losses for the foreseeable future. We reported losses before cumulative effect of accounting change of \$2.3 billion for 2002, \$238 million for 2003 and \$3.6 billion for 2004 and \$293 million and \$352 million for the three months ended March 31, 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

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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 three months ended March 31, 2005, we spent approximately \$211 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 data customers and in the delivery of other advanced services, as well as the cost of introducing any new services. We may need additional capital if there is accelerated growth in high-speed data customers or in the delivery of other advanced services. If we cannot obtain such capital from increases in our cash flow from operating activities, additional borrowings or other sources, our growth, financial condition and results of operations could suffer materially.

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

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

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

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

***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. Further, the individuals currently serving as Chief Executive Officer, Chief Financial Officer and General Counsel are serving in an interim capacity. These senior management changes could disrupt our ability to manage our business as we transition to and integrate a

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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 data services.***

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

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

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

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 and the notes;

how the Class A common stock and the notes trade in the marketplace;



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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 and the notes.

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 and the notes.

### **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 the notes and our and our subsidiaries' other indebtedness, including borrowings under the Charter Operating credit facilities. See Risks Related to Significant Indebtedness of Us and Our Subsidiaries. All of our and our subsidiaries' outstanding debt is subject to change 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.

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

Mr. Allen has the ability to control us. Through his control of approximately 93% of the voting power of our capital stock, Mr. Allen, as sole Class B shareholder, is entitled to elect all but one of our board members and effectively has the voting power to elect the remaining board member as well since he controls more than the majority of the vote of the Class A and Class B shareholders voting together as a class. By virtue of Mr. Allen's control of the voting power of Charter, we are a controlled company under Nasdaq rule 4350(c)(5) and are not subject to requirements that a majority of our directors be independent (as defined in Nasdaq's rules) or that there be a nominating committee of Charter's board. Charter does not have a nominating committee. Mr. Allen thus has the ability to control fundamental corporate transactions requiring equity holder approval, including, but not limited to, the election of all of our directors, approval of merger transactions involving us and the sale of all or substantially all of our assets.

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

Mr. Allen's control over our management and affairs could create conflicts of interest if he is faced with decisions that could have different implications for him, us and the holders of the notes and 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.

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

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

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

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

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

Charter Holdco's limited liability company agreement provided that through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to us based generally on our percentage ownership of outstanding common membership units of Charter Holdco would instead be allocated to the membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. The purpose of these special tax allocation provisions was to allow Mr. Allen to take advantage for tax purposes of the losses 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 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 pursuant to the share lending agreement, as well as possible future conversions of the 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 March 31, 2005, Charter had approximately \$5.4 billion of tax net operating losses (resulting in a gross deferred tax asset of approximately \$2.1 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

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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. In connection with the original issuance of the notes offered hereby, we agreed to issue additional shares of our Class A common stock pursuant to a share lending agreement. See Registered Borrow Facility. While the tax treatment of the issuance of shares issued pursuant to a borrowing transaction under the share lending agreement is uncertain, we do not believe that such 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 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





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negotiating renewal terms with the local franchising authorities. Approximately 10% of our franchises, covering approximately 9% of our video customers, were expired as of March 31, 2005. Approximately 6% of additional franchises, covering approximately an additional 8% of our video customers, will expire on or before December 31, 2005, if not renewed prior to expiration.

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

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

Our cable systems are operated under non-exclusive franchises granted by local franchising authorities. Consequently, local franchising authorities can grant additional franchises to competitors in the same geographic area or operate their own cable systems. 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. 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 March 31, 2005, we are aware of overbuild situations impacting approximately 5% of our estimated homes passed, and potential overbuild situations in areas servicing approximately 1% of our estimated homes passed. Additional overbuild situations may occur in other systems.

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

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

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

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

There has been considerable legislative interest recently in requiring cable operators to offer historically bundled programming services on an á la carte basis. Although the FCC recently made a recommendation to Congress against the 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.

**Table of Contents*****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 the recency of the *Brand X* decision, however, the nature of any legislative or regulatory response remains uncertain. The imposition of open access requirements could materially affect our business.

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.

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

In 2002, we began to offer voice communications services on a limited basis over our broadband network. We continue to explore development and deployment of VOIP services. The regulatory requirements applicable to VOIP service are unclear although the FCC 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. 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 Notes and the Class A Common Stock.*****We may be unable to purchase the notes for cash following a fundamental change.***

Holders of the notes have the right to require us to repurchase the notes in cash upon the occurrence of a fundamental change prior to maturity. Any of our future debt agreements may contain a similar provision. We may not have sufficient funds to make the required purchase in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, our ability to purchase the notes may be limited by law or the terms of other agreements relating to our debt outstanding at the time. However, if we fail to purchase the notes as required by the indenture, that would constitute an event of default under the indenture governing the notes which, in turn, may constitute an event of default, and result in the acceleration of the maturity of our then existing indebtedness.

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

The notes are a new issue of securities, and there is no existing market for the notes. Although the notes are eligible for trading in the PORTAL Market, we do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes on any automated dealer quotation system. A market may not develop for the notes, and if a market does develop, it may not be sufficiently liquid for your purposes. If an active, liquid market does not develop for the notes, the market price and liquidity of the notes may be adversely affected. If any of the notes are traded after their initial issuance, they may trade at a discount from their initial offering price.

The liquidity of the trading market, if any, and future trading prices of the notes will depend on many factors, including, among other things, the market price of our Class A common stock, our ability to register the sale of common stock loaned to an affiliate of Citigroup as described in Registered Borrow Facility Registration Rights on Shares Covered by Share Lending Agreement, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. The market for the notes may be subject to disruptions that could have a negative effect on the holders of the notes, regardless of our operating results, financial performance or prospects.

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***Although the Pledged Securities will secure both principal and interest on the notes, the ability of holders of notes to enforce their security interest in the Pledged Securities will be delayed if we become the subject of a case under the U.S. Bankruptcy Code.***

Although the Pledged Securities are primarily intended to secure the first six installments of interest on the notes, if the principal amount of the notes becomes due and payable prior to November 16, 2007, any Pledged Securities then held by the trustee would also secure the accreted principal amount of the notes then due. If we become the subject of a case under the U.S. Bankruptcy Code, however, the ability of holders of notes to enforce their security interest in the Pledged Securities and receive payment in respect of the Pledged Securities, or any other payment of principal on the notes, would be delayed by the imposition of the automatic stay under Section 362 of the Bankruptcy Code. Any such delay could be for a substantial period of time.

***The notes do not restrict our ability to incur additional debt, repurchase our securities or to take other actions that could negatively impact holders of the notes.***

We are not restricted under the terms of the notes from incurring additional debt, including secured debt, or from repurchasing our securities. In addition, the limited covenants applicable to the notes do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. Our ability to recapitalize, incur additional debt and take other actions that are not limited by the terms of the notes could have the effect of diminishing our ability to make payments on the notes when due. Certain of our other debt instruments may, however, restrict these and other actions.

***The trading prices for the notes will be directly affected by the trading prices for our Class A common stock, which may be volatile, which could cause the value of your investment to decline.***

We expect that the trading price of the notes in the secondary market will be significantly affected by the trading price of our Class A common stock, the general level of interest rates and our credit quality. This may result in greater volatility in the trading prices of the notes than would be expected for nonconvertible debt securities.

It is impossible to predict whether the price of our Class A common stock or interest rates 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 the offering of the notes, 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 the notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that we expect to develop involving our Class A common stock as a result of the issuance of the notes. 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 issuance of the notes could cause a decline or retard any increase in the trading price of our Class A common stock or the notes since investors in the 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 notes. See Registered Borrow Facility.

***If any registration statement covering shares to be lent pursuant to the share lending agreement is not declared effective, the trading price of the notes and the Class A common stock may be adversely affected.***

We have filed and have agreed to use our reasonable best efforts to cause to become effective a registration statement by a specified date covering the shares of our Class A common stock to be lent to an affiliate of Citigroup pursuant to the share lending agreement. This registration statement became effective on July 18, 2005. However, if less than 150 million shares of our Class A common stock are sold

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pursuant to such registration statement, Citigroup or its affiliate has the right to request that we file up to four additional registration statements with respect to the shares that may be lent pursuant to the share lending agreement. See Registered Borrow Facility. We cannot assure you as to if or when any such registration statement will be declared effective. The SEC has broad discretion in reviewing any registration statement and may delay or deny the effectiveness of a registration statement for a variety of reasons. If any such registration statement is delayed or is not declared effective, the trading price of the notes and the Class A common stock may be adversely affected.

***We will be entitled to defer payment of a portion of the interest on the notes if we elect to accrete the principal amount of the notes.***

As noted above, we have incurred and are incurring liquidated damages in connection with the registration statement relating to the Registered Borrow Facility. The first three payments of such liquidated damages have been made in cash. However, in lieu of paying any such liquidated damages in cash, we may elect in the future to accrete the principal amount of the notes. If we make this election, we will have the right to defer the interest payable on the portion of the accreted principal amount of the notes that exceeds the original principal amount of the notes. This deferred interest will not bear additional interest and will be payable on May 16, 2008 or upon any earlier redemption, repurchase or acceleration of the notes unless paid earlier. We may also pay any deferred interest on any interest payment date prior to May 16, 2008, upon prior notice to holders.

***Your right to convert your notes will be limited if, upon conversion of your notes, you would have beneficial ownership of more than a specified percentage of our Class A common stock.***

Holders of notes will not be entitled to receive shares of our Class A common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than the specified percentage of the shares of Class A common stock outstanding at such time. With respect to any conversion prior to November 16, 2008, the specified percentage will be 4.9%, and with respect to any conversion thereafter, the specified percentage will be 9.9%. If any delivery of shares of our Class A common stock owed to a holder upon conversion of notes is not made, in whole or in part, as a result of this limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after, but in no event later than two trading days after, any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than the specified percentage of the shares of Class A common stock outstanding at such time. Although we have the right to deliver cash in lieu of delivering shares of our Class A common stock upon conversion of the notes, we have no obligation to do so, even if by doing so we would enable you to avoid these limitations on your right to convert the notes.

***If you hold notes, you will not be entitled to any rights with respect to our Class A common stock, but you will be subject to all changes made with respect to our Class A common stock.***

If you hold notes, you will not be entitled to any rights with respect to our Class A common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our Class A common stock), but you will be subject to all changes affecting the Class A common stock. You will only be entitled to rights on the Class A common stock if and when we deliver shares of our Class A common stock to you upon conversion of your notes. For example, in the event that an amendment is proposed to our charter or bylaws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to your conversion of notes, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our Class A common stock or other classes of capital stock.

**Table of Contents*****The conversion rate of the notes may not be adjusted for all dilutive events.***

The conversion rate of the notes is subject to adjustment for certain events including, but not limited to, dividends on our Class A common stock, the issuance of certain rights or warrants, subdivisions or combinations of our Class A common stock, certain distributions of assets, debt securities, capital stock or cash to holders of our Class A common stock and certain tender or exchange offers as described under Description of Notes Conversion Rights Conversion Rate Adjustments. The conversion rate will not be adjusted for other events, such as an issuance of Class A common stock for cash, that may adversely affect the trading price of the notes or the Class A common stock. There can be no assurance that an event that adversely affects the value of the notes, but does not result in an adjustment to the conversion rate, will not occur.

***The make whole premium payable on notes converted in connection with certain fundamental changes may not adequately compensate you for the lost option time value of your notes as a result of such fundamental change.***

If certain transactions that constitute a change of control occur prior to the maturity date of the notes, under certain circumstances, we will increase the conversion rate by a number of additional shares for any conversions of notes in connection with such transaction. The amount of the additional shares will be determined based on the date on which the transaction becomes effective and the price paid per share of our Class A common stock in such transaction as described below under Description of Notes Conversion Rights Make Whole Amount and Public Acquirer Change of Control. While the number of additional shares is designed to compensate you for the lost option time value of your notes as a result of such transaction, the amount of the make whole premium is only an approximation of such lost option time value and may not adequately compensate you for such loss. In addition, if the price paid per share of our Class A common stock in the transaction is less than \$2.16 or greater than \$5.00, the conversion rate will not be increased. In no event will the number of shares issuable upon conversion of a note exceed 462 per \$1,000 original principal amount of notes, subject to anti-dilution adjustments, regardless of when the transaction becomes effective or of the price paid per share of our Class A common stock in the transaction.

***You may have to pay taxes with respect to some distributions on our Class A common stock that result in adjustments to the conversion rate.***

The conversion rate of the notes is subject to adjustment for certain events arising from stock splits and combinations, stock dividends, certain cash dividends and certain other actions by us that modify our capital structure. See Description of Notes Conversion Rights Conversion Rate Adjustments. If the conversion rate is adjusted as a result of a distribution that is taxable to our Class A common stock holders, such as a cash dividend, you may be required to include an amount in income for federal income tax purposes, notwithstanding the fact that you do not actually receive such distribution. The amount that you would have to include in income would generally be equal to the amount of the distribution that you would have received if you had converted your notes into our Class A common stock. In addition, Non-U.S. Holders (as defined herein) of the notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal withholding tax requirements. See United States Federal Income Tax Considerations.

***Conversion of the notes will dilute the ownership interests of existing stockholders.***

If and to the extent we deliver shares of our Class A common stock upon conversion of the notes, the conversion of some or all of the notes will dilute the ownership interest of existing stockholders. Any sales in the public market of the Class A common stock issuable upon such conversion could adversely affect prevailing market prices of our Class A common stock.

**Table of Contents*****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 July 18, 2005, the trading price of our Class A common stock was \$1.33 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 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 an 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 the notes, including sales of our Class A common stock in short sale transactions by holders of the 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, one of the initial purchasers of the notes, up to 150 million shares of our Class A common stock. We refer to Citigroup Global Markets Limited as Citigroup. We could loan all or substantially all of the 150 million shares of our Class A common stock to such affiliate, to be sold in a registered offering by Citigroup on behalf of such affiliate. Such loaned shares must be returned by November 16, 2009. See Registered Borrow Facility. Any shares not initially borrowed may be borrowed by the affiliate of Citigroup from time to time prior to November 16, 2006 and sold to others under the registration statement. We have been advised by Citigroup Global Markets Limited that it or an affiliate intends to facilitate the establishment by the note holders of hedged positions in the 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 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 holders of the notes to hedge their investment in the notes. We understand that many investors in the notes have already hedged their investment by selling additional shares of our Class A common stock short in order to establish initial hedge positions. The offering of our Class A common stock pursuant to the share lending agreement 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 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 and Registered Borrow Facility.



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

As of March 31, 2005, 304,763,192 shares of Class A common stock were issued and outstanding, and 50,000 shares of Class B common stock were issued and outstanding. An additional 339,132,031 shares of Class A common stock were issuable upon conversion of outstanding units of Charter Holdco (increasing by 24,273,943 shares if Mr. Allen is required to contribute his CC VIII membership interest to Charter Holdco), and 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 the notes. Furthermore, additional shares and warrants to acquire shares may be issuable in connection with the settlement of certain outstanding litigation matters, as more fully described in Business Legal Proceedings. In addition, to the extent that we elect to satisfy our obligations under the settlement agreement by issuing securities rather than paying cash, any decrease in the price of our Class A common stock as a result of this offering (even if only temporary) would increase the number of shares and warrants issuable under the applicable Stipulations of Settlement. The shares and warrants are expected to be available for immediate resale. The shares issuable upon exercise of the warrants are expected to be issued pursuant to a registration statement and therefore available for immediate resale, if and when issued. 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 notes will be eligible for resale pursuant to this prospectus. 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.

***You should consider the United States federal income tax consequences of owning the notes.***

Under the indenture governing the notes, we have agreed, and, by acceptance of a beneficial interest in a note, each holder is deemed to have agreed, to treat the notes for U.S. federal income tax purposes as indebtedness that is subject to the U.S. Treasury regulations governing contingent payment debt instruments.

Consequently, despite some uncertainty as to the proper application of such regulations, you will generally be required to accrue interest income at a constant rate of 15% per year (subject to certain adjustments), compounded semi-annually, which represents the estimated yield on our comparable non-convertible, fixed rate debt instruments with terms and conditions otherwise similar to the notes. The amount of interest required to be included by you in income for each year generally will be in excess of the stated coupon on the notes for that year.

You will recognize gain or loss on the sale, exchange, conversion, redemption or repurchase of a note in an amount equal to the difference between the amount realized, including the fair market value of any of our common stock received, and your adjusted tax basis in the note. Any gain recognized by you on the sale, exchange, conversion, redemption or repurchase of a note will be treated as ordinary interest income; any loss will be ordinary loss to the extent of interest previously included in income, and thereafter will be treated as capital loss.

A discussion of the material United States federal income tax consequences of ownership of the notes is contained in this prospectus under the heading United States Federal Income Tax Considerations. You are strongly urged to consult your tax advisor as to the federal, state, local or other tax consequences of acquiring, owning, and disposing of the notes.

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**USE OF PROCEEDS**

We will not receive any of the proceeds from the sale by the selling security holders of the notes or shares of Class A common stock offered hereby.

**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 through July 18	\$1.39	\$1.20

<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 March 31, 2005, there were 3,786 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 July 18, 2005 was \$1.33 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 March 31, 2005, on a consolidated basis the actual (historical) capitalization of Charter.

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.

	<b>As of March 31, 2005</b>
	<b>Actual</b>
	<b>(Dollars in millions)</b>
Cash and cash equivalents	\$ 32
<b>Long-term debt:</b>	
Charter Communications, Inc.:	
5.875% convertible senior notes due 2009(a)	\$ 835
4.75% convertible senior notes due 2006	122
Charter Holdings:	
Senior and senior discount notes(b)	8,346
CCH II:	
10.250% senior notes due 2010	1,601
CCO Holdings:	
8 <sup>3</sup> / <sub>4</sub> % senior notes due 2013	500
Senior floating rate notes due 2010	550
Charter Operating:	
8.000% senior second lien notes	1,100
8.375% senior second lien notes	671
Renaissance:	
10.00% senior discount notes due 2008	116
<b>Credit facilities:</b>	
Charter Operating(c)	5,088
Total long-term debt	18,929
<b>Preferred stock redeemable(d)</b>	<b>55</b>
<b>Minority interest(e)</b>	<b>656</b>
<b>Shareholders deficit:</b>	
Class A common stock; \$.001 par value; 1.75 billion shares authorized; 304,763,192 shares issued and outstanding(f)	
Class B common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding	

Preferred stock; \$.001 par value; 250 million shares	
Additional paid-in-capital	4,798
Accumulated deficit	(9,549)
Accumulated other comprehensive loss	
Total shareholders' deficit	(4,751)
Total capitalization	\$ 14,889

- (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 \$835 million at March 31, 2005 and will accrete to the \$863 million face value over three years, the duration of our pledged securities.

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	<b>As of March 31, 2005</b>
	<b>Actual</b>
	<b>(Dollars in millions)</b>
(b) Represents the following Charter Holdings notes:	
8.250% senior notes due 2007	\$ 167
8.625% senior notes due 2009	1,243
9.920% senior discount notes due 2011	1,108
10.000% senior notes due 2009	640
10.250% senior notes due 2010	318
11.750% senior discount notes due 2010	450
10.750% senior notes due 2009	874
11.125% senior notes due 2011	500
13.500% senior discount notes due 2011	608
9.625% senior notes due 2009	638
10.000% senior notes due 2011	708
11.750% senior discount notes due 2011	825
12.125% senior discount notes due 2012	267
<b>Total</b>	<b>\$ 8,346</b>

- (c) The amounts outstanding under the Charter Operating credit facilities as of March 31, 2005 totaled \$5.1 billion. Borrowing availability under the credit facilities totaled \$1.2 billion as of March 31, 2005, none of which was restricted due to covenants.
- (d) In connection with Charter's acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., Charter issued 545,259 shares of Series A Convertible Redeemable Preferred Stock valued at and with a liquidation preference of \$55 million. Holders of the preferred stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly 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.
- (e) Minority interest represents the percentage of Charter Communications Holding Company, LLC not owned by Charter, or approximately 53% of total members' equity of Charter Communications Holding Company, LLC, plus \$656 million of preferred membership interests in CC VIII, LLC, an indirect subsidiary of Charter Communications Holding Company, LLC. Paul G. Allen indirectly holds the preferred membership units in CC VIII as a result of the exercise of put rights originally granted in connection with the Bresnan transaction in 2000. An issue has arisen regarding the ultimate 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.

- (f) Although the shares offered pursuant to the share lending agreement 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 March 31, 2005 there were 454,763,192 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):

(1) the disposition of certain assets in March and April 2004, with proceeds used to pay down credit facilities;

(2) the issuance and sale of the CCO Holdings senior floating rate notes in December 2004 and the 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 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;

(5) the redemption of all of CC V Holdings outstanding 11.875% senior discount notes due 2008 with cash on hand;

(6) the establishment of a registered borrow facility for the issuance of up to 150 million shares of our Class A common stock pursuant to a share lending agreement, the sole effect of which is to increase common shares issued and outstanding; and

(7) 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.

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

The unaudited pro forma balance sheet as of March 31, 2005 and an unaudited pro forma statement of operations for the three months ended March 31, 2005 are not provided as pro forma adjustments are not significant for that period.

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**CHARTER COMMUNICATIONS, INC.**  
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the Three Months Ended March 31, 2004**

	Historical	Asset Dispositions (Note A)	Financing Transactions (Note B)	Subtotal	Offering Adjustments (Note C)	Pro Forma
<b>(Dollars in millions, except per share and share amounts)</b>						
<b>Revenues</b>						
Video	\$ 849	\$ (21)	\$	\$ 828	\$	\$ 828
High-speed data	168	(3)		165		165
Advertising	59	(1)		58		58
Commercial	56	(2)		54		54
Other	82	(2)		80		80
<b>Total</b>	<b>1,214</b>	<b>(29)</b>		<b>1,185</b>		<b>1,185</b>
<b>Costs and Expenses</b>						
Operating (excluding depreciation and amortization)	512	(12)		500		500
Selling, general and administrative	239	(4)		235		235
Depreciation and amortization	370	(6)		364		364
Gain (loss) on sale of assets, net	(106)	105		(1)		(1)
Option compensation expense, net	14			14		14
Special charges, net	10			10		10
	<b>1,039</b>	<b>83</b>		<b>1,122</b>		<b>1,122</b>
Income from operations	175	(112)		63		63
Interest expense, net	(393)	4	(29)	(418)	(4)	(422)
Gain on derivative instruments and hedging activities, net	(7)			(7)		(7)
Loss on debt to equity conversions	(8)			(8)		(8)
Other, net	(2)			(2)		(2)
	<b>(410)</b>	<b>4</b>	<b>(29)</b>	<b>(435)</b>	<b>(4)</b>	<b>(439)</b>
Loss before minority interest, income taxes,	(235)	(108)	(29)	(372)	(4)	(376)

and cumulative effect  
of accounting change

Minority interest	(4)	(4)	(4)
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Loss before income  
taxes and cumulative  
effect of accounting  
change

	(239)	(108)	(29)	(376)	(4)	(380)
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Income tax benefit	(54)	14	(40)	(40)
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Loss before  
cumulative effect of  
accounting change

\$	(293)	\$	(94)	\$	(29)	\$	(416)	\$	(4)	\$	(420)
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Loss per common  
share, basic and  
diluted

\$	(1.00)	\$	(1.43)
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Weighted average  
common shares  
outstanding, basic and  
diluted (Note D)

295,106,077

295,106,077

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

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

Interest on the Charter Operating senior second lien notes and the amended and restated Charter Operating credit facilities at a weighted average rate of 4.9%	\$ 89
Interest on CCO Holdings senior floating rate notes	9
Amortization of deferred financing costs	6
Less:	
Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid	(65)
Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand	(7)
Historical interest expense for the CC V Holdings 11.875% senior discount notes due 2008 repaid with cash on hand.	(3)
Net increase in interest expense for other financing transactions	\$ 29

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

Interest on the convertible senior notes issued in November 2004	\$ 13
Amortization of deferred debt issuance costs	1
Less interest from the pledged securities	(1)
Less interest on 5.75% convertible senior notes retired with proceeds	(9)
Pro forma interest expense adjustment	\$ 4

**Note D:** Loss per common share, basic and diluted assumes none of the membership units of Charter Communications Holding Company, LLC are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Communications Holding Company, LLC that are automatically exchanged for Charter common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock-redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same. 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 STATEMENT OF OPERATIONS**  
**For the Year Ended December 31, 2004**

	Historical	Asset Dispositions (Note A)	Financing Transactions (Note B)	Subtotal	Offering Adjustments (Note C)	Pro Forma
(Dollars in millions, except per share and share amounts)						
<b>Revenues</b>						
Video	\$ 3,373	\$ (21)		\$ 3,352		\$ 3,352
High-speed data	741	(3)		738		738
Advertising	289	(1)		288		288
Commercial	238	(2)		236		236
Other	336	(2)		334		334
<b>Total</b>	<b>4,977</b>	<b>(29)</b>		<b>4,948</b>		<b>4,948</b>
<b>Costs and Expenses</b>						
Operating (excluding depreciation and amortization)	2,080	(12)		2,068		2,068
Selling, general and administrative	971	(4)		967		967
Depreciation and amortization	1,495	(6)		1,489		1,489
Impairments of franchises	2,433			2,433		2,433
Gain (loss) on sale of assets, net	(86)	105		19		19
Option compensation expense, net	31			31		31
Special charges, net	104			104		104
Unfavorable contracts and other settlements	(5)			(5)		(5)
	<b>7,023</b>	<b>83</b>		<b>7,106</b>		<b>7,106</b>
Loss from operations	(2,046)	(112)		(2,158)		(2,158)
Interest expense, net	(1,670)	4	(33)	(1,699)	(10)	(1,709)
Gain on derivative instruments and hedging activities, net	69			69		69
Loss on debt to equity conversions	(23)			(23)		(23)
Loss on extinguishment of	(31)		21	(10)	10	

debt							
Other, net	3			3			3
	(1,652)	4	(12)	(1,660)			(1,660)
Loss before minority interest, income taxes, and cumulative effect of accounting change	(3,698)	(108)	(12)	(3,818)			(3,818)
Minority interest	19			19			19
Loss before income taxes and cumulative effect of accounting change	(3,679)	(108)	(12)	(3,799)			(3,799)
Income tax benefit	103	14		117			117
Loss before cumulative effect of accounting change	\$ (3,576)	\$ (94)	\$ (12)	\$ (3,682)	\$	\$	(3,682)
Loss per common share, basic and diluted	\$ (11.92)					\$	(12.27)
Weighted average common shares outstanding, basic and diluted (Note D)	300,291,877						300,291,877

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

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

Interest on the Charter Operating senior second lien notes and the amended and restated Charter Operating credit facilities at a weighted average rate of 4.9%	\$ 114
Interest on CCO Holdings senior floating rate notes	35
Amortization of deferred financing costs	10
Less:	
Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid	(83)
Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand	(30)
Historical interest expense for the CC V Holdings 11.875% senior discount notes due 2008 repaid with cash on hand.	(13)
Net increase in interest expense for other financing transactions	\$ 33

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.

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

Interest on the convertible senior notes issued in November 2004	\$ 45
Amortization of deferred debt issuance costs	4
Less interest from the pledged securities	(2)
Less interest on 5.75% convertible senior notes retired with proceeds	(37)
Pro forma interest expense adjustment	\$ 10

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

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

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 five years ended December 31, 2004 and the unaudited consolidated financial statements of Charter and its subsidiaries for the three months ended March 31, 2004 and 2005. The consolidated financial statements of Charter and its subsidiaries for 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,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005

(Dollars in millions, except share and per share amounts)

**Statement of  
Operations  
Data:**

Revenues	\$ 3,141	\$ 3,807	\$ 4,566	\$ 4,819	\$ 4,977	\$ 1,214	\$ 1,271
Costs and Expenses:							
Operating (excluding depreciation and amortization)	1,187	1,486	1,807	1,952	2,080	512	559
Selling, general and administrative	606	826	963	940	971	239	237
Depreciation and amortization	2,398	2,683	1,436	1,453	1,495	370	381
Impairment of franchises			4,638		2,433		
Asset impairment charges							31
(Gain) loss on sale of assets, net		10	3	5	(86)	(106)	4
Option compensation expense (income), net	38	(5)	5	4	31	14	4
Special charges, net		18	36	21	104	10	4
				(72)	(5)		



Unfavorable  
contracts and  
other  
settlements

	4,229	5,018	8,888	4,303	7,023	1,039	1,220
Income (loss) from operations	(1,088)	(1,211)	(4,322)	516	(2,046)	175	51
Interest expense, net	(1,040)	(1,310)	(1,503)	(1,557)	(1,670)	(393)	(420)
Gain (loss) on derivative instruments and hedging activities, net		(50)	(115)	65	69	(7)	27
Loss on debt to equity conversions					(23)	(8)	
Gain (loss) on extinguishment of debt				267	(31)		7
Other, net	(20)	(59)	(4)	(16)	3	(2)	1
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,148)	(2,630)	(5,944)	(725)	(3,698)	(235)	(334)
Minority interest(a)	1,280	1,461	3,176	377	19	(4)	(3)
Loss before income taxes and cumulative effect of accounting change	(868)	(1,169)	(2,768)	(348)	(3,679)	(239)	(337)
Income tax benefit (expense)	10	12	460	110	103	(54)	(15)
Loss before cumulative effect of accounting change	(858)	(1,157)	(2,308)	(238)	(3,576)	(293)	(352)
		(10)	(206)		(765)		

Cumulative effect of accounting change, net of tax							
Net loss	(858)	(1,167)	(2,514)	(238)	(4,341)	(293)	(352)
Dividends on preferred stock redeemable		(1)	(3)	(4)	(4)	(1)	(1)
Net loss applicable to common stock	\$ (858)	\$ (1,168)	\$ (2,517)	\$ (242)	\$ (4,345)	\$ (294)	\$ (353)
Loss per common share, basic and diluted	\$ (3.80)	\$ (4.33)	\$ (8.55)	\$ (0.82)	\$ (14.47)	\$ (1.00)	\$ (1.16)
Weighted-average common shares outstanding, basic and diluted	225,697,775	269,594,386	294,440,261	294,597,519	300,291,877	295,106,077	303,308,880

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	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
<b>(Dollars in millions, except share and per share amounts)</b>							
<b>Other Data:</b>							
Deficiencies of earnings to cover fixed charges(b)	\$ 2,148	\$ 2,630	\$ 5,944	\$ 725	\$ 3,698	\$ 235	\$ 334
<b>Balance Sheet Data (end of period):</b>							
Total assets	\$ 24,352	\$ 26,463	\$ 22,384	\$ 21,364	\$ 17,673	\$ 20,572	\$ 16,794
Long-term debt	13,061	16,343	18,671	18,647	19,464	18,108	18,929
Minority interest(a)	4,571	4,434	1,050	689	648	693	656
Redeemable securities	1,104						
Preferred stock redeemable		51	51	55	55	55	55
Shareholders' equity (deficit)	2,767	2,585	41	(175)	(4,406)	(441)	(4,751)

- (a) 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.
- (b) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.

**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 March 31, 2005</b>
Revenues	\$ 1,271
Income from operations	51
Loss before minority interest and income taxes	(334)
Net loss applicable to common stock	(353)
Basic and diluted loss per common share	(1.16)
Weighted-average shares outstanding	303,308,880

	<b>Year Ended December 31, 2004</b>			
	<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

	<b>Year Ended December 31, 2003</b>			
	<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)
	(0.62)	(0.13)	0.12	(0.20)

Basic income (loss) per common share				
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 three months ended March 31, 2005.

**Introduction**

In 2004 and the first quarter of 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, as follows:

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

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

the December 2004 redemption of all of our 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;

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; and

the March 2005 issuance of Charter Operating notes in exchange for Charter Holdings notes.

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 28% of our analog video customers subscribe to our high-speed data services has resulted in decreased growth rates for high-speed data 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 data, video on demand, digital video recorders and high definition television. We expect to continue to grow revenues through continued growth in high-speed data and incremental new services including VOIP telephony, high definition television, VOD and DVR service.

Historically, our ability to fund operations and investing activities has depended on our continued access to credit under our subsidiaries' credit facilities. We expect we will continue to borrow under our subsidiaries' credit facilities from time to time to fund cash needs. The occurrence of an event of default under our subsidiaries' 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 our notes and our subsidiaries' outstanding notes and would have a material adverse effect on us. Approximately \$23 million of indebtedness under our subsidiaries' credit facilities is scheduled to mature during the remainder of 2005. We expect to fund payment of such indebtedness through

borrowings under our subsidiaries revolving credit facilities.

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**Table of Contents****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.

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.

**Table of Contents****Overview of Operations**

Approximately 87% and 86% of our revenues for the three months ended March 31, 2005 and for the year ended December 31, 2004, respectively, are attributable to monthly subscription fees charged to customers for our video, high-speed data, telephone and commercial services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 13% and 14%, respectively, 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 data 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 data services, digital video and new products and services such as VOIP telephony, 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 data service and high definition television) at what we believe are attractive price points. See **Business Sales and Marketing** for more details.

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

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 \$175 million for the three months ended March 31, 2004 to \$51 million for the three months ended March 31, 2005. We had a positive operating margin (defined as income (loss) from operations divided by revenues) of 4% and 14% for the three months ended March 31, 2005 and 2004, respectively. The decline in income from operations and operating margin for the three months ended March 31, 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 \$108 million, recognized in the three months ended March 31, 2004 and asset impairment charges of \$31 million recognized in the three months ended March 31, 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 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



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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 March 31, 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 three months ended March 31, 2005 and the years ended December 31, 2004, 2003 and 2002 were approximately \$211 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. 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



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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 data services);

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

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

Judgment is required to determine the extent to which overhead is incurred as a result of specific capital activities, and therefore should be capitalized. The primary costs that are included in the determination of the overhead rate are (i) employee benefits and payroll taxes associated with capitalized direct labor, (ii) direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, (iii) the cost of support personnel, such as dispatch, that directly assist with capitalizable installation activities, and (iv) indirect costs directly attributable to capitalizable activities.

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 \$45 million, \$164 million, \$174 million and \$335 million for the three months ended March 31, 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 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 \$379 million, \$1.5 billion, \$1.5 billion and \$1.4 billion, representing approximately 31%, 21%, 34% and 16% of costs and expenses, for the three months ended March 31, 2005 and for the years ended December 31, 2004, 2003 and 2002,

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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 March 31, 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 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 \$1 million and \$4 million for the three months ended March 31, 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 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





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

Based on the guidance prescribed in Emerging Issues Task Force ( EITF ) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of our cable systems into groups by which such systems are managed. Management believes such 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 telephony to the potential customers (service marketing rights). Fair value is determined based on estimated discounted future cash flows using assumptions consistent with internal forecasts. The franchise after-tax cash flow is calculated as the after-tax cash flow generated by the potential customers obtained and the new services added to those customers in future periods. The sum of the present value of the franchises after-tax cash flow in years 1 through 10 and the continuing value of the after-tax cash flow beyond year 10 yields the fair value of the franchise. Prior to the adoption of 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 telephony 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 (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



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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 data customers in the third quarter of 2004, in part as a result of increased competition from DSL providers, led us to lower our projected growth rates and accordingly revise our estimates of future cash flows 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:

<b>Assumption</b>	<b>Percentage/ Percentage Point Change</b>	<b>Impairment Charge Increase/(Decrease)</b>
		<b>(Dollars in millions)</b>
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 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

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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 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

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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 March 31, 2005 and December 31, 2004 and 2003, we have recorded net deferred income tax liabilities of \$230 million, \$216 million and \$417 million, respectively. Additionally, as of March 31, 2005, December 31, 2004 and 2003, we have deferred tax assets of \$3.7 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 \$3.3 billion, \$3.2 billion and \$1.3 billion at March 31, 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 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****Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004**

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

	<b>Three Months Ended March 31,</b>					
	<b>2005</b>		<b>2004</b>			
Revenues	\$	1,271	100%	\$	1,214	100%
Costs and expenses:						
Operating (excluding depreciation and amortization)		559	44%		512	42%
Selling, general and administrative		237	19%		239	20%
Depreciation and amortization		381	30%		370	31%
Asset impairment charges		31	3%			
(Gain) loss on sale of assets, net		4			(106)	(9)%
Option compensation expense, net		4			14	1%
Special charges, net		4			10	1%
		1,220	96%		1,039	86%
Income from operations		51	4%		175	14%
Interest expense, net		(420)			(393)	
Gain (loss) on derivative instruments and hedging activities, net		27			(7)	
Loss on debt to equity conversions					(8)	
Gain on extinguishment of debt		7				
Other, net		1			(2)	
		(385)			(410)	
Loss before minority interest and income taxes		(334)			(235)	
Minority interest		(3)			(4)	
Loss before income taxes		(337)			(239)	
Income tax expense		(15)			(54)	
Net loss		(352)			(293)	
Dividends on preferred stock - redeemable		(1)			(1)	
Net loss applicable to common stock	\$	(353)		\$	(294)	
Loss per common share, basic and diluted	\$	(1.16)		\$	(1.00)	
		303,308,880			295,106,077	

Weighted average common shares outstanding,  
basic and diluted

*Revenues.* Revenues increased by \$57 million, or 5%, from \$1.2 billion for the three months ended March 31, 2004 to \$1.3 billion for the three months ended March 31, 2005. This increase is principally the result of an increase of 325,400 and 37,200 high-speed data and digital video customers, respectively, as well as price increases for video and high-speed data services, and is offset partially by a decrease of 207,200 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



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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 data services, digital video and advanced products and services such as VOIP telephony, VOD, high definition television and DVR service.

Average monthly revenue per analog video customer increased to \$70.75 for the three months ended March 31, 2005 from \$65.31 for the three months ended March 31, 2004 primarily as a result of incremental revenues from advanced services and price increases. 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):

	<b>Three Months Ended March 31,</b>					
	<b>2005</b>		<b>2004</b>		<b>2005 over 2004</b>	
	<b>Revenues</b>	<b>% of Revenues</b>	<b>Revenues</b>	<b>% of Revenues</b>	<b>Change</b>	<b>% Change</b>
Video	\$ 842	66%	\$ 849	70%	\$ (7)	(1)%
High-speed data	215	17%	168	14%	47	28%
Advertising sales	64	5%	59	5%	5	8%
Commercial	65	5%	56	4%	9	16%
Other	85	7%	82	7%	3	4%
	\$ 1,271	100%	\$ 1,214	100%	\$ 57	5%

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues decreased by \$7 million, or 1%, from \$849 million for the three months ended March 31, 2004 to \$842 million for the three months ended March 31, 2005. Approximately \$21 million of the decrease was the result of the System Sales and approximately an additional \$24 million related to a decline in analog video customers. The decreases were offset by increases of approximately \$33 million resulting from price increases and incremental video revenues from existing customers and approximately \$5 million resulting from an increase in digital video customers.

Revenues from high-speed data services provided to our non-commercial customers increased \$47 million, or 28%, from \$168 million for the three months ended March 31, 2004 to \$215 million for the three months ended March 31, 2005. Approximately \$35 million of the increase related to the increase in the average number of customers receiving high-speed data services, whereas approximately \$15 million related to the increase in average price of the service. The increase in high-speed data 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 \$5 million, or 8%, from \$59 million for the three months ended March 31, 2004 to \$64 million for the three months ended March 31, 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 each of the three months ended March 31, 2005 and 2004, we received \$3 million in advertising sales revenues from vendors.

Commercial revenues consist primarily of revenues from cable video and high-speed data services to our commercial customers. Commercial revenues increased \$9 million, or 16%, from \$56 million for the three months ended March 31, 2004 to \$65 million for the three months ended March 31, 2005, primarily as a result of an increase in commercial high-speed data revenues. The increase was reduced by approximately \$2 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, telephony revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. Other revenues increased \$3 million, or 4%, from \$82 million for the three months

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ended March 31, 2004 to \$85 million for the three months ended March 31, 2005. The increase was primarily the result of an increase in installation revenue, telephony revenue and franchise fees and was partially offset by approximately \$2 million as a result of the System Sales and decreases in home shopping revenue.

*Operating Expenses.* Operating expenses increased \$47 million, or 9%, from \$512 million for the three months ended March 31, 2004 to \$559 million for the three months ended March 31, 2005. The increase in operating expenses was reduced by approximately \$12 million as a result of the System Sales. Programming costs included in the accompanying condensed consolidated statements of operations were \$358 million and \$334 million, representing 29% and 32% of total costs and expenses for the three months ended March 31, 2005 and 2004, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	<b>Three Months Ended March 31,</b>					
	<b>2005</b>		<b>2004</b>		<b>2005 over 2004</b>	
	<b>Expenses</b>	<b>% of Revenues</b>	<b>Expenses</b>	<b>% of Revenues</b>	<b>Change</b>	<b>% Change</b>
Programming	\$ 358	28%	\$ 334	27%	\$ 24	7%
Advertising sales	25	2%	23	2%	2	9%
Service	176	14%	155	13%	21	14%
	\$ 559	44%	\$ 512	42%	\$ 47	9%

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 \$24 million, or 7%, for the three months ended March 31, 2005 over the three months ended March 31, 2004, 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 \$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 \$9 million and \$14 million for the three months ended March 31, 2005 and 2004, respectively.

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, we expect programming costs 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 data revenues, advertising revenues and commercial service revenues.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased \$2 million, or 9%, 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 \$21 million, or 14%, resulted primarily from increased labor costs to support our infrastructure, increased equipment maintenance 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 decreased by \$2 million, or 1%, from \$239 million for the three months ended March 31, 2004 to

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\$237 million for the three months ended March 31, 2005. Included in the decrease in selling, general and administrative expenses was \$4 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	<b>Three Months Ended March 31,</b>					
	<b>2005</b>		<b>2004</b>		<b>2005 over 2004</b>	
	<b>Expenses</b>	<b>% of Revenues</b>	<b>Expenses</b>	<b>% of Revenues</b>	<b>Change</b>	<b>% Change</b>
General and administrative	\$ 202	16%	\$ 208	17%	\$ (6)	(3)%
Marketing	35	3%	31	3%	4	13%
	<b>\$ 237</b>	<b>19%</b>	<b>\$ 239</b>	<b>20%</b>	<b>\$ (2)</b>	<b>(1)%</b>

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 decrease in general and administrative expenses of \$6 million, or 3%, resulted primarily from the System Sales of \$4 million, decreases in bad debt expense of \$5 million, property taxes of \$6 million and salaries and benefits of \$4 million offset by increases in costs associated with our commercial business of \$3 million and professional fees of \$6 million.

Marketing expenses increased \$4 million, or 13%, as a result of an increased investment in targeted marketing and branding campaigns.

*Depreciation and Amortization.* Depreciation and amortization expense increased by \$11 million, or 3%, from \$370 million for the three months ended March 31, 2004 to \$381 million for the three months ended March 31, 2005. The increase in depreciation related to an increase in capital expenditures, which was offset by lower depreciation as the result of the System Sales.

*Asset Impairment Charges.* Asset impairment charges for the three months ended March 31, 2005 represent the write-down of assets related to two 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.* The loss on sale of assets of \$4 million for the three months ended March 31, 2005 represents the loss recognized on the disposition of plant and equipment. Gain on sale of assets of \$106 million for the three months ended March 31, 2004 primarily represents the pretax gain realized on the sale of cable systems to Atlantic Broadband Finance, LLC which closed in March 2004.

*Option Compensation Expense, Net.* Option compensation expense of \$4 million for the three months ended March 31, 2005 primarily represents options expensed in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123, *Accounting for Stock-Based Compensation*. Option compensation expense of \$14 million for the three months ended March 31, 2004 includes the expense of approximately \$6 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 three months ended March 31, 2004, we recognized approximately \$3 million related to the options granted under the Charter Long-Term Incentive Program and approximately \$5 million related to options granted and expensed in accordance with SFAS No. 123.

*Special Charges, Net.* Special charges of \$4 million for the three months ended March 31, 2005 represents \$4 million of severance and related costs of our management realignment. Special charges of \$10 million for the three months ended March 31, 2004 represents approximately \$9 million of litigation costs related to the tentative settlement of the South Carolina national class action suit subject to final documentation and court approval and

approximately \$1 million of severance and related costs of our workforce reduction.

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*Interest Expense, Net.* Net interest expense increased by \$27 million, or 7%, from \$393 million for the three months ended March 31, 2004 to \$420 million for the three months ended March 31, 2005. The increase in net interest expense was a result of an increase in our average borrowing rate from 8.22% in the first quarter of 2004 to 8.86% in the first quarter of 2005 coupled with an increase of \$848 million in average debt outstanding from \$18.4 billion for the first quarter of 2004 compared to \$19.2 billion for the first quarter of 2005 and was offset partially by \$19 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 (Loss) on Derivative Instruments and Hedging Activities, Net.* Net gain on derivative instruments and hedging activities increased \$34 million from a loss of \$7 million for the three months ended March 31, 2004 to a gain of \$27 million for the three months ended March 31, 2005. The increase is primarily the result of an increase in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which increased from a loss of \$6 million for the three months ended March 31, 2004 to a gain of \$26 million for the three months ended March 31, 2005.

*Loss on Debt to Equity Conversions.* Loss on debt to equity conversions of \$8 million for the three months ended March 31, 2004 represents the loss recognized from a privately negotiated exchange of \$10 million principal amount of Charter's 5.75% convertible senior notes held by a single unrelated party 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 pursuant to the original terms of the convertible senior notes.

*Gain on Extinguishment of Debt.* Gain on extinguishment of debt of \$7 million for the three months ended March 31, 2005 represents approximately \$11 million related to the issuance of Charter Operating notes in exchange for Charter Holdings notes and approximately \$1 million related to the repurchase of \$34 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.

*Other, Net.* Net other income of \$1 million and net other expense of \$2 million for the three months ended March 31, 2005 and 2004, respectively, primarily represents gains and losses on equity investments.

*Minority Interest.* Minority interest represents the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC, and in the first quarter of 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, LLC for financial reporting purposes until such time as the resolution of the dispute between Charter and Mr. Allen regarding the preferred membership interests in CC VIII, LLC is determinable or certain other events occur. See Note 7 to the condensed consolidated financial statements included elsewhere in this prospectus. 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 \$15 million and \$54 million was recognized for the three months ended March 31, 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 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 \$14 million for the three months ended March 31, 2004.

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*Net Loss.* Net loss increased by \$59 million, or 20%, from \$293 million for the three months ended March 31, 2004 to \$352 million for the three months ended March 31, 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 or accrues a quarterly cumulative cash dividend 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 increased by \$0.16 from \$1.00 per common share for the three months ended March 31, 2004 to \$1.16 per common share for the three months ended March 31, 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	(3,679)		(348)		(2,768)	



change

Income tax benefit	103	110	460
Loss before cumulative effect of accounting change	(3,576)	(238)	(2,308)
Cumulative effect of accounting change, net of tax	(765)		(206)

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	<b>2004</b>	<b>2003</b>	<b>2002</b>
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 data customers and digital video customers, respectively, as well as price increases for video and high-speed data services, and is offset partially by a decrease of 439,800 analog video customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed data customers are 230,800 analog video customers, 83,300 digital video customers and 37,800 high-speed data 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,**

	<b>2004</b>		<b>2003</b>		<b>2004 over 2003</b>	
	<b>Revenues</b>	<b>% of Revenues</b>	<b>Revenues</b>	<b>% of Revenues</b>	<b>Change</b>	<b>% Change</b>
Video	\$ 3,373	68%	\$ 3,461	72%	\$ (88)	(3)%
High-speed data	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 increases and incremental video revenues from existing customers and approximately \$27 million resulting from an increase in digital video customers.

Revenues from high-speed data 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 data services, whereas approximately \$35 million related

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to the increase in average price of the service. The increase in high-speed data revenues was reduced by approximately \$12 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 \$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 data 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 data revenues. The increase was reduced by approximately \$14 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, telephony revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. 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%
	\$ 2,080	42%	\$ 1,952	40%	\$ 128	7%

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 statements included elsewhere in this prospectus.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased \$10 million, or 11%, primarily as a result of increased salary, benefit and commission costs. The increase in

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advertising sales expenses was reduced by \$2 million as a result of the System Sales. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider fees, maintenance and pole rental expense. The increase in service costs of \$48 million, or 8%, resulted primarily from additional activity associated with ongoing infrastructure maintenance. The increase in service costs was reduced by \$15 million as a result of the System Sales.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by \$31 million, or 3%, from \$940 million for the year ended December 31, 2003 to \$971 million for the year ended December 31, 2004. The increase in selling, general and administrative expenses was reduced by \$22 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 849	17%	\$ 833	18%	\$ 16	2%
Marketing	122	2%	107	2%	15	14%
	\$ 971	19%	\$ 940	20%	\$ 31	3%

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 \$16 million, or 2%, resulted primarily from increases in costs associated with our commercial business of \$21 million, third party call center costs resulting from increased emphasis on customer service of \$10 million and bad debt expense of \$10 million offset by decreases in costs associated with salaries and benefits of \$21 million and rent expense of \$3 million.

Marketing expenses increased \$15 million, or 14%, as a result of an increased investment in marketing and branding campaigns.

*Depreciation and amortization.* Depreciation and amortization expense increased by \$42 million, or 3%, to \$1.5 billion in 2004. The increase in depreciation related to an increase in capital expenditures, which was partially offset by lower depreciation as the result of the System Sales.

*Impairment of franchises.* We performed an impairment assessment during the third quarter of 2004. The use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation, primarily as a result of increased competition, led to the recognition of a \$2.4 billion impairment charge for the year ended December 31, 2004.

*(Gain) loss on sale of assets, net.* Gain on sale of assets of \$86 million for the year ended December 31, 2004 primarily represents the pretax gain of \$104 million realized on the sale of systems to Atlantic Broadband Finance, LLC which closed in March and April 2004 offset by losses recognized on the disposition of plant and equipment. Loss on sale of assets of \$5 million for the year ended December 31, 2003 represents the loss recognized on the disposition of plant and equipment offset by a gain of \$21 million recognized on the sale of cable systems in Port Orchard, Washington which closed on October 1, 2003.

*Option compensation expense, net.* Option compensation expense of \$31 million for the year ended December 31, 2004 primarily represents \$22 million related to options granted and expensed in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. Additionally, during the year ended December 31, 2004, we expensed 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. Option compensation expense of \$4 million for the year ended December 31, 2003 primarily represents options expensed in accordance with

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SFAS No. 123, *Accounting for Stock-Based Compensation*. See Note 19 to our consolidated financial statements included elsewhere in this prospectus for more information regarding our option compensation plans.

*Special charges, net.* Special charges of \$104 million for the year ended December 31, 2004 represents approximately \$85 million of aggregate value of the Charter Class A common stock and warrants to purchase Charter Class A common stock contemplated to be issued as part of a settlement of the consolidated federal class actions, state derivative actions and federal derivative action lawsuits, approximately \$10 million of litigation costs related to the tentative settlement of a South Carolina national class action suit, all of which settlements are subject to final documentation and court approval and approximately \$12 million of severance and related costs of our workforce reduction and realignment. Special charges for the year ended December 31, 2004 were offset by \$3 million received from a third party in settlement of a dispute. Special charges of \$21 million for the year ended December 31, 2003 represents approximately \$26 million of severance and related costs of our workforce reduction partially offset by a \$5 million credit from a settlement from the Internet service provider Excite@Home related to the conversion of about 145,000 high-speed data customers to our Charter Pipeline service in 2001.

*Unfavorable contracts and other settlements.* Unfavorable contracts and other settlements of \$5 million for the year ended December 31, 2004 relates to changes in estimated legal reserves established in connection with prior business combinations, which based on an evaluation of current facts and circumstances, are no longer required.

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

*Interest expense, net.* Net interest expense increased by \$113 million, or 7%, from \$1.6 billion for the year ended December 31, 2003 to \$1.7 billion for the year ended December 31, 2004. The increase in net interest expense was a result of an increase in our average borrowing rate from 7.99% in the year ended December 31, 2003 to 8.66% in the year ended December 31, 2004 partially offset by a decrease of \$306 million in average debt outstanding from \$18.9 billion in 2003 to \$18.6 billion in 2004.

*Gain (loss) on derivative instruments and hedging activities, net.* Net gain on derivative instruments and hedging activities increased \$4 million from a gain of \$65 million for the year ended December 31, 2003 to a gain of \$69 million for the year ended December 31, 2004. The increase is primarily the result of an increase in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which increased from a gain of \$57 million for the year ended December 31, 2003 to a gain of \$65 million for the year ended December 31, 2004. This was coupled with a decrease in gains on interest rate agreements, as a result of hedge ineffectiveness on designated hedges, which decreased from \$8 million for the year ended December 31, 2003 to \$4 million for the year ended December 31, 2004.

*Loss on debt to equity conversions.* Loss on debt to equity conversions of \$23 million for the year ended December 31, 2004 represents the loss recognized from privately negotiated exchanges of a total of \$30 million principal amount of Charter's 5.75% convertible senior notes held by two unrelated parties for shares of Charter Class A common stock. The exchange resulted in the issuance of more shares in the exchange transaction than would have been issuable under the original terms of the convertible senior notes.

*Gain (loss) on extinguishment of debt.* Loss on extinguishment of debt of \$31 million for the year ended December 31, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating refinancing in April 2004 and the redemption of our 5.75% convertible senior notes due 2005 in December 2004. Gain on extinguishment of debt of



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

*Other, net.* Net other expense decreased by \$19 million from \$16 million in 2003 to income of \$3 million in 2004. Other expense in 2003 included \$11 million associated with amending a revolving credit facility of our subsidiaries and costs associated with terminated debt transactions that did not recur in 2004. In addition, gains on equity investments increased \$7 million in 2004 over 2003.

*Minority interest.* Minority interest represents the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC, and since June 6, 2003, the pro rata share of the profits and losses of CC VIII, LLC. See Certain Relationships and Related Transactions Transactions Arising out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, Charter began to absorb substantially all future losses before income taxes that otherwise would have been allocated to minority interest. For the year ended December 31, 2003, 53.5% of our losses were allocated to minority interest. As a result of negative equity at Charter Holdco during the year ended December 31, 2004, no additional losses were allocated to minority interest, resulting in an additional \$2.4 billion of net losses. Under our existing capital structure, future losses will be substantially absorbed by Charter.

*Income tax benefit.* Income tax benefit of \$103 million and \$110 million was recognized for the years ended December 31, 2004 and 2003, respectively. The income tax benefits were realized as a result of decreases in certain deferred tax liabilities related to our investment in Charter Holdco as well as decreases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

The income tax benefit recognized in the year ended December 31, 2004 was directly related to the impairment of franchises as discussed above. The deferred tax liabilities decreased as a result of the write-down of franchise assets for financial statement purposes, but not for tax purposes. We do not expect to recognize a similar benefit associated with the impairment of franchises in future periods. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results.

The income tax benefit recognized in the year ended December 31, 2003 was directly related to the tax losses allocated to Charter from Charter Holdco. In the second quarter of 2003, Charter started receiving tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable III Inc. and Charter Investment, Inc. in accordance with the Special Loss Allocations provided under the Charter Holdco limited liability company agreement. We do not expect to recognize a similar benefit related to our investment in Charter Holdco after 2003 related to tax loss allocations received from Charter Holdco, due to limitations associated with our ability to offset future tax benefits against the remaining deferred tax liabilities. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results.

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

*Net loss.* Net loss increased by \$4.1 billion from \$238 million in 2003 to \$4.3 billion in 2004 as a result of the factors described above. The impact to net loss in 2004 of the impairment of franchises, cumulative effect of accounting change and the reduction in losses allocated to minority interest was to increase net loss by approximately \$3.7 billion. The impact to net loss in 2003 of the gain on the sale of

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systems, unfavorable contracts and settlements and gain on debt exchange, net of income tax impact, was to decrease net loss by \$168 million.

*Preferred stock dividends.* On August 31, 2001, in connection with the Cable USA acquisition, Charter issued 505,664 shares (and on February 28, 2003 issued an additional 39,595 shares) of Series A Convertible Redeemable Preferred Stock, on which it pays or accrues a quarterly cumulative cash dividend at an annual rate of 5.75% if paid or 7.75% if accrued on a liquidation preference of \$100 per share.

*Loss per common share.* The loss per common share increased by \$13.65, from \$0.82 per common share for the year ended December 31, 2003 to \$14.47 per common share for the year ended December 31, 2004 as a result of the factors described above.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**

*Revenues.* Revenues increased by \$253 million, or 6%, from \$4.6 billion for the year ended December 31, 2002 to \$4.8 billion for the year ended December 31, 2003. This increase is principally the result of an increase of 427,500 high-speed data customers, as well as price increases for video and high-speed data services, and is offset partially by a decrease of 147,500 and 10,900 in analog and digital video customers, respectively. Included within the decrease of analog and digital video customers and reducing the increase of high-speed data customers are 25,500 analog video customers, 12,500 digital video customers and 12,200 high-speed data customers sold in the Port Orchard, Washington sale on October 1, 2003.

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

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

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

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

Revenues from high-speed data services provided to our non-commercial customers increased \$219 million, or 65%, from \$337 million for the year ended December 31, 2002 to \$556 million for the year ended December 31, 2003. Approximately \$206 million of the increase related to the increase in the average number of customers, whereas approximately \$13 million related to the increase in the average price of the service. The increase in customers was

primarily due to the addition of high-speed data customers in our existing service areas. We were also able to offer this service to more of our customers,

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as the estimated percentage of homes passed that could receive high-speed data service increased from 82% as of December 31, 2002 to 87% as of December 31, 2003 as a result of our system upgrades.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales decreased \$39 million, or 13%, from \$302 million for the year ended December 31, 2002, to \$263 million for the year ended December 31, 2003, primarily as a result of a decrease in advertising from vendors of approximately \$64 million offset partially by an increase in local advertising sales revenues of approximately \$25 million. For the years ended December 31, 2003 and 2002, we received \$15 million and \$79 million, respectively, in advertising revenue from vendors.

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

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

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

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

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

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels and pay-per-view programs. The increase in programming costs of \$83 million, or 7%, was due to price increases, particularly in sports programming, and due to an increased number of channels carried on our systems, partially offset by decreases in analog and digital video customers. Programming costs were offset by the amortization of

payments received from programmers in support of launches of new channels against programming costs of \$62 million and \$57 million for the years ended December 31, 2003 and 2002, respectively.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries and benefits and commissions. Advertising sales expenses

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

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

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 833	18%	\$ 810	18%	\$ 23	3%
Marketing	107	2%	153	3%	(46)	(30)%
	\$ 940	20%	\$ 963	21%	\$ (23)	(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 \$23 million, or 3%, resulted primarily from increases in salaries and benefits of \$4 million, call center costs of \$25 million and internal network costs of \$16 million. These increases were partially offset by a decrease in bad debt and collection expense of \$27 million as a result of our strengthened credit policies.

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

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

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

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

*Option compensation expense, net.* Option compensation expense decreased by \$1 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. Option compensation expense includes expense related to exercise prices on certain options that were issued prior to our initial public offering in 1999 that were less than the estimated fair values of our common stock at the time of grant. Compensation expense was recognized over the vesting period of such options and was recorded until the last vesting period lapsed in April 2004. On January 1, 2003, we adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, using the prospective method under which we will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date.

*Special charges, net.* Special charges of \$21 million for the year ended December 31, 2003 represent approximately \$26 million of severance and related costs of our ongoing initiative to reduce our workforce partially offset by a \$5 million credit from a settlement from the Internet service provider Excite@Home

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related to the conversion of about 145,000 high-speed data customers to our Charter Pipeline service in 2001. In the fourth quarter of 2002, we recorded a special charge of \$35 million, of which \$31 million was associated with our workforce reduction program. The remaining \$4 million is related to legal and other costs associated with our shareholder lawsuits and governmental investigations.

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

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

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

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

*Other expense, net.* Other expense increased by \$12 million from \$4 million in 2002 to \$16 million in 2003. This increase is primarily due to increases in costs associated with amending a revolving credit facility of our subsidiaries and costs associated with terminated debt transactions.

*Minority interest.* Minority interest represents the allocation of losses to the minority interest based on ownership of Charter Holdco, the 10% dividend on preferred membership units in our indirect subsidiary, Charter Helicon, LLC and the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, LLC, and since June 6, 2003, the pro rata share of the profits of CC VIII, LLC. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.

*Income tax benefit.* Income tax benefit of \$110 million and \$460 million was recognized for the years ended December 31, 2003 and 2002, respectively. The income tax benefits were realized as a result of decreases in certain deferred tax liabilities related to our investment in Charter Holdco as well as decreases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

The income tax benefit recognized in the year ended December 31, 2003 was directly related to the tax losses allocated to Charter from Charter Holdco. In the second quarter of 2003, Charter started receiving tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable III Inc. and Charter Investment, Inc. in accordance with the Special Loss Allocations provided under the Charter Holdco limited liability company agreement. We do not expect to recognize a similar



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benefit after 2003 related to tax loss allocations received from Charter Holdco, due to limitations associated with our ability to offset future tax benefits against the remaining deferred tax liabilities. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results.

The income tax benefit recognized in the year ended December 31, 2002 was directly related to the impairment of franchises associated with the adoption of SFAS No. 142.

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

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

*Preferred stock dividends.* On August 31, 2001, in connection with the Cable USA acquisition, Charter issued 505,664 shares (and on February 28, 2003 issued an additional 39,595 shares) of Series A Convertible Redeemable Preferred Stock on which it pays or accrues a quarterly cumulative cash dividend at an annual rate of 5.75% if paid or 7.75% if accrued on a liquidation preference of \$100 per share.

*Loss per common share.* Loss per common share decreased by \$7.73, from \$8.55 per common share for the year ended December 31, 2002 to \$0.82 per common share for the year ended December 31, 2003 as a result of the factors described above.

**Liquidity and Capital Resources****Introduction**

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

**Overview**

We have a significant level of debt. For the remainder of 2005, \$23 million of our debt matures, and in 2006, an additional \$152 million matures. In 2007 and beyond, significant additional amounts will become due under our remaining long-term debt obligations.

Our business requires significant cash to fund debt service costs, capital expenditures and ongoing operations. We have historically funded our debt service costs, operating activities and capital requirements through cash flows from operating activities, borrowings under the credit facilities of our subsidiaries, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the three months ended March 31, 2005, we generated \$153 million of net cash flows from operating activities after paying cash interest of \$249 million. In addition, we used approximately \$211 million for purchases of property, plant and equipment. Finally, we had net cash flows used in financing activities of \$578 million, which included, among other things, approximately \$628 million in repayment of outstanding borrowings under the Charter Operating revolving credit facility through a series of transactions in February 2005. We expect that our mix of sources of funds will continue to change in the future based on overall needs relative to our cash flow and on the availability of funds under the credit facilities of our subsidiaries, our access to the debt and equity markets, the timing of possible asset sales and our ability to generate cash flows from operating activities. We continue to explore asset dispositions as one of several possible actions that we could take in the future to improve our liquidity, but we do not presently consider future asset sales as a significant source of liquidity.

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We expect that cash on hand, cash flows from operating activities and the amounts available under our credit facilities will be adequate to meet our cash needs in 2005. Cash flows from operating activities and amounts available under our credit facilities may not be sufficient to permit us to fund our operations and satisfy our principal repayment obligations that come due in 2006 and, we believe, such amounts will not be sufficient to fund our operations and satisfy such repayment obligations thereafter.

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

**Credit Facilities and Covenants**

Our ability to operate depends upon, among other things, our continued access to capital, including credit under the Charter Operating credit facilities. These credit facilities, along with our and our subsidiaries' indentures, contain certain restrictive covenants, some of which require us to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from our independent auditors. We are in compliance with the covenants under our indentures and credit facilities and the indentures of our subsidiaries, and we expect to remain in compliance with those covenants for the next twelve months. As of March 31, 2005, we had borrowing availability under our credit facilities of \$1.2 billion, none of which was restricted due to covenants. Continued access to our credit facilities is subject to our remaining in compliance with the covenants of these credit facilities, including covenants tied to our operating performance. If our operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities or indentures governing our debt occurs, funding under the credit facilities may not be available and defaults on some or potentially all of our debt obligations could occur. An event of default under the covenants governing any of our debt instruments could result in the acceleration of our payment obligations under that debt and, under certain circumstances, in cross-defaults under our other debt obligations, which could have a material adverse effect on our consolidated financial condition and results of operations.

The Charter Operating credit facilities required us to redeem the CC V Holdings, LLC notes as a result of the Charter Holdings leverage ratio becoming less than 8.75 to 1.0. In satisfaction of this requirement, in March 2005, CC V Holdings, LLC redeemed all of its outstanding notes, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of the redemption including accrued and unpaid interest was approximately \$122 million and was funded with borrowings under the Charter Operating credit facilities.

**Specific Limitations**

Our ability to make interest payments on our convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of our convertible senior notes of \$122 million and \$863 million, respectively, as of March 31, 2005, will depend on our ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including CCH II, CCO Holdings and Charter Operating. During the three months ended March 31, 2005, Charter Holdings distributed \$60 million to Charter Holdco. As of March 31, 2005, Charter Holdco was owed \$161 million in intercompany loans from its subsidiaries, which amount was available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$145 million of governmental securities pledged as security for the first six interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter and Charter Holdco) for payment of principal on Charter's convertible senior notes, however, are restricted by the indentures governing the CCH II notes, CCO Holdings notes, and Charter Operating notes, unless under their respective indentures there is no default and a specified leverage ratio test is met at the time of such event.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is

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no default under the Charter Holdings indentures and other specified tests are met. For the quarter ended March 31, 2005, there was no default under Charter Holdings indentures and other specified tests were met. However, Charter Holdings did not meet the leverage ratio of 8.75 to 1.0 based on March 31, 2005 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco are currently restricted and will continue to be restricted until that test is met. During this restriction period, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

We were required to have effective the registration statement of which this prospectus forms a part by April 21, 2005. Since this registration statement was not effective by that date, we incurred liquidated damages since that date until July 14, 2005, the day prior to the effective date of the registration statement containing this prospectus, at a rate of 0.25% per annum of the accreted principal amount of the notes. The liquidated damages will be payable by Charter in cash.

In addition, we were required to register by April 1, 2005, 150 million shares of our Class A common stock that we expect to lend to Citigroup Global Markets Limited pursuant to a share lending agreement. Such registration statement was not declared effective by that date, and we incurred liquidated damages from April 2, 2005 until July 17, 2005, the day before the effective date of such registration statement. These liquidated damages have been or will be paid in cash. These liquidated damages accrued at a rate of 0.25% per month of the accreted principal amount of the convertible notes for the first 60 days after April 1, 2005 and 0.50% per month of the accreted principal amount of the convertible notes thereafter.

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

- issuing equity that would significantly dilute existing shareholders;
- issuing convertible debt or some other securities that may have structural or other priorities over our existing notes and may also significantly dilute Charter's existing shareholders;
- further reducing our expenses and capital expenditures, which may impair our ability to increase revenue;
- selling assets; or
- requesting waivers or amendments with respect to our credit facilities, the availability and terms of which would be subject to market conditions.

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

#### **Issuance of Charter Operating Notes in Exchange for Charter Holdings Notes; Repurchase of Convertible Notes**

In March and June 2005, our subsidiary, Charter Operating, consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placement transactions, approximately \$271 million and \$62 million, respectively, principal amount of new notes with terms identical to Charter Operating's 8.375% senior second lien notes due 2014 in exchange for approximately \$284 million and \$62 million, respectively, of the Charter Holdings 8.25% senior notes due 2007. In addition, in March 2005, we repurchased from a single holder \$34 million principal amount of our 4.75% convertible senior notes due 2006 for a price equal to 98% of the principal amount plus accrued and unpaid interest. Since March 31,

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2005, we repurchased, in private transactions, from a small number of institutional holders, a total of \$97 million principal amount of the 4.75% convertible senior notes, leaving \$25 million principal amount outstanding.

**Sale of Assets**

In March 2004, we closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. We closed the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. The total net proceeds from the sale of all of these systems were approximately \$735 million. The proceeds were used to repay a portion of our revolving credit facilities.

**Summary of Outstanding Contractual Obligations**

The following table summarizes our payment obligations as of December 31, 2004 under our long-term debt and certain other contractual obligations and commitments (dollars in millions).

	<b>Payments by Period</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
<b>Contractual Obligations</b>					
Long-Term Debt Principal Payments(1)	\$ 19,791	\$ 30	\$ 917	\$ 5,898	\$ 12,946
Long-Term Debt Interest Payments(2)	10,109	1,454	3,348	3,332	1,975
Payments on Interest Rate Instruments(3)	81	50	31		
Capital and Operating Lease Obligations(1)	88	23	30	17	18
Programming Minimum Commitments(4)	1,579	318	719	542	
Other(5)	272	62	97	46	67
<b>Total</b>	<b>\$ 31,920</b>	<b>\$ 1,937</b>	<b>\$ 5,142</b>	<b>\$ 9,835</b>	<b>\$ 15,006</b>

- (1) The table presents maturities of long-term debt outstanding as of December 31, 2004 and does not reflect the effects of the March 2005 redemption of the CC V Holdings, LLC notes. Refer to Description of Certain Indebtedness and Notes 9 and 23 to our December 31, 2004 consolidated financial statements included in this prospectus for a description of our long-term debt and other contractual obligations and commitments.
- (2) Interest payments on variable debt are estimated using amounts outstanding at December 31, 2004 and the average implied forward London Interbank Offering Rate (LIBOR) rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2004. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.
- (3) Represents amounts we will be required to pay under our interest rate hedge agreements estimated using the average implied forward LIBOR rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2004.
- (4) We pay programming fees under multi-year contracts ranging generally from three to six years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Programming costs included in the accompanying statements of operations were \$1.3 billion, \$1.2 billion and \$1.2 billion for the years ended December 31, 2004, 2003 and 2002, respectively. Certain of our programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the

aggregate guaranteed minimum commitments under our programming contracts.

- (5) Other represents other guaranteed minimum commitments, which consist primarily of commitments to our billing services vendors.

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

We also rent utility poles used in our operations. Generally, pole rentals are cancelable on short notice, but we anticipate that such rentals will recur. Rent expense incurred for pole rental attachments for the years ended December 31, 2004, 2003 and 2002, was \$43 million, \$40 million and \$41 million, respectively.

We pay franchise fees under multi-year franchise agreements based on a percentage of revenues earned from video service per year. We also pay other franchise related costs, such as public education grants under multi-year agreements. Franchise fees and other franchise-related costs included in the accompanying statements of operations were \$164 million, \$162 million and \$160 million for the years ended December 31, 2004, 2003 and 2002, respectively.

We also have \$166 million in letters of credit, primarily to our various workers' compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount we may borrow under our credit facilities.

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

We held \$32 million in cash and cash equivalents as of March 31, 2005 compared to \$650 million as of December 31, 2004. The decrease in cash and cash equivalents reflects the repayment of approximately \$628 million of outstanding borrowings under the Charter Operating revolving credit facility through a series of transactions in February 2005.

*Operating Activities.* Net cash provided by operating activities increased \$38 million, or 33%, from \$115 million for the three months ended March 31, 2004 to \$153 million for the three months ended March 31, 2005. For the three months ended March 31, 2005, net cash provided by operating activities increased primarily as a result of changes in operating assets and liabilities that provided \$92 million more cash during the three months ended March 31, 2005 than the corresponding period in 2004 primarily driven by collections of accounts receivable offset by an increase in cash interest expense of \$71 million over the corresponding prior period.

Net cash provided by operating activities decreased \$293 million, or 38%, from \$765 million for the year ended December 31, 2003 to \$472 million for the year ended December 31, 2004. For the year ended December 31, 2004, net cash provided by operating activities decreased primarily as a result of changes in operating assets and liabilities that provided \$83 million less cash during the year ended December 31, 2004 than the corresponding period in 2003 and an increase in cash interest expense of \$203 million over the corresponding prior period. The change in operating assets and liabilities is primarily the result of the benefit in the year ended December 31, 2003 from collection of receivables from programmers related to network launches, while accounts receivable remained essentially flat in the year ended December 31, 2004.

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

*Investing Activities.* Net cash used by investing activities for the three months ended March 31, 2005 was \$193 million and net cash provided by investing activities for the three months ended March 31, 2004 was \$526 million. Investing activities used \$719 million more cash during the three months ended March 31, 2005 than the corresponding period in 2004 primarily as a result of proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC in 2004 offset by increased cash used for capital expenditures.

Net cash used in investing activities for the year ended December 31, 2004 and 2003 was \$243 million and \$817 million, respectively. Investing activities used \$574 million less cash during the year ended December 31, 2004 than the corresponding period in 2003 primarily as a result of cash provided by

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proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC offset by increased cash used for capital expenditures.

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

*Financing Activities.* Net cash used in financing activities decreased \$37 million from \$615 million for the three months ended March 31, 2004 to \$578 million for the three months ended March 31, 2005. The decrease in cash used during the three months ended March 31, 2005 as compared to the corresponding period in 2004, was primarily the result of an increase in borrowings of long-term debt.

Net cash provided by financing activities for the year ended December 31, 2004 was \$294 million and the net cash used in financing activities for the year ended December 31, 2003 was \$142 million. The increase in cash provided during the year ended December 31, 2004, as compared to the corresponding period in 2003, was primarily the result of an increase in borrowings of long-term debt and proceeds from issuance of debt reduced by repayments of long-term debt.

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

***Capital Expenditures***

We have significant ongoing capital expenditure requirements. However, we experienced a significant decline in such requirements starting in 2003. This decline was primarily the result of a substantial reduction in rebuild costs as our network had been largely upgraded and rebuilt in prior years. Capital expenditures, excluding acquisitions of cable systems, were \$211 million, \$190 million, \$924 million, \$854 million and \$2.2 billion for the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, respectively. The majority of the capital expenditures in 2004 and 2003 related to our customer premise equipment costs. The majority of the capital expenditures in 2002 related to our rebuild and upgrade program and purchases of customer premise equipment. Capital expenditures for the three months ended March 31, 2005 increased as compared to the three months ended March 31, 2004 as a result of increased spending on support capital related to our investment in service improvements and scalable infrastructure related to telephony services and digital simulcast offset by a decrease in the purchase of customer premise equipment. See the table below for more details.

Upgrading our cable systems has enabled us to offer digital television, high-speed data services, VOD, interactive services, additional channels and tiers, expanded pay-per-view options and VOIP telephony services to a larger customer base. Our capital expenditures are funded primarily from cash flows from operating activities, the issuance of debt and borrowings under credit facilities. In addition, during the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, our liabilities related to capital expenditures increased \$14 million and decreased \$6 million, \$43 million, \$33 million and \$55 million, respectively.

During 2005, we expect capital expenditures to increase to approximately \$1 billion. The increase in capital expenditures for 2005 compared to 2004 is the result of expected increases in telephony services and deployment of advanced digital boxes. We expect that the nature of these expenditures will continue to be composed primarily of purchases of customer premise equipment and for scalable infrastructure costs. We expect to fund capital expenditures for 2005 primarily from cash flows from operating activities and borrowings under our credit facilities.

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

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002 (dollars in millions):

	<b>Three Months Ended March 31,</b>		<b>For the Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Customer premise equipment(a)	\$ 86	\$ 114	\$ 451	\$ 380	\$ 748
Scalable infrastructure(b)	42	19	108	67	261
Line extensions(c)	29	23	131	131	101
Upgrade/Rebuild(d)	10	11	49	132	777
Support capital(e)	44	23	185	144	280
<b>Total capital expenditures(f)</b>	<b>\$ 211</b>	<b>\$ 190</b>	<b>\$ 924</b>	<b>\$ 854</b>	<b>\$ 2,167</b>

- (a) Customer premise equipment includes costs incurred at the customer residence to secure new customers, revenue units and additional bandwidth revenues. It also includes customer installation costs in accordance with SFAS 51 and customer premise equipment (e.g., set-top terminals and cable modems, etc.).
- (b) Scalable infrastructure includes costs, not related to customer premise equipment or our network, to secure growth of new customers, revenue units and additional bandwidth revenues or provide service enhancements (e.g., headend equipment).
- (c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).
- (d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.
- (e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).
- (f) Represents all capital expenditures made during the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, respectively.

**Interest Rate Risk**

We are exposed to various market risks, including fluctuations in interest rates. We use interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of our subsidiaries. Our policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate



swap agreements, we agree to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit our exposure to, and to derive benefits from, interest rate fluctuations on variable rate debt to within a certain range of rates. Interest rate risk management agreements are not held or issued for speculative or trading purposes.

As of March 31, 2005 and December 31, 2004, our long-term debt totaled approximately \$18.9 billion and \$19.5 billion, respectively. This debt was comprised of approximately \$5.1 billion and \$5.5 billion of

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credit facility debt, \$12.9 billion and \$13.0 billion accreted value of high-yield notes and \$957 million and \$990 million accreted value of convertible senior notes, respectively.

As of March 31, 2005 and December 31, 2004, the weighted average interest rate on the credit facility debt was approximately 7.0% and 6.8%, the weighted average interest rate on the high-yield notes was approximately 9.9% and 9.9%, and the weighted average interest rate on the convertible senior notes was approximately 5.7% and 5.7%, respectively, resulting in a blended weighted average interest rate of 8.9% and 8.8%, respectively. The interest rate on approximately 82% and 83% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements as of March 31, 2005 and December 31, 2004, respectively. The fair value of our high-yield notes was \$11.2 billion and \$12.2 billion at March 31, 2005 and December 31, 2004, respectively. The fair value of our convertible senior notes was \$859 million and \$1.1 billion at March 31, 2005 and December 31, 2004, respectively. The fair value of our credit facilities was \$5.1 billion and \$5.5 billion at March 31, 2005 and December 31, 2004, respectively. The fair value of high-yield and convertible notes is based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

We do not hold or issue derivative instruments for trading purposes. We do, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, net gain (loss) on derivative instruments and hedging activities includes gains of \$1 million and losses of \$1 million, gains of \$4 million and \$8 million and losses of \$14 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, a gain of \$9 million, \$2 million, \$42 million and \$48 million and losses of \$65 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as gain (loss) on derivative instruments and hedging activities in our statements of operations. For the three months ended March 31, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, net gain (loss) on derivative instruments and hedging activities includes gains of \$26 million and losses of \$6 million, gains of \$65 million and \$57 million and losses of \$101 million, respectively, for interest rate derivative instruments not designated as hedges.

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The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of December 31, 2004 (dollars in millions):

	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value at December 31, 2004
<b>Debt</b>								
Fixed Rate	\$	\$ 156	\$ 451	\$ 228	\$ 4,260	\$ 8,631	\$ 13,726	\$ 12,807
Average Interest Rate		4.75%	8.25%	10.93%	8.85%	9.32%	9.12%	
Variable Rate	\$ 30	\$ 30	\$ 280	\$ 630	\$ 780	\$ 4,315	\$ 6,065	\$ 6,052
Average Interest Rate	6.47%	7.08%	7.17%	7.45%	7.73%	8.40%	8.14%	
<b>Interest Rate Instruments</b>								
<b>Variable to Fixed Swaps</b>								
Swaps	\$ 990	\$ 873	\$ 775	\$	\$	\$	\$ 2,638	\$ (69)
Average Pay Rate	7.94%	8.23%	8.04%				8.07%	
Average Receive Rate	6.36%	7.08%	7.20%				6.85%	

The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts. The estimated fair value approximates the costs (proceeds) to settle the outstanding contracts. Interest rates on variable debt are estimated using the average implied forward London Interbank Offering Rate (LIBOR) rates for the year of maturity based on the yield curve in effect at December 31, 2004.

At March 31, 2005 and December 31, 2004, we had outstanding \$2.2 billion and \$2.7 billion and \$20 million and \$20 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

**Recently Issued Accounting Standards**

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

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

**Table of Contents****BUSINESS****Overview**

We are a broadband communications company operating in the United States, with approximately 6.23 million customers at March 31, 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 (which we refer to as high-speed data service), advanced broadband cable services (such as video on demand (VOD), high definition television service and interactive television) and, in some of our markets, we offer telephone service (which we refer to as telephony). See Business Products and Services for further description of these terms, including customers.

At March 31, 2005, we served approximately 5.98 million analog video customers, of which approximately 2.69 million were also digital video customers. We also served approximately 1.98 million high-speed data customers (including approximately 229,400 who received only high-speed data services). We also provided telephony service to approximately 55,300 customers as of that date.

At March 31, 2005, our investment in cable properties, long-term debt, accumulated deficit and total shareholders deficit were \$16.0 billion, \$18.9 billion, \$9.5 billion and \$4.8 billion, respectively. Our working capital deficit was \$1.0 billion at March 31, 2005. For the three months ended March 31, 2005, our revenues, net loss applicable to common stock and loss per common share were approximately \$1.3 billion, \$353 million and \$1.16, respectively.

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

Charter was organized as a Delaware corporation in 1999 and completed an initial public offering of its Class A common stock in November 1999. Charter is a holding company whose principal assets are an approximate 47% equity interest and a 100% voting interest in Charter Holdco, the direct parent of Charter Holdings. Charter also holds certain preferred equity and indebtedness of Charter Holdco that mirror the terms of securities issued by Charter. Charter's only business is to act as the sole manager of Charter Holdco and its subsidiaries. As sole manager, Charter controls the affairs of Charter Holdco and its subsidiaries. Certain of our subsidiaries commenced operations under the

Charter Communications name in 1994, and our growth to date has been primarily due to acquisitions and business combinations, most notably acquisitions completed from 1999 through 2001, pursuant to which we acquired a total of approximately 5.5 million customers. We do not expect to make any significant acquisitions in the foreseeable future, but plan to evaluate opportunities to consolidate our operations through exchanges of cable systems with other cable operators, as they arise. We may also sell certain assets from time to time. Paul G. Allen owns approximately 53% of Charter Holdco through affiliated entities. His membership units are convertible at any time for shares of our Class A common stock on a one-for-one basis. Paul G. Allen controls Charter with an as-converted common equity interest of approximately 57% and a beneficial voting control interest of approximately 93% as of March 31, 2005.

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### **Business Strategy**

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

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

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

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

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

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

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

We 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 increase efforts to focus management attention on instilling a customer service oriented culture throughout the company and to give those areas of our operations increased priority of resources for staffing levels, training budgets and financial incentives for employee performance in those areas.

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

the December 2004 sale by our subsidiaries, CCO Holdings, LLC 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 described in this prospectus;

the December 2004 redemption of all of our 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 \$735 million, the proceeds of which were used to reduce indebtedness.

**Charter Background**

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

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the equity interests of Charter Investment, Inc., which controlled various operating subsidiaries that serviced approximately 1.2 million customers.

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

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

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

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

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

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

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

**Products and Services**

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

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The following table summarizes our customer statistics for analog and digital video, residential high-speed data, and residential telephony as of March 31, 2005 and 2004:

	Approximate as of	
	March 31, 2005(a)	March 31, 2004(a)
<b>Cable Video Services:</b>		
<b>Analog Video:</b>		
Residential (non-bulk) analog video customers(b)	5,732,600	5,953,200
Multi-dwelling (bulk) and commercial unit customers(c)	252,200	238,800
Analog video customers(b)(c)	5,984,800	6,192,000
<b>Digital Video:</b>		
Digital video customers(d)	2,694,600	2,657,400
<b>Non-Video Cable Services:</b>		
Residential high-speed data customers(e)	1,978,400	1,653,000
Telephony customers(f)	55,300	26,300

- (a) Customers include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts (such as our employees). In addition, at March 31, 2005 and 2004, customers include approximately 43,100 and 53,100 persons whose accounts were over 60 days past due in payment, approximately 7,000 and 5,800 persons whose accounts were over 90 days past due in payment, and approximately 3,600 and 2,200 of which were over 120 days past due in payment, respectively.
- (b) Residential (non-bulk) analog video customers include all customers who receive video services, except for complimentary accounts (such as our employees).
- (c) Included within video customers are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit ( EBU ) basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. The EBU method of estimating analog video customers is consistent with the methodology used in determining costs paid to programmers and has been consistently applied year over year. As we increase our effective analog prices to residential customers without a corresponding increase in the prices charged to commercial service or multi-dwelling customers, our EBU count will decline even if there is no real loss in commercial service or multi-dwelling customers.
- (d) Digital video customers include all households that have one or more digital set-top terminals. Included in digital video customers on March 31, 2005 and 2004 are approximately 10,000 and 12,000 customers, respectively, that receive digital video service directly through satellite transmission.
- (e) All of these customers also receive video service and are included in the video statistics above except for approximately 229,400 and 142,700 of these customers at March 31, 2005 and 2004, respectively, who were residential high-speed data only customers.



- (f) Telephony customers include all households receiving telephone service.

***Video Services***

Our video service offerings include the following:

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

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

*Premium Channels.* These channels provide commercial-free movies, sports and other special event entertainment programming. Although we offer subscriptions to premium channels on an individual basis, we offer an increasing number of premium channel packages and we offer premium channels with our advanced services.

*Pay-Per-View.* These channels allow customers to pay on a per event basis to view a single showing of a recently released movie, a one-time special sporting event, music concert or similar event on a commercial-free basis.

*Digital Video.* We offer digital video service to our customers in several different service combination packages. All of our digital packages include a digital set-top terminal, an interactive electronic programming guide, an expanded menu of pay-per-view channels and the option to also receive digital packages which range from 4 to 30 additional video channels. We also offer our customers certain digital packages with one or more premium channels that give customers access to several different versions of the same premium channel. Some digital tier packages focus on the interests of a particular customer demographic and emphasize, for example, sports, movies, family or ethnic programming. In addition to video programming, digital video service enables customers to receive our advanced services such as VOD and high definition television. Other digital packages bundle digital television with our advanced services, such as high-speed data services.

*Video On Demand and Subscription Video on Demand.* We offer VOD service, which allows customers to access hundreds of movies and other programming at any time with digital picture quality. In some systems we also offer subscription VOD (SVOD) for a monthly fee or included in a digital tier premium channel subscription.

*High Definition Television.* High definition television offers our digital customers video programming at a higher resolution than the standard analog or digital video image.

*Digital Video Recorder.* DVR service enables customers to digitally record programming and to pause and rewind live programming.

***High-Speed Data Services***

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

We ended the first quarter of 2005 with 18% penetration of high-speed data homes passed, an increase from 16% penetration of high-speed data homes passed at March 31, 2004. This gave us a percentage increase in high-speed data customers of 20% and an increase in high-speed data revenues of 28% in the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

***Telephony Services***

We continue to deploy voice communications services using VOIP to transmit digital voice signals over our systems. At March 31, 2005, our telephone service was available to approximately 1.1 million homes and we were marketing to approximately two-thirds of those homes. We will continue to prepare additional markets for VOIP launches in 2005.

**Table of Contents****Commercial Services**

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

**Sale of Advertising**

We receive revenues from the sale of local advertising on satellite-delivered networks such as MTV®, CNN® and ESPN®. In any particular market, we generally insert local advertising on up to 39 channels. Our system rebuilds have increased the number of available channels on which we are able to insert local advertising. We also provide cross-channel advertising to some programmers.

From time to time, certain of our vendors, including equipment vendors, have purchased advertising from us. For the three months ended March 31, 2005 and the years ending December 31, 2004, 2003 and 2002, we had advertising revenues from vendors of approximately \$3 million, \$16 million, \$15 million and \$79 million, respectively. These revenues resulted from purchases at market rates pursuant to binding agreements.

**Pricing of Our Products and Services**

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

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

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

Service	Price Range as of March 31, 2005		
Analog video packages	\$ 7.00	-	\$ 54.00
Premium channels	\$ 10.00	-	\$ 15.00
Pay-per-view events	\$ 2.99	-	\$ 179.00
Digital video packages (including high-speed data service for higher tiers)	\$ 34.00	-	\$ 112.00
High-speed data service	\$ 21.95	-	\$ 49.99
Video on demand (per selection)	\$ 0.99	-	\$ 29.99
High definition television	\$ 3.99	-	\$ 6.99
Digital video recorder ( DVR )	\$ 6.99	-	\$ 9.99

In addition, from time to time we offer free service or reduced-price service during promotional periods in order to attract new customers.

**Our Network Technology**

The following table sets forth the technological capacity of our systems as of March 31, 2005 based on a percentage of homes passed:

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



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As a result of the upgrade of our systems over the past several years, approximately 92% of the homes passed by our systems have bandwidth of 550 megahertz or greater. This bandwidth capacity enables us to offer digital television, high-speed data services and other advanced services. It also enables us to offer up to 82 analog channels, and even more channels when our bandwidth is used for digital signal transmissions. Our increased bandwidth also permits two-way communication for Internet access, interactive services, and potentially, telephony services.

As part of our systems upgrade and partly as a result of system sales, we reduced the number of headends that serve our customers from 1,138 at January 1, 2001 to 744 at March 31, 2005. Because headends are the control centers of a cable system, where incoming signals are amplified, converted, processed and combined for transmission to the customer, reducing the number of headends reduces related equipment, service personnel and maintenance expenditures. We believe that the headend consolidation, together with our other upgrades, allows us to provide enhanced picture quality and greater system reliability. As a result of the upgrade, approximately 84% of our customers were served by headends serving at least 10,000 customers as of March 31, 2005.

As of March 31, 2005, our cable systems consisted of approximately 222,100 strand miles, including approximately 53,600 strand miles of fiber optic cable, passing approximately 12.2 million households and serving approximately 6.2 million customers.

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

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

increased bandwidth capacity, for more channels and other services;

dedicated bandwidth for two-way services, which avoids reverse signal interference problems that can occur with two-way communication capability; and

improved picture quality and service reliability.

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

**Management of Our Systems**

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

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### **Customer Care**

We have 36 customer service locations, including 14 divisional contact centers that serve approximately 97% of our customers. Our customer care centers are managed divisionally by a Vice President of Customer Care and are supported by a corporate care team, which oversees and supports deployment and execution of care strategies and initiatives on a company-wide basis. This reflects a substantial consolidation of our customer care function from over 300 service centers in 2001. We believe that this consolidation will allow us to improve the consistency of our service delivery and customer satisfaction by reducing or eliminating the logistical challenges and poor economies of scale inherent in maintaining and supervising a larger number of separately managed service centers.

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

We believe that, despite our consolidation, we have not yet sufficiently improved in the area of customer care, and that this lack of improvement has in part led to a continued net loss of customers. Accordingly, we have begun an internal operational improvement initiative aimed at helping us gain new customers and retain existing customers, which is focused on customer care, among other areas. We intend to increase our efforts to focus management attention on instilling a customer service oriented culture throughout the company and to give those areas of our operations increased priority of resources for staffing levels, training budgets and financial incentives for employee performance in those areas.

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

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

### **Sales and Marketing**

In the third quarter of 2004, Charter shifted primary responsibility for implementing sales and marketing strategies to the divisional and system level, with a single corporate team to ensure compliance with guidelines established by the corporate marketing department designed to promote national branding consistency. Our marketing infrastructure is intended to promote interaction, information flow and sharing of best practices between our corporate office and our field offices, which make strategic decisions as to when and how marketing programs will be implemented.

Due to our focus in 2003 on certain other operational matters and due to certain financial constraints, we reduced spending in 2003 on marketing our products and services. Marketing expenditures increased 14% for the year ended December 31, 2004 to \$122 million. We expect to increase our spending on marketing in 2005 and as such marketing expenditures increased 13% to \$35 million for the three months ended March 31, 2005.

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

In January 2004, we introduced the first national branding campaign in Charter's history. The Get Hooked branding initiative was a key focal point of our national marketing campaigns in 2004, with the

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aim of promoting deeper market penetration and increased revenue per customer. In 2004, our corporate team produced eight national Get Hooked marketing campaigns designed to:

Promote awareness and loyalty among existing customers and attract new customers;

Announce the availability of our advanced services as we roll them out in our systems;

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

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

## **Programming**

### ***General***

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

### ***Costs***

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

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases. We expect them to continue to increase due to a variety of factors, including annual increases imposed by programmers and additional programming being provided to customers as a result of system rebuilds and bandwidth reallocation, both of which increase channel capacity.

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

Historically, we have absorbed increased programming costs in large part through increased prices to our customers. However, with the impact of competition and other marketplace factors, there is no assurance that we will be able to continue to do so. In order to maintain or mitigate reductions of margins despite increasing programming costs, we plan to continue to migrate certain program services from our analog level of service to our digital tiers. As we migrate our programming to our digital tier packages, certain programming that was previously available to all of our customers via an analog signal, may be part of an elective digital tier package. As a result, the customer base upon which we pay programming fees will proportionately decrease, and the overall expense for providing that service would likewise decrease. Reductions in the size of certain programming customer bases may result in the loss of specific volume discount benefits.

As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of July 7, 2005 approximately 9% of our current programming

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contracts were expired, and approximately another 21% are scheduled to expire at or before the end of 2005. We plan to seek to renegotiate the terms of our agreements with certain programmers as these agreements come due for renewal. There can be no assurance that these agreements will be renewed on favorable or comparable terms. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable, we may be forced to remove such programming channels from our line-up, which could result in a further loss of customers. In addition, our inability to fully pass these programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins.

**Franchises**

As of March 31, 2005, our systems operated pursuant to a total of approximately 4,100 franchises, permits and similar authorizations issued by local and state governmental authorities. Each franchise, permit or similar authorization is awarded by a governmental authority and such governmental authority often must approve a transfer to another party. Most franchises are subject to termination proceedings in the event of a material breach. In addition, most franchises require us to pay the granting authority a franchise fee of up to 5.0% of revenues as defined in the various agreements, which is the maximum amount that may be charged under the applicable federal law. We are entitled to and generally do pass this fee through to the customer.

Prior to the scheduled expiration of most franchises, we initiate renewal proceedings with the granting authorities. This process usually takes three years but can take a longer period of time. The Communications Act provides for an orderly franchise renewal process in which granting authorities may not unreasonably withhold renewals. In connection with the franchise renewal process, many governmental authorities require the cable operator to make certain commitments. Historically we have been able to renew our franchises without incurring significant costs, although any particular franchise may not be renewed on commercially favorable terms or otherwise. Our failure to obtain renewals of our franchises, especially those in the major metropolitan areas where we have the most customers, could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants. Approximately 10% of our franchises, covering approximately 9% of our analog video customers were expired as of March 31, 2005. Approximately 6% of additional franchises, covering approximately 8% of additional analog video customers will expire on or before December 31, 2005, if not renewed prior to expiration. We expect to renew substantially all of these franchises.

Under the Telecommunications Act of 1996 (the 1996 Telecom Act ), state and local authorities are prohibited from limiting, restricting or conditioning the provision of telecommunications services. They may, however, impose competitively neutral requirements and manage the public rights-of-way. Granting authorities may not require a cable operator to provide telecommunications services or facilities, other than institutional networks, as a condition of an initial franchise grant, a franchise renewal, or a franchise transfer. The 1996 Telecom Act also limits franchise fees to an operator's cable-related revenues and clarifies that they do not apply to revenues that a cable operator derives from providing new telecommunications services. In a March 2002 decision, the Federal Communications Commission ( FCC ) held that revenue derived from the provision of cable modem service should not be added to franchise fee payments already limited by federal law to 5% of traditional cable service revenue. The same decision tentatively limited local franchising authority regulation of cable modem service. The FCC decision was appealed and ultimately affirmed by the Supreme Court in a June 2005 ruling.

**Competition**

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



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In terms of competition for customers, we view ourselves as a member of the broadband communications industry, which encompasses multi-channel video for television and related broadband services, such as high-speed data and other interactive video services. In the broadband industry, our principal competitor for video services throughout our territory is direct broadcast satellite ( DBS ), and in markets where it is available, our principal competitor for data services is digital subscriber line ( DSL ). We do not consider other cable operators to be significant one-on-one competitors in the market overall, as traditional overbuilds are infrequent and spotty geographically (although in a particular market, a cable operator overbuilder would likely be a significant competitor at the local level). As of March 31, 2005, we are aware of traditional overbuild situations in service areas covering approximately 5% of our total homes passed and potential overbuilds in areas servicing approximately 1% of our total homes passed.

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

Our key competitors include:

***Direct Broadcast Satellite***

Direct broadcast satellite ( DBS ) is a significant competitor to cable systems. The DBS industry has grown rapidly over the last several years, far exceeding the growth rate of the cable television industry, and now serves more than 24 million subscribers nationwide. DBS service allows the subscriber to receive video services directly via satellite using a relatively small dish antenna. Consistent with increasing consolidation in the communications industry, News Corp., one of the world's largest media companies, acquired a controlling interest in DIRECTV, Inc. ( DirecTV ) in 2003, the largest domestic DBS company. This business combination could further strengthen DirecTV's competitive posture, particularly through favorable programming arrangements with various News Corp. affiliates and subsidiaries, such as the Fox television network. Additionally, EchoStar Communications Corporation ( EchoStar ) and DirecTV both have entered into joint marketing agreements with major telecommunications companies to offer bundled packages combining phone, data and video services.

Video compression technology and high powered satellites allow DBS providers to offer more than 200 digital channels from a single satellite, thereby surpassing the typical analog cable system. In 2003, major DBS competitors offered a greater variety of channel packages, and were especially competitive at the lower end pricing, such as a monthly price of approximately \$30 for 75 channels compared to approximately \$40 for the closest comparable package in most of our markets. In addition, while we continue to believe that the initial investment by a DBS customer exceeds that of a cable customer, the initial equipment cost for DBS has decreased substantially, as the DBS providers have aggressively marketed offers to new customers of incentives for discounted or free equipment, installation and multiple units. DBS providers are able to offer service nationwide and are able to establish a national image and branding with standardized offerings, which together with their ability to avoid franchise fees of up to 5% of revenues and property tax, leads to greater efficiencies and lower costs in the lower tiers of service. However, we believe that many consumers continue to prefer our stronger local presence in our markets. We believe that cable-delivered VOD and SVOD service are superior to DBS service because cable headends can store thousands of titles which customers can access and control independently, whereas DBS technology can only make available a much smaller number of titles with DVR-like customer control. We also believe that our higher tier products, particularly our bundled premium packages, are price-competitive with DBS packages and that many consumers prefer our ability to economically bundle video packages with data packages. Further, cable providers have the potential in some areas to provide a more complete whole house communications package when combining video, high-speed data and voice. We believe that this ability to bundle, combined with the introduction of more new products that DBS cannot readily offer (local high definition television and local interactive television) differentiates us from

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DBS competitors and could enable us to win back some of our former customers who migrated to satellite. However, recent joint marketing arrangements between DBS providers and telecommunications carriers allow similar bundling of services in certain areas. Competition from DBS service providers may also present greater challenges in areas of lower population density, and we believe that our systems serve a higher concentration of such areas than those of other major cable service providers.

DBS companies historically were prohibited from retransmitting popular local broadcast programming. However, a change to the copyright laws in 1999, which was continued in 2004, eliminated this legal impediment. As a result, DBS companies now may retransmit such programming, once they have secured retransmission consent from the popular broadcast stations they wish to carry, and honor mandatory carriage obligations of less popular broadcast stations in the same television markets. In response to the legislation, DirecTV and EchoStar have been carrying the major network stations in many of the nation's television markets. DBS, however, is limited in the local programming it can provide because of the current capacity limitations of satellite technology. DBS companies do not offer local broadcast programming in every U.S. market, although the number of markets covered is substantial and increasing.

DBS providers have made attempts at widespread deployment of high-speed Internet access services via satellite but those services have been technically constrained and of limited appeal. However, DBS providers have entered into joint marketing arrangements with telecommunications carriers allowing them to offer terrestrial DSL services in many markets.

***DSL and Other Broadband Services***

Digital subscriber line (DSL) service allows Internet access to subscribers at data transmission speeds greater than those available over conventional telephone lines. DSL service therefore is competitive with high-speed Internet access over cable systems. Most telephone companies which already have plant, an existing customer base, and other operational functions in place (such as, billing, service personnel, etc.) offer DSL service. DSL actively markets its service and many providers have offered promotional pricing with a one-year service agreement. The FCC has initiated a rulemaking proceeding that could materially reduce existing regulation of DSL service, essentially freeing such service from traditional telecommunications regulation. It is also possible that federal legislation could reduce regulation of Internet services offered by incumbent telephone companies. Legislative action and the FCC's decisions and policies in this area are subject to change. We expect DSL to remain a significant competitor to our data services. In addition, the further deployment of fiber by telephone companies into their networks will enable them to provide higher bandwidth Internet service than provided over traditional DSL lines.

In addition to terrestrially based DSL, satellite-based delivery options are in development. Local wireless Internet services have also begun to operate in many markets using unlicensed radio spectrum. This service option, popularly known as wi-fi, offers another alternative to cable-based Internet access.

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

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

**Table of Contents*****Broadcast Television***

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

***Traditional Overbuilds***

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

As of March 31, 2005, we are aware of overbuild situations impacting approximately 5% of our total homes passed and potential overbuild situations in areas servicing approximately 1% of our total homes passed. Additional overbuild situations may occur in other systems. In response to such overbuilds, these systems have been designated priorities for the upgrade of cable plant and the launch of new and enhanced services. As of March 31, 2005, we have upgraded many of these systems to at least 750 megahertz two-way HFC architecture.

***Telephone Companies and Utilities***

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

Telephone companies can lawfully enter the cable television business, and although activity in this area historically has been quite limited, recent announcements by telephone companies indicate a growing interest in offering a video product. Local exchange carriers do already provide facilities for the transmission and distribution of voice and data services, including Internet services, in competition with our existing or potential interactive services ventures and businesses. Some telephone companies have begun more extensive deployment of fiber in their networks that will enable them to begin providing video services, as well as telephony and Internet access service. At least one major telephone company, SBC, plans to provide Internet protocol video over its upgraded network. SBC contends that its use of this technology should allow it to provide video service without a cable franchise as required under Title VI of the Communications Act. Other telephone companies deploying fiber more extensively are attempting through various means (including federal and state legislation) to weaken or streamline the franchising requirements applicable to them. If telephone companies are successful in avoiding or weakening the franchise and other regulatory requirements

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that are applicable to cable operators like Charter, their competitive posture would be enhanced. We cannot predict the likelihood of success of the broadband services offered by our competitors or the impact on us of such competitive ventures. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of established cable systems.

As we expand our offerings to include Internet access and other telecommunications services, we will be subject to competition from other telecommunications providers. The telecommunications industry is highly competitive and includes competitors with greater financial and personnel resources, who have brand name recognition and long-standing relationships with regulatory authorities and customers. Moreover, mergers, joint ventures and alliances among franchise, wireless or private cable operators, local exchange carriers and others may result in providers capable of offering cable television, Internet, and telecommunications services in direct competition with us. For example, major local exchange carriers have entered into arrangements with EchoStar and DirecTV in which they will market packages combining phone service, DSL and DBS services.

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

### ***Private Cable***

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

### ***Wireless Distribution***

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

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

### **Properties**

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

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

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

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total real estate portfolio square footage by approximately 17% and have decreased our operating annual lease costs by approximately 30%. We plan to continue reducing our number of administrative offices and lease the space, where possible, while attempting to sell those existing locations that we believe are no longer required. Our subsidiaries generally have leased space for business offices throughout our operating divisions. Our headend and tower locations are located on owned or leased parcels of land, and we generally own the towers on which our equipment is located. Charter Holdco owns the real property and building for our principal executive offices.

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

**Employees**

As of March 31, 2005, we had approximately 16,100 full-time equivalent employees. At March 31, 2005, approximately 100 of our employees were represented by collective bargaining agreements. We have never experienced a work stoppage.

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

**Legal Proceedings*****Securities Class Actions and Derivative Suits***

Fourteen putative federal class action lawsuits (the *Federal Class Actions*) were filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages were sought by the plaintiffs. In general, the lawsuits alleged that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects. The Federal Class Actions were specifically and individually identified in public filings made by Charter prior to the date of this prospectus.

In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the *Panel*) to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel's transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel's transfer order. StoneRidge subsequently filed a Consolidated Amended Complaint. The Court subsequently consolidated the Federal Class Actions into a single action (the *Consolidated Federal Class Action*) for pretrial purposes. On June 19, 2003, following a status and scheduling conference with the parties, the Court issued a Case Management Order setting forth a schedule for the pretrial phase of the Consolidated Federal Class Action. Motions to dismiss the Consolidated Amended Complaint were filed. On February 10, 2004, in response to a joint motion made by StoneRidge and defendants Charter, Vogel and Allen, the court entered an order providing, among other things, that: (1) the parties who filed such motion engage in a mediation within ninety (90) days; and (2) all proceedings in the Consolidated

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Federal Class Actions were stayed until May 10, 2004. On May 11, 2004, the Court extended the stay in the Consolidated Federal Class Action for an additional sixty (60) days. On July 12, 2004, the parties submitted a joint motion to again extend the stay, this time until September 10, 2004. The Court granted that extension on July 20, 2004. On August 5, 2004, Stoneridge, Charter and the individual defendants who were the subject of the suit entered into a Memorandum of Understanding setting forth agreements in principle to settle the Consolidated Federal Class Action. These parties subsequently entered into Stipulations of Settlement dated as of January 24, 2005 (described more fully below) which incorporate the terms of the August 5, 2004 Memorandum of Understanding.

The Consolidated Federal Class Action is entitled:

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

On September 12, 2002, a shareholders derivative suit (the State Derivative Action ) was filed in the Circuit Court of the City of St. Louis, State of Missouri (the Missouri State Court ), against Charter and its then current directors, as well as its former auditors. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter s behalf, are sought by the plaintiffs.

The consolidated State Derivative Action is entitled:

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

On March 12, 2004, an action substantively identical to the State Derivative Action was filed in the Missouri State Court, against Charter and certain of its current and former directors, as well as its former auditors. The plaintiffs in that case alleged that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter s behalf, were sought by plaintiffs. On July 14, 2004, the Court consolidated this case with the State Derivative Action.

This action is entitled:

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

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

The Federal Derivative Action is entitled:

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

As noted above, Charter and the individual defendants entered into a Memorandum of Understanding on August 5, 2004 setting forth agreements in principle regarding settlement of the Consolidated Federal

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Class Action, the State Derivative Action(s) and the Federal Derivative Action (the *Actions* ). Charter and various other defendants in those actions subsequently entered into Stipulations of Settlement dated as of January 24, 2005, setting forth a settlement of the Actions in a manner consistent with the terms of the Memorandum of Understanding. The Stipulations of Settlement, along with various supporting documentation, were filed with the Court on February 2, 2005. An amendment to the Stipulations was later filed with the Court and made effective as of May 23, 2005. On May 23, 2005 the United States District Court for the Eastern District of Missouri conducted the final fairness hearing for the Actions, and on June 30, 2005, the court issued its final approval of the settlements. Members of the class have 30 days from the issuance of the June 30 order approving the settlement to file an appeal challenging the approval. A notice of appeal has been filed relating to the settlement, but Charter does not yet know the specific issues presented by such appeal.

As amended, the Stipulations of Settlement provide that, in exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter would pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which will include the fees and expenses of plaintiffs' counsel. Of this amount, \$64 million would be paid in cash (by Charter's insurance carriers) and the \$80 million balance was to be paid (subject to Charter's right to substitute cash therefor described below) in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million, with such values in each case being determined pursuant to formulas set forth in the Stipulations of Settlement. However, Charter had the right, in its sole discretion, to substitute cash for some or all of the aforementioned securities on a dollar for dollar basis. Pursuant to that right, Charter has elected to fund the \$80 million obligation with 13.4 million shares of Charter Class A common stock (having an aggregate value of approximately \$15 million pursuant to the formula set forth in the Stipulations of Settlement) with the remaining balance (less an agreed upon \$1.6 million discount in respect of that portion allocable to plaintiffs' attorneys' fees) to be paid in cash. In addition, Charter had agreed to issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million; however, Charter and its carriers agreed that Charter would pay them \$4.5 million in lieu of issuing such shares, and Charter has paid that amount to its carriers. Charter delivered the settlement consideration to the claims administrator on July 8, 2005, and it will be held in escrow pending any appeals of the approval.

As part of the settlements, Charter also committed to a variety of corporate governance changes, internal practices and public disclosures, some of which have already been undertaken and none of which are inconsistent with measures Charter is taking in connection with the recent conclusion of the SEC investigation described below.

***Government Investigations***

In August 2002, Charter became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, and its reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office publicly stated that Charter is not a target of the investigation. Charter was also advised by the U.S. Attorney's Office that no current officer or member of its board of directors is a target of the investigation. On July 24, 2003, a federal grand jury charged four former officers of Charter with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. Each of the indicted former officers pled guilty to single conspiracy counts related to the original mail and wire fraud charges and were sentenced April 22, 2005. Charter fully cooperated with the investigation, and following the sentencings, the U.S. Attorney's Office for the Eastern District of Missouri announced that its investigation was concluded and that no further indictments would issue.

On November 4, 2002, Charter received an informal, non-public inquiry from the staff of the SEC. The SEC issued a formal order of investigation dated January 23, 2003, and subsequently served document

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and testimony subpoenas on Charter and a number of its former employees. The investigation and subpoenas generally concerned Charter's prior reports with respect to its determination of the number of customers, and various of its accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. On July 27, 2004, the SEC and Charter reached a final agreement to settle the investigation. In the Settlement Agreement and Cease and Desist Order, Charter agreed to entry of an administrative order prohibiting any future violations of United States securities laws and requiring certain other remedial internal practices and public disclosures. Charter neither admitted nor denied any wrongdoing, and the SEC assessed no fine against Charter.

***Indemnification***

Charter is generally required to indemnify, under certain conditions, each of the named individual defendants in connection with the matters described above pursuant to the terms of its bylaws and (where applicable) such individual defendants' employment agreements. In accordance with these documents, in connection with the pending grand jury investigation, the now-settled SEC investigation and the above-described lawsuits, some of Charter's current and former directors and current and former officers have been advanced certain costs and expenses incurred in connection with their defense. See Certain Relationships and Related Transactions Indemnification Advances for greater detail. On February 22, 2005, Charter filed suit against four of its former officers who were indicted in the course of the grand jury investigation. These suits seek to recover the legal fees and other related expenses advanced to these individuals by Charter for the grand jury investigation, SEC investigation and class action and related lawsuits. One of these former officers, James Smith, has counterclaimed against Charter alleging, among other things, that Charter owes him additional indemnification for legal fees that Charter did not pay. Another of these former officers, David McCall, has counterclaimed against Charter that Charter owes him accrued sick leave.

***Other Litigation***

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

In January 2003, the Court of Common Pleas granted the plaintiffs' motion for class certification. In October and November 2003, Charter Holdco filed motions (a) asking that court to set aside the default judgment, and (b) seeking dismissal of plaintiffs' suit for failure to state a claim. In January 2004, the Court of Common Pleas granted in part and denied in part Charter Holdco's motion to dismiss for failure to state a claim. It also took under advisement Charter Holdco's motion to set aside the default judgment. In April 2004, the parties to both the Georgia and South Carolina Class Actions participated in a mediation. The mediator made a proposal to the parties to settle the lawsuits. In May 2004, the parties accepted the mediator's proposal and reached a tentative settlement, subject to final documentation and



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court approval. As a result of the tentative settlement, we recorded a special charge of \$9 million in our consolidated statement of operations in the first quarter of 2004. On July 8, 2004, the Superior Court of Athens Clarke County, Georgia granted a motion to amend the Tobar complaint to add Nicholls, Barber and April Jones as plaintiffs in the Georgia Class Action and to add any potential class members in South Carolina. The court also granted preliminary approval of the proposed settlement on that date. On August 2, 2004, the parties submitted a joint request to the South Carolina Court of Common Pleas to stay the South Carolina Class Action pending final approval of the settlement and on August 17, 2004, that court granted the parties request. On November 10, 2004, the court granted final approval of the settlement, rejecting positions advanced by two objectors to the settlement. On December 13, 2004, the court entered a written order formally approving that settlement. On January 11, 2005, certain class members appealed the order entered by the Georgia court. Those objectors voluntarily dismissed their appeal with prejudice on February 8, 2005. On February 9, 2005, the South Carolina Court of Common Pleas entered a court order of dismissal for the South Carolina Class Action. Additionally, one of the objectors to this settlement filed a similar, but not identical, lawsuit in Massachusetts state court. The action purports to be brought on behalf of three different classes of customers and generally alleges that the putative class members were overcharged for converter boxes and remote controls.

The South Carolina Class Action was entitled:

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

The Georgia Class Action was entitled:

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

***Outcome***

In addition to the matters set forth above, Charter is also party to other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims are not expected to have a material adverse effect on our consolidated financial condition, results of operations or our liquidity.

**Table of Contents****REGULATION AND LEGISLATION**

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

**Cable Rate Regulation**

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

There have been frequent calls to impose expanded rate regulation on the cable industry. Confronted with rapidly increasing cable programming costs, it is possible that Congress may adopt new constraints on the retail pricing or packaging of cable programming. Such constraints could adversely affect our operations.

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

**Must Carry/ Retransmission Consent**

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

The burden could also increase significantly if cable systems become required to carry multiple program streams included within a single digital broadcast transmission (multicast carriage). Additional

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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 modify its position or Congress could legislate additional carriage obligations. In particular, broadcast carriage burdens may increase as Congress and the FCC attempt to transition broadcasters to digital spectrum and reclaim analog spectrum.

There are indications that broadcasters invoking retransmission consent may be even more forceful in upcoming negotiations. These negotiations could result in increased broadcast carriage burdens or the loss of popular programming.

### **Access Channels**

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

### **Access to Programming**

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

### **Ownership Restrictions**

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

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

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### **Internet Service**

Over the past several years, proposals have been advanced that would require cable operators offering Internet service to provide non-discriminatory access to unaffiliated Internet service providers. 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 the recency of the *Brand X* decision, however, the nature of any legislative or regulatory response remains uncertain. The imposition of open access requirements could materially affect our business.

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

### **Phone Service**

The 1996 Telecom Act created a more favorable regulatory environment for us to provide telecommunications services. In particular, it limited the regulatory role of local franchising authorities and established requirements ensuring that we could interconnect with other telephone companies to provide a viable service. Many implementation details remain unresolved, and there are substantial regulatory changes being considered that could impact, in both positive and negative ways, our primary telecommunications competitors and our own entry into the field of phone service. The FCC and state regulatory authorities are considering, for example, whether common carrier regulation traditionally applied to incumbent local exchange carriers should be modified. The FCC recently decided that alternative voice technologies, like certain types of VOIP, should be regulated only at the federal level, rather than by individual states. While this decision appears to be a positive development for VOIP offerings, it is unclear whether and how the FCC will apply certain types of common carrier regulations, such as intercarrier compensation and universal service obligations to alternative voice technology. The FCC recently imposed traditional 911 emergency service obligations on VOIP provided telephony, as well as certain additional notice requirements. The treatment of these regulations and other regulatory matters will affect our potential expansion into phone service.

### **Pole Attachments**

The Communications Act requires most utilities to provide cable systems with access to poles and conduits and simultaneously regulates the rates charged for this access. The Act specifies that significantly higher rates apply if the cable plant is providing telecommunications service, as well as traditional cable service. The FCC has clarified that a cable operator's favorable pole rates are not endangered by the provision of Internet access, and that determination was upheld by the United States Supreme Court. It remains possible that the underlying pole attachment formula, or its application to Internet and telecommunications offerings, will be modified in a manner that substantially increases our pole attachment costs.

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### **Cable Equipment**

The FCC has undertaken several steps to promote competition in the delivery of cable equipment and compatibility with new digital technology. The FCC has expressly ruled that cable customers must be allowed to purchase set-top terminals from third parties and established a multi-year phase-in during which security functions (which would remain in the operator's exclusive control) would be unbundled from the basic converter functions, which could then be provided by third party vendors. The first phase of implementation has already passed. A prohibition on cable operators leasing digital set-top terminals that integrate security and basic navigation functions was scheduled to go into effect as of July 1, 2006, but the FCC extended the deadline for one year to July 1, 2007.

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

The FCC adopted companion broadcast flag rules, requiring cable carriage of a code embedded in digital broadcast programming that will regulate the further use of copyright programming. However, the U.S. Circuit Court of Appeals for the D.C. Circuit recently held that the FCC lacks jurisdiction to impose the broadcast flag rules.

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

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

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

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

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

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

### **Copyright**

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

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subject of continuing legislative review and could adversely affect our ability to obtain desired broadcast programming. We cannot predict the outcome of this legislative activity. Moreover, the Copyright Office has not yet provided any guidance as to the how the compulsory copyright license should apply to newly offered digital broadcast signals.

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

**Franchise Matters**

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

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

**Table of Contents****MANAGEMENT****Directors**

The persons listed below are directors of Charter.

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

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

*Paul G. Allen*, 52, has been Chairman of our board of directors since July 1999, and Chairman of the board of directors of Charter Investment, Inc. (a predecessor to, and currently an affiliate of, Charter) since December 1998. Mr. Allen, co-founder of Microsoft Corporation, has been a private investor for more than 15 years, with interests in over 50 technology, telecommunications, content and biotech companies. Mr. Allen's investments include Vulcan Inc., Vulcan Productions, Inc., the Portland Trail Blazers NBA and Seattle Seahawks NFL franchises, and investments in DreamWorks LLC and Oxygen Media. In addition, Mr. Allen is a director of Vulcan Programming Inc., Vulcan Ventures, Vulcan Inc., Vulcan Cable III Inc., numerous privately held companies and, until its sale in May 2004 to an unrelated third party, TechTV L.L.C.

*W. Lance Conn*, 37, was elected to our board of directors in September 2004. Since July 2004, Mr. Conn has served as Executive Vice President, Investment Management for Vulcan Inc., the investment and project management company that oversees a diverse multi-billion dollar portfolio of investments by Paul G. Allen. Prior to joining Vulcan Inc., Mr. Conn was employed by America Online, Inc., an interactive online services company, from March 1996 to May 2003. From 1997 to 2000, Mr. Conn served in various senior business development roles at America Online. In 2000, Mr. Conn began supervising all of America Online's European investments, alliances and business initiatives. In 2002, he became Senior Vice President of America Online U.S. where he led a company-wide effort to restructure and optimize America Online's operations. From September 1994 until February 1996, Mr. Conn was an attorney with the Shaw Pittman law firm in Washington, D.C. Mr. Conn holds a J.D. degree from the University of Virginia, a master's degree in history from the University of Mississippi and an A.B. in history from Princeton University.

*Jonathan L. Dolgen*, 60, was elected to our board of directors in October 2004. Since July 2004, Mr. Dolgen has also been a Senior Advisor to Viacom, Inc. (Viacom) a worldwide entertainment and media company, where he provides advisory services to the current Chairman and Chief Executive of Viacom, or others designated by him, on an as requested basis. Since July 2004, Mr. Dolgen has been a private investor and since September 2004, Mr. Dolgen has been a principal of Wood River Ventures, LLC, a private start-up entity that is seeking investment and other opportunities primarily in the media sector. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group, a unit of Viacom, where he oversaw various operations of Viacom's businesses, which during 2003 and 2004 primarily included the operations engaged in motion picture production and distribution, television production and distribution, regional theme parks, theatrical exhibition and publishing. Mr. Dolgen began his career in the entertainment industry in 1976, and until joining the Viacom Entertainment Group, served in executive positions at Columbia Pictures Industries, Inc., Twentieth Century Fox and Fox, Inc., and Sony Pictures Entertainment. Mr. Dolgen holds a B.S. degree from Cornell University and a J.D. degree from New York University.





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*Robert P. May*, 56, was elected to our board of directors in October 2004 and became our Interim President and Chief Executive Officer in January 2005. Mr. May has served on the board of directors of HealthSouth Corporation, a national provider of healthcare services, since October 2002, and has been its Chairman since July 2004. Mr. May also served as HealthSouth Corporation's Interim Chief Executive Officer from March 2003 until May 2004, and as Interim President of its Outpatient and Diagnostic Division from August 2003 to January 2004. Since March 2001, Mr. May has been a private investor and principal of RPM Systems, which provides strategic business consulting services. From March 1999 to March 2001, Mr. May served on the board of directors and was Chief Executive of PNV Inc., a national telecommunications company. PNV Inc. filed for bankruptcy in December 2000. Prior to his employment at PNV Inc., Mr. May was Chief Operating Officer and a member of the board of directors of Cablevision Systems Corporation from October 1996 to February 1998, and from 1973 to 1993 he held several senior executive positions with Federal Express Corporation, including President, Business Logistics Services. Mr. May was educated at Curry College and Boston College and attended Harvard Business School's Program for Management Development.

*David C. Merritt*, 51, was elected to our board of directors in July 2003, and was also appointed as Chairman of the Audit Committee at that time. Since October 2003, Mr. Merritt has been a Managing Director of Salem Partners, LLC, an investment banking firm. He was a Managing Director in the Entertainment Media Advisory Group at Gerard Klauer Mattison & Co., Inc., a company that provides financial advisory services to the entertainment and media industries from January 2001 through April 2003. Prior to that, he served as Chief Financial Officer of CKE Associates, Ltd., a privately held company with interests in talent management, film production, television production, music and new media from July 1999 to November 2001. He also served as a director of Laser-Pacific Media Corporation from January 2001 until October 2003 and served as Chairman of its audit committee. During December 2003, he became a director of Outdoor Channel Holdings, Inc. Mr. Merritt joined KPMG LLP in 1975 and served in a variety of capacities during his years with the firm, including national partner in charge of the media and entertainment practice and before joining CKE Associates, Mr. Merritt was an audit and consulting partner of KPMG LLP for 14 years. Mr. Merritt holds a B.S. degree in Business and Accounting from California State University Northridge.

*Marc B. Nathanson*, 60, has been a director of Charter since January 2000. Mr. Nathanson is the Chairman of Mapleton Investments LLC, an investment vehicle formed in 1999. He also founded and served as Chairman and Chief Executive Officer of Falcon Holding Group, Inc., a cable operator, and its predecessors, from 1975 until 1999. He served as Chairman and Chief Executive Officer of Enstar Communications Corporation, a cable operator, from 1988 until November 1999. Prior to 1975, Mr. Nathanson held executive positions with Teleprompter Corporation, Warner Cable and Cypress Communications Corporation. In 1995, he was appointed by the President of the United States to the Broadcasting Board of Governors, and from 1998 through September 2002, served as its Chairman. Mr. Nathanson holds a bachelors degree in Mass Communications from the University of Denver and a masters degree in Political Science from University of California/ Santa Barbara.

*Jo Allen Patton*, 47, has been a director of Charter since April 2004. Ms. Patton joined Vulcan Inc. as Vice President in 1993, and since that time she has served as an officer and director of many affiliates of Mr. Allen, including her current position as President and Chief Executive Officer of Vulcan Inc. since July 2001. Ms. Patton is also President of Vulcan Productions, an independent feature film and documentary production company, Vice Chair of First & Goal, Inc., which developed and operated the Seattle Seahawks NFL stadium, and served as Executive Director of the six Paul G. Allen Foundations. Ms. Patton is a co-founder of the Experience Music Project museum, as well as the Science Fiction Museum and Hall of Fame. Ms. Patton is the sister of Mr. Allen.

*John H. Tory*, 51, has been a director of Charter since December 2001. Mr. Tory served as the Chief Executive Officer of Rogers Cable Inc., Canada's largest broadband cable operator, from 1999 until 2003. From 1995 to 1999, Mr. Tory was President and Chief Executive Officer of Rogers Media Inc., a broadcasting and publishing company. Prior to joining Rogers, Mr. Tory was a Managing Partner and member of the executive committee at Tory Tory DesLauriers & Binnington, one of Canada's largest law

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firms. Mr. Tory serves on the board of directors of a number of Canadian companies, including Cara Operations Limited. Mr. Tory was educated at University of Toronto Schools, Trinity College (University of Toronto) and Osgoode Hall Law School.

On June 29, 2005, Mr. Tory formally notified Charter that he intends to resign from its board of directors and the board committees on which he serves. Mr. Tory was elected Leader of the Ontario Progressive Conservative Party in September 2004 and elected to Parliament in March 2005. The date for Mr. Tory's departure has not yet been determined, but he has indicated that he will continue to serve on Charter's board and its committees at least until the date of the annual shareholders meeting or until a replacement director is named.

*Larry W. Wangberg*, 63, has been a director of Charter since January 2002. From August 1997 to May 2004, Mr. Wangberg was a director of TechTV L.L.C., a cable television network controlled by Paul Allen. He also served as its Chairman and Chief Executive Officer from August 1997 through July 2002. In May 2004, TechTV L.L.C. was sold to an unrelated party. Prior to joining TechTV L.L.C., Mr. Wangberg was Chairman and Chief Executive Officer of StarSight Telecast Inc., an interactive navigation and program guide company which later merged with Gemstar International, from 1994 to 1997. Mr. Wangberg was Chairman and Chief Executive Officer of Times Mirror Cable Television and Senior Vice President of its corporate parent, Times Mirror Co., from 1983 to 1994. He currently serves on the boards of Autodesk Inc. and ADC Telecommunications. Mr. Wangberg holds a bachelor's degree in Mechanical Engineering and a master's degree in Industrial Engineering, both from the University of Minnesota.

**Audit Committee**

The Audit Committee, which has a written charter approved by the board of directors, consisted of three directors as of March 28, 2005: Charles Lillis, John Tory and David Merritt, all of whom are believed to be independent in accordance with the applicable corporate governance listing standards of the NASDAQ National Market. Charter's board of directors has determined that, in its judgment, David Merritt is an audit committee financial expert within the meaning of the applicable federal regulations.

On March 29, 2005, Charter announced the resignation of Charles M. Lillis from its board of directors, effective on March 28, 2005. Mr. Lillis was one of three independent members of the Audit Committee. As a result of his resignation, Charter no longer complies with Nasdaq's Marketplace Rule 4350(d)(2)(A), requiring an Audit Committee with at least three members who are independent as defined in that rule. On March 31, 2005, Charter received notification from Nasdaq of its noncompliance with Marketplace Rule 4350. Nasdaq has informed Charter that it has until the date of its next annual shareholder meeting to regain compliance or its Class A common stock will be delisted. Charter intends to regain compliance by appointing, within such timeframe, a new Audit Committee member who meets the independence requirements of the Nasdaq rules.

On June 29, 2005, John Tory formally notified Charter that he intends to resign from its board of directors and the board committees on which he serves. The date for Mr. Tory's departure has not yet been determined, but he has indicated that he will continue to serve on Charter's board and its committees at least until the date of the annual shareholders meeting or until a replacement director is named.

**Director Compensation**

Each non-employee member of our board receives an annual retainer of \$40,000 in cash plus restricted stock, vesting one year after date of grant, with a value on the date of grant of \$50,000. In addition, the Audit Committee chair receives \$25,000 per year, and the chair of each other committee receives \$10,000 per year. Prior to February 22, 2005, all committee members also received \$1,000 for attendance at each committee meeting. Beginning on February 22, 2005 each director also receives \$1,000 for telephonic attendance at each meeting of the full board and \$2,000 for in-person attendance. Each director of Charter is entitled to reimbursement for costs incurred in connection with attendance at board and committee meetings. Vulcan has informed us that, in accordance with its internal policy, Mr. Conn turns over to Vulcan all cash compensation he receives for his participation on Charter's board of directors or committees thereof.

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

Our Bylaws provide that all directors are entitled to indemnification to the maximum extent permitted by law from and against any claims, damages, liabilities, losses, costs or expenses incurred in connection with or arising out of the performance by them of their duties for us or our subsidiaries. In addition, we have been informed by Vulcan that the bylaws of Vulcan, Inc. also provide that Ms. Patton and Messrs. Allen and Conn are entitled to similar indemnification in connection with their service on our Board of Directors.

**Executive Officers**

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

<b>Executive Officers</b>	<b>Position</b>
Paul G. Allen	Chairman of the Board of Directors
Robert P. May	Interim President and Chief Executive Officer
Wayne H. Davis	Executive Vice President and Chief Technical Officer
Sue Ann Hamilton	Executive Vice President Programming
Thomas J. Hearity	Senior Vice President, Acting General Counsel and Secretary
Michael J. Lovett	Executive Vice President and Chief Operating Officer
Paul E. Martin	Senior Vice President, Interim Chief Financial Officer, Principal Accounting Officer and Corporate Controller
Lynne F. Ramsey	Senior Vice President Human Resources

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

*Wayne H. Davis*, 51, Executive Vice President and Chief Technical Officer. Prior to his current position, Mr. Davis served as Senior Vice President, Engineering and Technical Operations, and as Assistant to the President/Vice President of Management Services since July 2002 and prior to that, he was Vice President of Engineering/Operations for Charter's National Region from December 2001. Before joining Charter, Mr. Davis held the position of Vice President of Engineering for Comcast Corporation, Inc. Prior to that, he held various engineering positions including Vice President of Engineering for Jones Intercable Inc. He began his career in the cable industry in 1980. He attended the State University of New York at Albany. Mr. Davis serves as an advisory board member of Cedar Point Communications, and as a board member of @Security Broadband Corp., a company in which Charter owns an equity investment interest. Mr. Davis is also a member of the Society of Cable Telecommunications Engineers.

*Sue Ann R. Hamilton*, 44, Executive Vice President of Programming. Ms. Hamilton joined Charter as Senior Vice President of Programming in March 2003 and was promoted to her current position in April 2005. From March 1999 to November 2002, Ms. Hamilton served as Vice President of Programming for AT&T Broadband, L.L.C. Prior to that, from October 1993 to March 1999, Ms. Hamilton held numerous management positions at AT&T Broadband, L.L.C. and Tele-Communications, Inc. (TCI), which was acquired by AT&T Broadband, L.L.C. in 1999. Prior to her cable television career with TCI, she was a partner with Kirkland & Ellis representing domestic and international clients in complex commercial transactions and securities matters. A magna cum laude graduate of Carleton College in Northfield, Minnesota, Ms. Hamilton received a J.D. degree from Stanford Law School, where she was Associate Managing Editor of the *Stanford Law Review* and Editor of the *Stanford Journal of International Law*.

*Thomas J. Hearity*, 58, Senior Vice President, Acting General Counsel and Secretary. Mr. Hearity joined Charter as Vice President and Associate General counsel in September 2003 and was promoted to Senior Vice President and Associate General Counsel in August 2004. He was appointed to Acting General Counsel in April 2005 and appointed Secretary in May 2005. Prior to joining Charter, Mr. Hearity served as outside counsel for Charter and several other major wireline and wireless

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telecommunications firms from 1996 to 2003. Mr. Hearity served as counsel for the NYNEX Corporation from 1984 to 1996. Mr. Hearity graduated with honors and received a B.A. degree in History and a J.D. degree from the University of Iowa.

*Michael J. Lovett*, 44, Executive Vice President and Chief Operating Officer. Mr. Lovett was promoted to his current position in April 2005. Prior to that he served as Executive Vice President, Operations and Customer Care from September 2004 through March 2005, and as Senior Vice President, Midwest Division Operations and as Senior Vice President of Operations Support, since joining Charter in August 2003 until September 2004. Mr. Lovett was Chief Operating Officer of Voyant Technologies, Inc., a voice conferencing hardware/ software solutions provider, from December 2001 to August 2003. From November 2000 to December 2001, he was Executive Vice President of Operations for OneSecure, Inc., a startup company delivering management/ monitoring of firewalls and virtual private networks. Prior to that, Mr. Lovett was Regional Vice President at AT&T from June 1999 to November 2000 where he was responsible for operations. Mr. Lovett was Senior Vice President at Jones Intercable from October 1989 to June 1999 where he was responsible for operations in nine states. Mr. Lovett began his career in cable television at Centel Corporation where he held a number of positions.

*Paul E. Martin*, 44, Senior Vice President, Interim Chief Financial Officer, Principal Accounting Officer and Corporate Controller. Mr. Martin has been employed by Charter since March 2000, when he joined Charter as Vice President and Corporate Controller. In April 2002, Mr. Martin was promoted to Senior Vice President, Principal Accounting Officer and Corporate Controller, in August 2004 was named Interim co-Chief Financial Officer and in April 2005 was named Interim Chief Financial Officer. Prior to joining Charter, Mr. Martin was Vice President and Controller for Operations and Logistics for Fort James Corporation, a manufacturer of paper products. From 1995 to February 1999, Mr. Martin was Chief Financial Officer of Rawlings Sporting Goods Company, Inc. Mr. Martin received a B.S. degree with honors in Accounting from the University of Missouri - St. Louis.

*Lynne F. Ramsey*, 47, Senior Vice President, Human Resources. Ms. Ramsey joined Charter's Human Resources group in March 2001 and served as Corporate Vice President, Human Resources. She was promoted to her current position in July 2004. Before joining Charter, Ms. Ramsey was Executive Vice President of Human Resources for Broadband Infrastructure Group from March 2000 through November 2000. From 1994 to 1999, Ms. Ramsey served as Senior Vice President of Human Resources for Firststar Bank, previously Mercantile Bank of St. Louis. She served as Vice President of Human Resources for United Postal Savings from 1982 through 1994, when it was acquired by Mercantile Bank of St. Louis. Ms. Ramsey received a bachelor's degree in Education from Maryville College and a master's degree in Human Resources Management from Washington University.

**Compensation Committee Interlocks and Insider Participation**

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

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

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described in Director Compensation and in Certain Relationships and Related Transactions Other Miscellaneous Relationships.

During 2004, (1) none of our executive officers served on the compensation committee of any other company that has an executive officer currently serving on the board of directors, Compensation Committee or Option Plan Committee of Charter and (2) except for Carl Vogel who served as a director of Digeo, Inc., an entity of which Paul Allen is a director and by virtue of his position as Chairman of the board of directors of Digeo, Inc. is also a non-employee executive officer. None of our executive officers served as a director of another entity, one of whose executive officers served on the Compensation Committee or Option Plan Committee of Charter.

**Executive Compensation****Summary Compensation Table**

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

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Long-Term Compensation Award		
		Salary(\$)	Bonus(\$)	Other Annual Compensation (\$)	Restricted	Securities	All
					Stock Awards (\$)	Underlying Options (#)	Other Compensation (\$)(1)
Carl E. Vogel(2) Former President and Chief Executive Officer	2004	1,038,462	500,000(8)		4,658,000(18)	580,000	42,426(24)
	2003	1,000,000	150,000(9)	30,345(15)		750,000	12,639(24)
	2002	980,769	330,000(9)	214,961(15)		1,000,000	10,255(24)
Margaret A. Bellville(3) Former Executive Vice President, Chief Operating Officer	2004	478,366		28,309(16)	612,000(19)	200,000	204,408(25)
	2003	581,730	203,125(9)	30,810(16)			109,139(25)
	2002	9,615	150,000(9)(10)			500,000	
Derek Chang(4) Former Executive Vice President of Finance and Strategy, Interim co-Chief Financial Officer	2004	448,077	85,700(11)	7,255(17)	395,250(20)	135,000	5,510
	2003	15,385			192,000(20)	350,000	
Steven A. Schumm(5)	2004	467,308	15,815(12)		862,952(21)	135,000	12,360

Former Executive Vice President and Chief	2003	448,077	45,000		250,000	9,889
Administrative Officer	2002	436,058	588,000(13)		300,000	5,255
Curtis S. Shaw(6) Former Executive Vice President, General Counsel and Secretary	2004	422,115	16,109	395,250(22)	135,000	12,592
	2003	275,782	37,500		250,000	9,411(26)
	2002	249,711	281,500(14)		100,000	3,096
Michael J. Lovett(7) Executive Vice President, Operations and Customer Care	2004	291,346	241,888	351,570(23)	172,000	15,150(27)
	2003	81,731	60,000		100,000	2,400(27)

- (1) Except as noted in notes 24 through 27 below, these amounts consist of matching contributions under our 401(k) plan, premiums for supplemental life insurance available to executives, and long-term disability available to executives.
- (2) Mr. Vogel resigned from all of his positions with Charter and its subsidiaries on January 17, 2005.
- (3) Ms. Bellville became the Chief Operating Officer of Charter in December 2002 and terminated her employment, effective September 30, 2004.
- (4) Mr. Chang was hired as Executive Vice President of Finance and Strategy in December 2003, and was appointed Interim co-Chief Financial Officer in August 2004. Mr. Chang resigned from all positions with Charter and its subsidiaries effective April 15, 2005.

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- (5) Mr. Schumm's position with Charter and its subsidiaries was eliminated, resulting in the termination of his employment on January 28, 2005.
- (6) Mr. Shaw resigned from all positions with Charter and its subsidiaries effective April 15, 2005.
- (7) Mr. Lovett joined Charter in August 2003 and was promoted to Executive Vice President, Chief Operating Officer in April 2005.
- (8) Mr. Vogel's bonus for 2004 was a mid-year discretionary bonus.
- (9) Mr. Vogel's and Ms. Bellville's 2002 and 2003 bonuses were determined in accordance with the terms of their respective employment agreements.
- (10) Includes a one-time signing bonus of \$150,000 pursuant to an employment agreement.
- (11) Mr. Chang's bonus for 2004 represents the 2004 portion of a \$150,000 special bonus which was paid in connection with his continued service as Interim co-Chief Financial Officer through April 15, 2005.
- (12) Mr. Schumm's bonus for 2004 was determined in accordance with his separation agreement.
- (13) Includes a stay bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$363,000 for 2002; and \$225,000 awarded as a bonus for services performed in 2002.
- (14) Includes a stay bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$181,500 for 2002; and \$100,000 awarded as a bonus for services performed in 2002.
- (15) Amount attributed to personal use of the corporate airplane in 2003 and \$100,000 attributed to personal use and commuting in the corporate airplane in 2002 and \$114,961 for purchase of a car in 2002.
- (16) Includes (i) for 2004, reimbursement for taxes (on a grossed up basis) paid in respect of prior reimbursements for relocation expenses, and (ii) for 2003, \$26,010 attributed to personal use of the corporate airplane and \$4,800 for car allowance.
- (17) Includes reimbursement for taxes (on a grossed up basis) paid in respect of prior reimbursements for relocation expenses.
- (18) Includes 340,000 performance shares granted in January 2004 under our Long-Term Incentive Program that were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria. Also includes 680,000 restricted shares issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and the other half of which were to vest over three years in equal one-third installments. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$2,310,468, based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004. All performance shares were forfeited upon termination of employment. The remainder of the restricted shares will vest in part on the terms described below under Employment Arrangements.
- (19) These restricted shares consisted solely of performance shares granted under our Long-Term Incentive Program that were to have vested on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings

(including performance shares) was \$0, since all performance shares were previously forfeited upon the termination of employment.

- (20) Restricted shares granted in 2003 vest over four years in equal one-fourth installments. Restricted shares granted in 2004 represent 77,500 performance shares granted under our Long-Term Incentive Program that were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$257,600 based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004. All performance shares were forfeited upon termination of employment. The remainder of restricted shares will vest in part on the terms described below under Employment Arrangements.



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- (21) Includes 77,500 performance shares granted in January 2004 under our Long-Term Incentive Program that were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria. Also includes restricted shares issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below. One half of these restricted shares constitutes performance shares which were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria and the other half of which were to vest over three years in equal one-third installments. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$417,240, based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004. All performance shares were forfeited upon the termination of employment. The remainder of the restricted shares will vest in part on the terms described below under Employment Arrangements.
- (22) These restricted shares consist solely of performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$173,600 based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004. All performance shares were forfeited upon termination of employment.
- (23) These restricted shares consist solely of performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2004, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$197,120, based on a per share market value (closing sale price) of \$2.24 for our Class A common stock on December 31, 2004.
- (24) In addition to items in note 1 above, includes (i) for 2004, \$28,977 attributed to personal use of the corporate airplane, \$10,000 as reimbursement for tax advisory services and (ii) for 2003, \$10,000 as reimbursement for tax advisory services; and (iii) for 2002, \$10,000 as reimbursement for tax advisory services.
- (25) In addition to items in note 1 above, includes (i) for 2004, \$183,899 for severance and accrued vacation at termination of employment, \$10,299 for COBRA payments following termination, \$4,650 for automobile allowance and \$2,831 attributed to personal use of the corporate airplane, and (ii) for 2003, \$5,000 as reimbursement for tax advisory services, \$7,500 for legal services and \$93,684 paid in relation to relocation expenses.
- (26) In addition to items in note 1 above, includes for 2003, \$2,287 attributed to personal use of the corporate airplane.
- (27) In addition to items in note 1 above, includes, (i) for 2004, \$7,200 for automobile allowance, and \$597 attributed to personal use of the corporate airplane and (ii) for 2003, \$2,400 for automobile allowance.

**Table of Contents****2004 Option Grants**

The following table shows individual grants of options made to individuals named in the Summary Compensation Table during 2004. All such grants were made under the 2001 Stock Incentive Plan and the exercise price was based upon the fair market value of Charter's Class A common stock on the respective grant dates.

Name	Number of Securities Underlying Options Granted(#)(1)	% of Total Options Granted to Employees in 2004	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation For Option Term(2)	
					5%(\$)	10%(\$)
Carl E. Vogel(3)	580,000	6.17%	\$ 5.17	1/27/14	1,885,803	4,778,996
Margaret A. Bellville(4)	200,000	2.13%	5.17	1/27/14	650,277	1,647,930
Derek Chang(5)	135,000	1.44%	5.17	1/27/14	438,937	1,112,353
Steven A. Schumm(6)	135,000	1.44%	5.17	1/27/14	438,937	1,112,353
Curtis S. Shaw(7)	135,000	1.44%	5.17	1/27/14	438,937	1,112,353
Michael J. Lovett	77,000	0.82%	5.17	1/27/14	251,982	638,573
	12,500	0.13%	4.555	4/27/14	35,808	90,744
	82,000	0.87%	2.865	10/26/14	147,746	374,418

- (1) Options are transferable under limited conditions, primarily to accommodate estate planning purposes. These options generally vest in four equal installments commencing on the first anniversary following the grant date.
- (2) This column shows the hypothetical gains on the options granted based on assumed annual compound price appreciation of 5% and 10% over the full ten-year term of the options. The assumed rates of 5% and 10% appreciation are mandated by the SEC and do not represent our estimate or projection of future prices.
- (3) Mr. Vogel's employment terminated on January 17, 2005. Under the terms of the separation agreement, his options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (4) Ms. Bellville's employment terminated on September 30, 2004. Under the terms of the separation agreement, her options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (5) Mr. Chang resigned effective April 15, 2005. Mr. Chang's agreement provided that one half of his unvested restricted shares would immediately vest, and one half of his unvested options of the initial option grant would vest if he elected to terminate his employment due to a change in our Chief Executive Officer.
- (6) Mr. Schumm's employment terminated on January 28, 2005. Under the terms of the separation agreement, his options will continue to vest until April 28, 2006, and all vested options are exercisable until sixty (60) days thereafter.

(7) Mr. Shaw resigned, effective April 15, 2005. As of that date, his options are no longer exercisable.  
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The following table sets forth, for the individuals named in the Summary Compensation Table, (i) information concerning options exercised during 2004, (ii) the number of shares of our Class A common stock underlying unexercised options at year-end 2004, and (iii) the value of unexercised in-the-money options (i.e., the positive spread between the exercise price of outstanding options and the market value of our Class A common stock) on December 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2004 (#)(1)		Value of Unexercised In-the-Money Options at December 31, 2004 (\$)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Carl E. Vogel(3)			2,499,999	3,230,001		
Margaret A. Bellville(4)			385,416	314,584	254,375	75,625
Derek Chang(5)			87,500	397,500		
Steven A. Schumm(6)			182,500	502,500		
Curtis S. Shaw(7)			438,833	420,167		
Michael J. Lovett			25,000	247,000		

- (1) Options granted prior to 2001 and under the 1999 Charter Communications Option Plan, when vested, are exercisable for membership units of Charter Holdco which are immediately exchanged on a one-for-one basis for shares of our Class A common stock upon exercise of the option. Options granted under the 2001 Stock Incentive Plan and after 2000 are exercisable for shares of our Class A common stock.
- (2) Based on a per share market value (closing price) of \$2.24 as of December 31, 2004 for our Class A common stock.
- (3) Mr. Vogel's employment terminated on January 17, 2005. Under the terms of the separation agreement, his options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (4) Ms. Bellville's employment terminated on September 30, 2004. Under the terms of the separation agreement, her options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (5) Mr. Chang resigned from all of his positions with Charter effective April 15, 2005. One half of the remainder of his options will vest on the terms described below under Employment Arrangements.
- (6) Mr. Schumm's employment terminated on January 28, 2005. Under the terms of the separation agreement, his options will continue to vest until April 28, 2006, and all vested options are exercisable until sixty (60) days thereafter.

- (7) Mr. Shaw resigned from all of his positions with Charter effective April 15, 2005. As of that date, his options are no longer exercisable.

***Option/ Stock Incentive Plans***

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

The 2001 Stock Incentive Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock

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and/or shares of restricted stock (not to exceed 3,000,000 shares) as each term is defined in the 2001 Stock Incentive Plan. Employees, officers, consultants and directors of Charter and its subsidiaries and affiliates are eligible to receive grants under the 2001 Stock Incentive Plan. Generally, options expire 10 years from the grant date. Unless sooner terminated by our board of directors, the 2001 Stock Incentive Plan will terminate on February 12, 2011, and no option or award can be granted thereafter.

Together, the plans allow for the issuance of up to a total of 90,000,000 shares of our Class A common stock (or units exchangeable for our Class A common stock). Any shares covered by options that are terminated under the 1999 Charter Communications Option Plan will be transferred to the 2001 Stock Incentive Plan, and no new options will be granted under the 1999 Charter Communications Option Plan. At March 31, 2005, 1,309,620 shares had been issued under the plans upon exercise of options, 655,749 had been issued upon vesting of restricted stock granted under the plans, and 1,162,176 shares were subject to future vesting under restricted stock agreements. Of the remaining 86,872,455 shares covered by the plans, as of March 31, 2005, 29,067,828 were subject to outstanding options (30% of which were vested), and there were 11,627,420 performance shares granted under Charter's Long-Term Incentive Program, which will vest on the third anniversary of the date of grant conditional upon Charter's performance against certain financial targets approved by Charter's board of directors at the time of the award. As of March 31, 2005, 46,177,207 shares remained available for future grants under the plans.

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

In January 2004, the Compensation Committee of our board of directors approved our Long-Term Incentive Program, or LTIP, which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options, and more senior level employees were eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance shares vest on the third anniversary of the date of grant shares of Class A common stock are issued, conditional upon our performance against financial performance measures established by our management and approved by the board of directors or Compensation Committee as of the time of the award. We granted 6,899,600 performance shares in January 2004 under this program and recognized expense of \$8 million in the first three quarters of 2004. However, in the fourth quarter of 2004, we reversed the entire \$8 million of expense based on our assessment of the probability of achieving the financial performance measures established by management and required to be met for the performance shares to vest.

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

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



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outstanding restricted stock will lapse, and all of the outstanding performance shares will vest and the restrictions on all of the outstanding performance shares will lapse as if all performance objectives had been satisfied at the maximum level.

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

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

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

***2005 Executive Cash Award Plan***

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

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



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

***Employment Arrangements and Related Agreements***

Charter entered into an agreement with Robert P. May, effective January 17, 2005, whereby Mr. May serves as Charter's Interim President and Chief Executive Officer (the May Executive Services Agreement). Under the May Executive Services Agreement, Mr. May receives a \$1,250,000 base fee per year. If Mr. May becomes Charter's permanent President and Chief Executive Officer or is terminated without cause, Mr. May will be eligible to receive a one-time discretionary bonus up to 100% of the actual base fee paid to him for his interim service under the agreement, based on individual and company performance. Mr. May will continue to receive the compensation and reimbursement of expenses to which he is entitled in his capacity as a member of the board of directors. Mr. May may terminate the May Executive Services Agreement on thirty (30) days notice. Charter may terminate such agreement upon three (3) months notice, and Charter may elect at its discretion to pay Mr. May the base rate for such period in lieu of all or part of the notice. Mr. May's employment agreement provided that Charter would provide equity incentives commensurate with his position and responsibilities, as determined by the board of directors. Accordingly, Mr. May has been granted 100,000 shares of restricted stock under our 2001 Stock Incentive Plan. The 100,000 restricted shares will vest on the date on which Mr. May's interim service as President and Chief Executive Officer shall terminate (unless there is an earlier termination event for Cause, as defined in the 2001 Stock Incentive Plan). Mr. May serves as an independent contractor and is not entitled to any vacation or eligible to participate in any employee benefit programs of Charter. Charter will reimburse Mr. May for reasonable transportation costs from Mr. May's residence in Florida or other locations to Charter's offices and will provide temporary living quarters or reimburse expenses related thereto.

On April 1, 2005, we entered into an employment agreement with Mr. Lovett, pursuant to which he will be employed as Executive Vice President and Chief Operating Officer for a term commencing April 1, 2005 and expiring on April 1, 2008. The contract will be reviewed every 18 months thereafter and may be extended pursuant to such reviews. Under the agreement, Mr. Lovett will receive an annual base salary of \$575,000 and will be eligible to receive an annual bonus targeted at 80% of his base salary under our senior management bonus plan. We agreed to provide Mr. Lovett with equity incentives commensurate with his position and responsibilities, as determined by the board of directors in its discretion. Accordingly, Mr. Lovett has been granted 75,000 shares of restricted stock under our 2001 Stock Incentive Plan. The 75,000 restricted shares will vest one third on each of the first three anniversaries of the date of grant (unless there is an earlier termination event for Cause, as defined in the 2001 Stock Incentive Plan). If his employment is terminated without cause or if he terminates his employment due to a change in control or for good reason (as defined in the agreement), we will pay Mr. Lovett an amount equal to the aggregate base salary due to Mr. Lovett during the remainder of the term, within fifteen days of termination. In addition, if we terminate his employment without cause, Mr. Lovett will be entitled to receive a pro-rated bonus for the fiscal year in which he is terminated based upon financial results through the month of termination. Mr. Lovett's agreement includes a covenant not to compete for the balance of the term and for two years thereafter. The agreement further provides that Mr. Lovett is entitled to receive certain relocation expenses and to participate in any benefit plan generally afforded to, and to receive vacation and sick pay on such terms as are offered to, our other senior executive officers.

Effective April 15, 2005, Charter has entered into an agreement governing the terms of the service of Mr. Paul E. Martin as Interim Chief Financial Officer. Under the terms of the agreement, Mr. Martin will receive approximately \$13,700 each month for his service in the capacity of Interim Chief Financial Officer until a permanent Chief Financial Officer is employed. Under the agreement, Mr. Martin will also

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

Until his resignation effective April 15, 2005, Mr. Chang was employed under the terms contained in an offer letter effective December 2, 2003 providing for an annual base salary of \$400,000 (which was increased to \$450,000 per year) and eligibility for an annual incentive target of 100% of the base salary (based on a combination of personal performance goals and overall company performance). Mr. Chang was also eligible to participate in our 2001 Stock Incentive Plan. Under this plan, Mr. Chang was granted 350,000 options to purchase Class A common stock and 50,000 restricted shares on December 9, 2003. Mr. Chang was also entitled to participate in our LTIP. Mr. Chang's agreement provided that one half of his unvested restricted shares would immediately vest, and one half of his unvested options of the initial option grant would vest if he was terminated without cause or if he elected to terminate his employment due to (1) a change in our Chief Executive Officer, (2) a change in reporting relationship to anyone other than the Chief Executive Officer, (3) a requirement that the employee relocate, or (4) a change of control of Charter, if terminated without cause. In addition, Mr. Chang was entitled to eighteen months of full severance benefits at his current compensation rate, plus the pro rata portion of his bonus amounts within thirty days after termination because of any of these events. In light of Mr. Vogel's resignation, Charter and Mr. Chang agreed that he would have until April 15, 2005 to exercise his right to terminate his employment and receive the foregoing vesting, severance and other benefits. In addition, Charter agreed that it would pay Mr. Chang a special \$150,000 bonus, in addition to any other bonuses to which he would be otherwise entitled, conditioned on Mr. Chang's continued service as Interim co-Chief Financial Officer through March 31, 2005, which was paid in April 2005.

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



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In February 2005, Charter entered into an agreement with Mr. Vogel setting forth the terms of his resignation. Under the terms of the agreement, Mr. Vogel received in February 2005 all accrued and unpaid base salary and vacation pay through the date of resignation and a lump sum payment equal to the remainder of his base salary during 2005 (totaling \$953,425). In addition, he will receive a lump sum cash payment of \$500,000 at December 31, 2005, which is subject to reduction to the extent of compensation attributable to certain competitive activities.

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

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

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

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Ms. Bellville has exercised her options to purchase 350,000 shares. Ms. Bellville was entitled to and received relocation benefits under Charter's current relocation policy with respect to a move to a specified geographic area and was provided outplacement assistance for 6 months following the date of her separation from Charter. Her resignation was effective September 30, 2004. The agreement provides that the previously existing employment agreement would terminate, except for certain ongoing obligations on Ms. Bellville's part concerning confidentiality, non-solicitation and non-disparagement. The contractual restriction on her ability to solicit current Charter employees does not apply to persons who, at the time of solicitation, have not worked for Charter in the prior 6 months and are not receiving severance from Charter. In addition, the non-competition provisions of her employment agreement were waived. Under the agreement, Ms. Bellville waived a right to any bonus or incentive plan and released Charter from any claims arising out of or based upon any facts occurring prior to the date of the agreement, but Charter will continue to provide Ms. Bellville certain indemnification rights for that period.

In addition to the indemnification provisions which apply to all employees under our bylaws, Mr. Vogel's and Ms. Bellville's agreements provide that we will indemnify and hold harmless each employee to the maximum extent permitted by law from and against any claims, damages, liabilities, losses, costs or expenses in connection with or arising out of the performance by the applicable employee of his or her duties. Each of the above agreements also contains confidentiality and non-solicitation provisions.

Effective January 28, 2005, we eliminated the position of Chief Administrative Officer, resulting in the termination of employment of Steven A. Schumm, Executive Vice President and Chief Administrative Officer from Charter and each of our subsidiaries for which Mr. Schumm served as an officer. Pursuant to a Separation Agreement executed on February 8, 2005, we will continue to pay Mr. Schumm's base salary for 65 weeks at an annual rate of \$450,000, and Mr. Schumm was paid a bonus of \$15,815 at the time other executives received their bonuses in April 2005. Mr. Schumm's stock options will continue to vest during the 65-week severance period, and he will have 60 days thereafter to exercise any vested options.

Thomas A. Cullen resigned, effective April 30, 2005, from his position as Executive Vice President of Advanced Services and Business Development of Charter and each of Charter's subsidiaries for which Mr. Cullen served as an officer. Pursuant to a Separation Agreement and Release executed on March 15, 2005, Charter will continue to pay Mr. Cullen's base salary for 65 weeks following the termination of his employment at a rate of \$5,769 per week, and Mr. Cullen will be paid a one time payment of \$10,347 to cover COBRA payments. Mr. Cullen's stock options will continue to vest during the 65-week severance period, and he will have 60 days thereafter to exercise any vested options.

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

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

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

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

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

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

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

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

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The following table sets forth certain information regarding beneficial ownership of Charter's Class A common stock as of May 31, 2005 by:

each person currently serving as a director of Charter;

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

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

each person known by us to own beneficially 5% or more of our outstanding Class A common stock as of May 31, 2005.

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

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

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

Name and Address of Beneficial Owner	Number of Class A Shares (Voting and Investment Power)(1)	Class A Unvested Restricted Shares (Voting Power Only)(2)	Class A Receivable on Exercise of Vested Options or Other Convertible Securities(3)	Number of Class B Shares Owned	Class B Shares Issuable upon Exchange or Conversion of Units(4)	% of Equity (4)(5)	% of Voting Power (5)(6)
Paul G. Allen(7)	29,126,423		10,000	50,000	339,132,031	57.18%	92.54%
Charter Investment, Inc.(8)					222,818,858	42.21%	*
Vulcan Cable III Inc.(9)					116,313,173	27.61%	*
Robert P. May		119,685				*	*
John H. Tory	30,005		40,000			*	*
Marc B. Nathanson	425,705		50,000			*	*
David C. Merritt	25,705					*	*
Jo Allen Patton	10,977	40,323				*	*
W. Lance Conn		19,231				*	*
Jonathan L. Dolgen		19,685				*	*
Larry W. Wangberg	28,705		40,000			*	*
Michael J. Lovett	7,500		72,500			*	*
All current directors and executive officers as a group (16 persons)	29,666,247	221,901	883,625	50,000	339,132,031	57.35%	92.56%
Carl E. Vogel(10)	208,126	226,666	932,500			*	*
Margaret A. Bellville(11)			147,916			*	*
Derek Chang(12)	41,250					*	*

Curtis S. Shaw(12)	5,000			*	*
Steven A. Schumm(13)	30,568	36,256	276,250	*	*
Amaranth L.L.C.(14)			21,322,312	6.53%	*
Scott A. Bommer(15)	18,237,744			5.98%	*
Glenview Capital Management, LLC(16)	19,903,500			6.53%	*
Glenview Capital GP, LLC(16)	19,903,500			6.53%	*
Lawrence M. Robbins(16)	19,903,500			6.53%	*
Steelhead Partners, LLC(16)	24,835,077			8.14%	*
J-K Navigator Fund, L.P.(17)	18,447,759			6.05%	*
James Michael Johnston(17)	24,835,077			8.14%	*
Brian Katz Klein(17)	24,835,077			8.14%	*

\* Less than 1%.

(1) Includes shares for which the named person has sole voting and investment power; or shared voting and investment power with a spouse. Does not include shares that may be acquired through exercise of options.



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- (2) Includes unvested shares of restricted stock issued under the Charter Communications, Inc. 2001 Stock Incentive Plan (including those issued in the February 2004 option exchange for those eligible employees who elected to participate), as to which the applicable director or employee has sole voting power but not investment power. Excludes certain performance units granted under the Charter 2001 Stock Incentive Plan with respect to which shares will not be issued until the third anniversary of the grant date and then only if Charter meets certain performance criteria (and which consequently do not provide the holder with any voting rights).
- (3) Includes shares of Class A common stock issuable upon exercise of options that have vested or will vest on or before July 30, 2005 under the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan.
- (4) Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act. The beneficial owners at May 31, 2005 of Class B common stock, Charter Holdco membership units and convertible senior notes of Charter are deemed to be beneficial owners of an equal number of shares of Class A common stock because such holdings are either convertible into Class A shares (in the case of Class B shares and convertible senior notes) or exchangeable (directly or indirectly) for Class A shares (in the case of the membership units) on a one-for-one basis. Unless otherwise noted, the named holders have sole investment and voting power with respect to the shares listed as beneficially owned. An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII, LLC membership interests following the consummation of the Bresnan put transaction on June 6, 2003. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.
- (5) The calculation of this percentage assumes for each person that:  
304,966,995 shares of Class A common stock are issued and outstanding as of May 31, 2005;  
50,000 shares of Class B common stock held by Mr. Allen have been converted into shares of Class A common stock;  
the acquisition by such person of all shares of Class A common stock that such person or affiliates of such person has the right to acquire upon exchange of membership units in subsidiaries or conversion of Series A Convertible Redeemable Preferred Stock or 5.875% or 4.75% convertible senior notes;  
the acquisition by such person of all shares that may be acquired upon exercise of options to purchase shares or exchangeable membership units that have vested or will vest by July 30, 2005; and  
that none of the other listed persons or entities has received any shares of Class A common stock that are issuable to any of such persons pursuant to the exercise of options or otherwise.  
A person is deemed to have the right to acquire shares of Class A common stock with respect to options vested under the 1999 Charter Communications Option Plan. When vested, these options are exercisable for membership units of Charter Holdco, which are immediately exchanged on a one-for-one basis for shares of Charter Class A common stock. A person is also deemed to have the right to acquire shares of Class A common stock issuable upon the exercise of vested options under the 2001 Stock Incentive Plan.
- (6) The calculation of this percentage assumes that Mr. Allen's equity interests are retained in the form that maximizes voting power (i.e., the 50,000 shares of Class B common stock held by Mr. Allen have not been converted into shares of Class A common stock; that the membership units of Charter Holdco owned by each of Vulcan Cable III Inc. and Charter Investment, Inc. have not been exchanged for shares of Class A common stock).
- (7) The total listed includes:

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

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

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

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

- (8) Includes 222,818,858 membership units in Charter Holdco, which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is Charter Plaza, 12405 Powerscourt Drive, St. Louis, MO 63131.
- (9) Includes 116,313,173 membership units in Charter Holdco, which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.
- (10) Mr. Vogel terminated his employment effective on January 17, 2005. His stock options and restricted stock shown in this table continue to vest through December 31, 2005, and his options will be exercisable for another 60 days thereafter.
- (11) Ms. Bellville resigned from Charter effective September 30, 2004. Under the terms of her separation agreement, her options will continue to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.
- (12) Mr. Chang and Mr. Shaw resigned effective April 15, 2005.
- (13) Includes 1,000 shares for which Mr. Schumm has shared investment and voting power. Mr. Schumm's employment was terminated effective January 28, 2005. His stock options and restricted stock shown in this table continue to vest for 65 weeks following his termination, and his options will be exercisable for another 60 days thereafter.
- (14) The equity ownership reported in this table is based upon holder's Schedule 13G filed with the SEC February 2, 2005. The address of this person is: c/o Amaranth Advisors L.L.C., One American Lane, Greenwich, Connecticut, 06831.
- (15) The equity ownership reported in this table is based upon the holder's Schedule 13G filed with the SEC March 28, 2005. The address of this person is 712 Fifth Avenue, 42nd Floor, New York, New York, 10019. Mr. Bommer is the managing member of SAB Capital Advisors, L.L.C., which serves as general partner of SAB Capital Partners, L.P. and SAB Capital Partners II, L.P. (which in turn collectively hold 10,124,695 shares of Class A common stock). Mr. Bommer is also the managing member of SAB Capital Management, L.L.C., which serves as general partner of SAB Overseas Capital Management, L.P. (which in turn serves as investment manager to and has investment discretion over the securities held by a holder of 8,113,049 shares of Class A common stock).
- (16) The equity ownership reported in this table is based upon the holder's Schedule 13G filed with the SEC June 3, 2005. The address of the principal business office of the reporting person is 399 Park Avenue, Floor 39, New York, New York 10022. The shares shown consist of: (A) 1,669,400 shares held for the account of Glenview Capital Partners; (B) 5,991,000 shares held for the account of Glenview Capital Master Fund; and (C) 12,243,100 shares held for the account of Glenview Institutional Partners, Glenview Capital Management

serves as investment manager to each of Glenview Capital Partners, Glenview Institutional Partners, and Glenview Capital Master Fund. Glenview Capital GP is the general partner of Glenview Capital Partners and Glenview Institutional Partners. Glenview Capital GP also serves as the sponsor of the Glenview Capital Master Fund. Mr. Robbins is the Chief Executive Officer of Glenview Capital Management and Glenview Capital GP.

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- (17) The equity ownership reported in this table is based upon the holder's Schedule 13G filed with the SEC May 23, 2005. The business address of the reporting person is 1301 First Avenue, Suite 201, Seattle, WA 98101. Steelhead Partners, LLC acts as general partner of J-K Navigator Fund, L.P., and J. Michael Johnston and Brian K. Klein act as the member-managers of Steelhead Partners, LLC. Accordingly, shares shown as beneficially held by Steelhead Partners, LLC, Mr. Johnston and Mr. Klein include shares beneficially held by J-K Navigator Fund, L.P.

**Securities authorized for issuance under equity compensation plans**

The following information is provided as of December 31, 2004 with respect to equity compensation plans:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by security holders	24,834,513(1)	\$ 6.57	54,701,158
Equity compensation plans not approved by security holders	475,653(2)	\$ 10.39	
<b>TOTAL</b>	<b>25,310,166</b>	<b>\$ 6.64</b>	<b>54,701,158</b>

- (1) This total does not include 2,076,860 shares issued pursuant to restricted stock grants made under our 2001 Stock Incentive Plan, which were subject to vesting based on continued employment or 6,899,600 performance shares issued under our LTIP plan, which are subject to vesting upon Charter's achievement of certain performance criteria during a three-year performance cycle ending on December 31, 2007.
- (2) Includes shares of Class A common stock to be issued upon exercise of options granted pursuant to an individual compensation agreement with a consultant. In 2003, we agreed to exchange 186,385 of these options for 18,638 shares of Class A common stock, and we anticipate that exchange to be consummated in 2005.

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

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

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

*Transactions with third party providers of products, services and content in which Mr. Allen has or had a material interest.* Mr. Allen has had numerous investments in the areas of technology and media. We have a number of commercial relationships with third parties in which Mr. Allen has or had an interest.

*Other Miscellaneous Transactions.* We have a limited number of transactions in which certain of the officers, directors and principal shareholders of Charter and its subsidiaries, other than Mr. Allen, have an interest.

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

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

<b>Transaction</b>	<b>Interested Related Party</b>	<b>Description of Transaction</b>
Intercompany Management Arrangements	Paul G. Allen	Subsidiaries of Charter Holdco paid Charter approximately \$79 million, \$84 million, \$90 million and \$30 million for management services rendered in 2002, 2003 and 2004 and the three months ended March 31, 2005, respectively.
Mutual Services Agreement	Paul G. Allen	Charter paid Charter Holdco approximately \$70 million, \$73 million, \$74 million and \$20 million for services rendered in 2002, 2003 and 2004 and the three months ended March 31, 2005, respectively.
Previous Management Agreement	Paul G. Allen	No fees were paid in 2002, 2003, 2004 or 2005, although total management fees accrued and payable to Charter Investment, Inc., exclusive of interest, were approximately \$14 million at December 31, 2002, 2003 and 2004 and March 31, 2005.



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<b>Transaction</b>	<b>Interested Related Party</b>	<b>Description of Transaction</b>
Tax Provisions of Charter Holdco's Operating Agreement	Paul G. Allen	In 2002, the operating agreement of Charter Holdco allocated certain of our tax losses to entities controlled by Paul Allen.
Channel Access Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	At Vulcan Ventures' request, we will provide Vulcan Ventures with exclusive rights for carriage on eight of our digital cable channels as partial consideration for a 1999 capital contribution of approximately \$1.3 billion.
Equity Put Rights	Paul G. Allen	Certain sellers of cable systems that we acquired were granted, or previously had the right, as described below, to put to Paul Allen equity in us (in the case of Rifkin and Falcon), Charter Holdco (in the case of Rifkin) and CC VIII, LLC (in the case of Bresnan) issued to such sellers in connection with such acquisitions.
Previous Funding Commitment of Vulcan Inc.	Paul G. Allen W. Lance Conn Jo Allen Patton	Pursuant to a commitment letter dated April 14, 2003, Vulcan Inc., which is an affiliate of Paul Allen, agreed to lend, under certain circumstances, or cause an affiliate to lend to Charter Holdings or any of its subsidiaries a total amount of up to \$300 million, which amount included a subfacility of up to \$100 million for the issuance of letters of credit. In November 2003, the commitment was terminated. We incurred expenses to Vulcan Inc. totaling \$5 million in connection with the commitment prior to termination.
Mirror Securities		To comply with the organizational documents of Charter and Charter Holdco, Charter Holdco issued certain mirror securities to Charter, redeemed certain other mirror securities, and paid interest and dividends on outstanding mirror notes and preferred units.
High Speed Access Corp. Asset Purchase Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	In February 2002, our subsidiary purchased certain assets of High Speed Access for \$78 million, plus the delivery of 37,000 shares of High Speed Access Series D preferred stock and certain warrants. In connection with the transaction, High Speed Access also purchased 38,000 shares of its Series D preferred stock from Vulcan Ventures for



approximately \$8 million, and all of  
Vulcan Ventures shares of High Speed  
Access common stock.

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<b>Transaction</b>	<b>Interested Related Party</b>	<b>Description of Transaction</b>
High Speed Access Corp.	Paul G. Allen	In January 2002, we granted to High Speed Access a royalty free right to use intellectual property purchased by Charter Communications Holding Company, LLC, received approximately \$4 million in management fees and approximately \$17 million in revenues and paid approximately \$2 million under agreements that have terminated.
TechTV Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton William D. Savoy Larry W. Wangberg	We recorded approximately \$4 million, \$1 million, \$5 million and \$0.3 million from TechTV under the affiliation agreement in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively, related to launch incentives as a reduction of programming expense. We paid TechTV approximately \$0.2 million, \$80,600, \$2 million and \$0.5 million in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively.
Oxygen Media Corporation Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	We paid Oxygen Media approximately \$6 million, \$9 million, \$13 million and \$3 million under a carriage agreement in exchange for programming in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively. We recorded approximately \$2 million, \$1 million, \$1 million and \$0.1 million in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively, from Oxygen Media related to launch incentives as a reduction of programming expense. We received 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share in March 2005. We recognized approximately \$6 million, \$9 million, \$13 million and \$1 million as a reduction of programming expense in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively, in recognition of the guaranteed value of the investment.
Portland Trail Blazers Carriage Agreement	Paul G. Allen	We paid approximately \$1 million for rights to carry the cable broadcast of certain Trail Blazers basketball games in 2002, approximately \$135,200 in 2003,

approximately \$96,100 in 2004 and  
approximately \$22,300 for the three  
months ended March 31, 2005.

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<b>Transaction</b>	<b>Interested Related Party</b>	<b>Description of Transaction</b>
Action Sports Cable Network Carriage Agreement	Paul G. Allen	We paid approximately \$1 million for rights to carry the programming of Action Sports Cable Network in 2002.
Click2learn, Inc. Software License Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	We paid approximately \$250,000, \$57,100, \$0 and \$0 under the Software License Agreement in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively.
Digeo, Inc. Broadband Carriage Agreement	Paul G. Allen William D. Savoy Carl E. Vogel	We paid Digeo approximately \$3 million, \$4 million, \$3 million and \$2 million for customized development of the i-channels and the local content tool kit in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively. We entered into a license agreement in 2004 for the Digeo software that runs DVR units purchased from a third party. We paid approximately \$474,400 and \$920,300 in license and maintenance fees in 2004 and 2005. In 2004 we executed a purchase agreement for the purchase of up to 70,000 DVR units and a related software license agreement, both subject to satisfaction of certain conditions.
Viacom Networks	Jonathan L. Dolgen	We are party to certain affiliation agreements with networks of Viacom, pursuant to which Viacom provides Charter with programming for distribution via our cable systems. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, Charter paid Viacom approximately \$177 million, \$188 million, \$194 million and \$50 million, respectively, for programming, and Charter recorded as receivables approximately \$5 million, \$5 million, \$8 million and \$0 from Viacom for launch incentives and marketing support for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively.
ADC Telecommunications Inc.	Larry W. Wangberg	We paid \$759,600, \$60,100, \$344,800 and \$112,800 to purchase certain access/network equipment in 2002, 2003, 2004 and for the three months ended

March 31, 2005, respectively.

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<b>Transaction</b>	<b>Interested Related Party</b>	<b>Description of Transaction</b>
HDNet and HDNet Movies Network	Mark Cuban	Charter Holdco is party to an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. We paid HDNet and HDNet Movies approximately \$21,900, \$609,100 and \$447,400 in 2003 and 2004 and for the three months ended March 31, 2005.
Affiliate leases and agreements	David L. McCall Marc B. Nathanson	We paid approximately \$117,600, \$189,200, \$43,400 and \$0 in 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively, under an office lease agreement to a partnership controlled by Mr. McCall, a former executive officer who resigned in January 2003. We paid approximately \$76,000, \$16,600, \$0 and \$0 in 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively, to companies controlled by Mr. Nathanson under a warehouse lease agreement.
Construction Services	David L. McCall	In 2002, 2003, 2004 and for the three months ended March 31, 2005, we paid \$644,800, \$381,300, \$0 and \$0, respectively, to a construction company controlled by Mr. McCall's brother and \$3 million, \$373,800, \$0 and \$0, respectively, to a construction company controlled by Mr. McCall's son.
Carriage fees	David C. Merritt	We paid approximately \$1 million, \$1 million, \$1 million and \$298,300 in 2002, 2003, 2004 and for the three months ended March 31, 2005 to carry The Outdoor Channel. Mr. Merritt is a director of an affiliate of this channel.
Payment for relatives' services	Howard L. Wood Carl E. Vogel	In 1999, a daughter of a former director, received a bonus in the form of a three-year promissory note bearing interest at 7% per year. The amount of principal and interest forgiven on this note for the year ended December 31, 2001, was \$85,500, and the outstanding balance on the note was forgiven effective as of February 22, 2002. Since June 2003, Mr. Vogel's brother-in-law has been an employee of Charter Holdco and has received a salary

commensurate with his position in the engineering department.

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<b>Transaction</b>	<b>Interested Related Party</b>	<b>Description of Transaction</b>
Radio advertising	Marc B. Nathanson	We believe that through a third party advertising agency, we have paid approximately \$113,200, \$79,700 and \$49,700 in 2002, 2003 and 2004, respectively, to Mapleton Communications, an affiliate of Mapleton Investments, LLC.
Enstar Limited Partnership Systems Purchase and Management Services	Charter officers who were appointed by a Charter subsidiary (as general partner) to serve as officers of Enstar limited partnerships	Certain of our subsidiaries purchased certain assets of the Enstar Limited Partnerships for approximately \$63 million in 2002. We also earned approximately \$1 million, \$469,300, \$0 and \$0 in 2002, 2003, 2004 and for the three months ended March 31, 2005, respectively, by providing management services to the Enstar Limited Partnerships.
Indemnification Advances	Directors and current and former officers named in certain legal proceedings	Charter reimbursed certain of its current and former directors and executive officers a total of approximately \$3 million, \$8 million, \$3 million and \$0 for costs incurred in connection with litigation matters in 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively.

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

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

As noted above, a number of our related party transactions arise out of Mr. Allen's investment in Charter and its subsidiaries. Some of these transactions are with Charter Investment, Inc. and Vulcan Ventures (both owned 100% by Mr. Allen), Charter (controlled by Mr. Allen) and Charter Holdco (approximately 47% owned by us and 53% owned by other affiliates of Mr. Allen). See Summary Organizational Structure for more information regarding the ownership by Mr. Allen and certain of his affiliates.

***Intercompany Management Arrangements***

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

The total amount paid by Charter Holdco and all of its subsidiaries is limited to the amount necessary to reimburse Charter for all of its expenses, costs, losses, liabilities and damages paid or incurred by it in connection with the performance of its services under the various management agreements and in connection with its corporate overhead, administration, salary expense and similar items. The expenses subject to reimbursement include fees Charter is obligated to pay under the mutual services agreement with Charter Investment, Inc. Payment of management fees by Charter's operating subsidiaries is subject to certain restrictions under the credit facilities and indentures of such



subsidiaries and the indentures governing the Charter Holdings public debt. If any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the

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management fee will bear interest at the rate of 10% per year, compounded annually, from the date it was due and payable until the date it is paid. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, the subsidiaries of Charter Holdco paid approximately \$79 million, \$84 million, \$90 million and \$30 million, respectively, in management fees to Charter.

***Mutual Services Agreement***

Charter, Charter Holdco and Charter Investment, Inc. are parties to a mutual services agreement whereby each party shall provide rights and services to the other parties as may be reasonably requested for the management of the entities involved and their subsidiaries, including the cable systems owned by their subsidiaries all on a cost-reimbursement basis. The officers and employees of each party are available to the other parties to provide these rights and services, and all expenses and costs incurred in providing these rights and services are paid by Charter. Each of the parties will indemnify and hold harmless the other parties and their directors, officers and employees from and against any and all claims that may be made against any of them in connection with the mutual services agreement except due to its or their gross negligence or willful misconduct. The mutual services agreement expires on November 12, 2009, and may be terminated at any time by any party upon thirty days written notice to the other. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, Charter paid approximately \$70 million, \$73 million, \$74 million and \$20 million to Charter Holdco for services rendered pursuant to the mutual services agreement. All such amounts are reimbursable to Charter pursuant to a management arrangement with our subsidiaries. See Intercompany Management Arrangements. The accounts and balances related to these services eliminate in consolidation. Charter Investment, Inc. no longer provides services pursuant to this agreement.

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

Prior to November 12, 1999, Charter Investment, Inc. provided management and consulting services to our operating subsidiaries for a fee equal to 3.5% of the gross revenues of the systems then owned, plus reimbursement of expenses. The balance of management fees payable under the previous management agreement was accrued with payment at the discretion of Charter Investment, Inc., with interest payable on unpaid amounts. For the years ended December 31, 2002, 2003 and 2004, and the three months ended March 31, 2005, Charter's subsidiaries did not pay any fees to Charter Investment, Inc. to reduce management fees payable. As of December 31, 2002, 2003 and 2004 and March 31, 2005, total management fees payable by our subsidiaries to Charter Investment, Inc. were approximately \$14 million, exclusive of any interest that may be charged.

***Charter Communications Holding Company, LLC Limited Liability Agreement Taxes***

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

***Vulcan Ventures Channel Access Agreement***

Vulcan Ventures, an entity controlled by Mr. Allen, Charter, Charter Investment and Charter Holdco are parties to an agreement dated September 21, 1999 granting to Vulcan Ventures the right to use up to eight of our digital cable channels as partial consideration for a prior capital contribution of \$1.325 billion. Specifically, at Vulcan Ventures request, we will provide Vulcan Ventures with exclusive rights for carriage of up to eight digital cable television programming services or channels on each of the digital cable systems with local and to the extent available, national control of the digital product owned, operated, controlled or managed by Charter or its subsidiaries now or in the future of 550 megahertz or more. If the system offers digital services but has less than 550 megahertz of capacity, then the

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

***Equity Put Rights***

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

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

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

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

The parties engaged in a process of non-binding mediation to seek to resolve this matter, without success. The Special Committee is evaluating what further actions or processes it may undertake to resolve this dispute. To accommodate further deliberation, each party has agreed to refrain from initiating legal proceedings over this matter until it has given at least ten days' prior notice to the other. In addition, the Special Committee and Mr. Allen have determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute. If the Special Committee and Mr. Allen are unable to reach a resolution through that mediation process or to agree on an alternative dispute resolution process, the Special Committee intends to seek resolution of this dispute through judicial proceedings in an action that would be commenced, after appropriate notice, in the Delaware Court of Chancery against Mr. Allen and his affiliates seeking contract reformation, declaratory relief as to the respective rights of the parties regarding this dispute and alternative forms of legal and equitable relief. The ultimate resolution and financial impact of the dispute are not determinable at this time.

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

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

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

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Approximately 19.4 million shares were put to Mr. Allen under these agreements prior to their expiration on November 12, 2003.

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

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

***Mirror Securities***

Charter is a holding company and its principal assets are its equity interest in Charter Holdco and certain mirror notes payable by Charter Holdco to Charter, and mirror preferred units held by Charter, which have the same principal amount and terms as those of Charter's convertible senior notes and Charter's outstanding preferred stock. In 2002, 2003 and 2004, Charter Holdco paid to Charter \$73 million, \$68 million and \$49 million, respectively, related to interest on the mirror notes, and Charter Holdco paid an additional \$4 million related to dividends on the mirror preferred membership units.

In connection with our 2003 repurchase of approximately \$477 million of our outstanding 4.75% senior convertible notes due 2006 and approximately \$132 million of our outstanding 5.75% senior convertible notes due 2005, \$520 million of CCH II 10.25% senior notes were transferred (through a series of distributions) by CCH II to Charter Holdco, which in turn assigned those CCH II senior notes to us in exchange for the cancellation of mirror notes of each series having a principal amount equal to the amount of convertible notes of that series repurchased by us. As part of the closing of that transaction, Charter Holdco also paid to Charter cash in the amount of \$10 million, which represented the sum of (a) all accrued and unpaid interest on the portions of the mirror notes transferred by Charter to Charter Holdco, to, but not including, the date of the closing, on the basis set forth in the mirror notes, (b) an amount equal to the total amount of cash payable by Charter in lieu of fractional interests in the 10.25% CCH II senior notes which would have otherwise been due to the holders as a consequence of the exchange and (c) the costs and expenses relating to such transactions. Further, during 2004 Charter Holdco issued 7,252,818 common membership units to Charter in cancellation of \$30 million principal amount of mirror notes so as to mirror the issuance by Charter of Class A common stock in exchange for a like principal amount of its outstanding convertible notes.

In addition, in connection with our November 2004 sale of \$862.5 million principal amount of 5.875% convertible senior notes due 2009, Charter Holdco issued to us mirror notes in identical principal amount in exchange for the proceeds from our offering. Charter Holdco then purchased and pledged certain U.S. government securities to us as security for the mirror notes (which were in turn repledged by us to the trustee for the benefit of holders of our 5.875% convertible senior notes and which we expect to use to fund the first six interest payments on the notes), and agreed to lend common units to us, the terms of which will, to the extent practicable, mirror the terms of the shares offered hereby. Charter Holdco also redeemed the remaining \$588 million principal amount of the mirror notes in respect of our 5.75% convertible senior notes due 2005 concurrently with our December 23, 2004 redemption of our 5.75% convertible senior notes. In addition, in November 2004, Charter Holdco entered into a unit lending agreement with Charter in which it agreed to lend common units to Charter that would mirror the anticipated loan of Class A common shares by Charter to Citigroup Global Markets pursuant to a share lending agreement. The members of Charter Holdco (including the entities controlled by Mr. Allen) also at that time entered into a letter agreement providing, among other things, that for purposes of the allocation provisions of the Limited Liability Company Agreement of Charter Holdco, the mirror units be treated as disregarded and not outstanding until such time (and except to the extent) that, under Charter's



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share lending agreement, Charter treats the loaned shares in a manner that assumes they will neither be returned to Charter by the borrower nor otherwise be acquired by Charter in lieu of such a return. In March, April and May 2005, Charter Holdco repurchased a total of \$131 million in principal amount of mirror convertible notes due 2006 concurrently with our repurchases of equal principal amounts of our 4.75% convertible senior notes due 2006, for purchase prices equal to the prices we paid in our repurchases.

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

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

Should Charter or Charter Holdco or any of their subsidiaries wish to pursue, or allow their subsidiaries to pursue, a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries engaging in the business transaction, they will be able to do so. In any such case, the restated certificate of incorporation of Charter and the limited liability company agreement of Charter Holdco would need to be amended accordingly to modify the current restrictions on the ability of such entities to engage in any business other than the cable transmission business. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable systems owned, operated or managed by Charter, Charter Holdco or any of their subsidiaries from time to time.

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

Also, conflicts could arise with respect to the allocation of corporate opportunities between us and Mr. Allen and his affiliates in connection with his investments in businesses in which we are permitted to engage under Charter's restated certificate of incorporation. Certain of the indentures of Charter and its subsidiaries require the applicable issuer of notes to obtain, under certain circumstances, approval of the board of directors of Charter and, where a transaction or series of related transactions is valued at or in excess of \$50 million, a fairness opinion with respect to transactions in which Mr. Allen has an interest. Related party transactions are approved by our Audit Committee in compliance with the listing requirements applicable to NASDAQ National Market listed companies. We have not instituted any other formal plan or arrangement to address potential conflicts of interest.

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

**Table of Contents****Third Party Business Relationships in Which Mr. Allen has or had an Interest**

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

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

***High Speed Access***

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

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

In conjunction with the High Speed Access asset purchase, on February 28, 2002, Charter Communications Holding Company granted High Speed Access the right to use certain intellectual property sold by High Speed Access to Charter Holdco. High Speed Access does not pay any fees under the agreement. The domestic portion of the license terminated on June 30, 2002, and the international portion of the license expired on February 2, 2005. Prior to closing the asset purchase, Charter performed certain management services formerly performed by High Speed Access, for which it received approximately \$4 million in January and February 2002. Concurrently with the asset purchase, all of the other agreements between Charter Holdco and High Speed Access Corp. (other than the license agreement described above), namely the programming content agreement, the services agreement, the systems access agreement, the 1998 network services agreement and the May 2000 network services agreement, were terminated. The revenues we earned from High Speed Access for the year ended December 31, 2002 were approximately \$17 million. In addition, for the year ended December 31, 2002, we paid High Speed Access approximately \$2 million under the 1998 network services agreement and the 2000 network services agreement, representing a per customer fee to High Speed Access according to agreed pricing terms and compensation for services exceeding certain minimum thresholds.



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

On May 12, 2000, Charter entered into a five-year network services agreement with High Speed Access, which was assigned by Charter Communications, Inc. to Charter Holdco on August 1, 2000. With respect to each system launched or intended to be launched, we paid a per customer fee to High Speed Access according to agreed pricing terms. In addition, we compensated High Speed Access for services exceeding certain minimum thresholds.

In 2001, Charter Holdco was a party to a systems access and investment agreement with Vulcan Ventures and High Speed Access and a related network services agreement with High Speed Access. These agreements provided High Speed Access with exclusive access to certain of our homes passed. The term of the network services agreement was, as to a particular cable system, five years from the date revenue billing commenced for that cable system. The programming content agreement provided each of Vulcan Ventures and High Speed Access with a license to use certain content and materials of the other on a non-exclusive, royalty-free basis.

Under the above described transactions, we also earned certain warrants to purchase High Speed Access stock. These warrants were cancelled in February 2002 in connection with the asset purchase described above. As a result of the transaction with High Speed Access described above, we neither paid to, nor received, any amounts from High Speed Access in 2003.

***TechTV, Inc.***

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

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter s interactive television platforms through December 31, 2006 (exclusive for the first year). For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, we recognized approximately \$4 million, \$1 million, \$5 million and \$0.3 million, respectively, of the Vulcan Programming payment as an offset to programming expense and paid approximately \$0.2 million, \$80,600, \$2 million and \$0.5 million, respectively, to TechTV under the affiliation agreement.

We believe that Vulcan Programming, which is 100% owned by Mr. Allen, owned an approximate 98% equity interest in TechTV at the time Vulcan Programming sold TechTV to an unrelated third party in May 2004. Until September 2003, Mr. Savoy, a former Charter director, was the president and director of Vulcan Programming and was a director of TechTV. Mr. Wangberg, one of Charter s directors, was the

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chairman, chief executive officer and a director of TechTV. Mr. Wangberg resigned as the chief executive officer of TechTV in July 2002. He remained a director of TechTV along with Mr. Allen until Vulcan Programming sold TechTV.

***Oxygen Media Corporation***

Oxygen Media LLC ( Oxygen ) provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen, whereby we agreed to carry programming content from Oxygen. Under the carriage agreement, we currently make Oxygen programming available to approximately 5 million of our video customers. The term of the carriage agreement was retroactive to February 1, 2000, the date of launch of Oxygen programming by us, and was to run for a period of five years from that date. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, we paid Oxygen approximately \$6 million, \$9 million, \$13 million and \$3 million, respectively, for programming content. In addition, Oxygen pays us marketing support fees for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. We recorded approximately \$2 million, \$1 million, \$1 million and \$0.1 million related to these launch incentives as a reduction of programming expense for each of the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively.

Concurrently with the execution of the carriage agreement, Charter Holdco entered into an equity issuance agreement pursuant to which Oxygen's parent company, Oxygen Media Corporation ( Oxygen Media ), granted a subsidiary of Charter Holdco a warrant to purchase 2.4 million shares of Oxygen Media common stock for an exercise price of \$22.00 per share. In February 2005, this warrant expired unexercised. Charter Holdco was also to receive unregistered shares of Oxygen Media common stock with a guaranteed fair market value on the date of issuance of \$34 million, on or prior to February 2, 2005, with the exact date to be determined by Oxygen Media, but this commitment was later revised as discussed below.

We recognize the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, we recorded approximately \$6 million, \$9 million, \$13 million and \$1 million, respectively, as a reduction of programming expense. The carrying value of our investment in Oxygen was approximately \$10 million, \$19 million, \$32 million and \$33 million as of December 31, 2002, 2003 and 2004 and March 31, 2005, respectively.

In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revises the number of our customers to which Oxygen programming must be carried and for which we must pay, (b) releases Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) requires Oxygen to make payment on outstanding receivables for marketing support fees due to us under the carriage agreement; and (d) requires that Oxygen provide its programming content to us on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than us. The renewal of the carriage agreement (a) extends the period that we will carry Oxygen programming to our customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks.

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

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

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

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

On October 7, 1996, the former owner of our Falcon cable systems entered into a letter agreement and a cable television agreement with Trail Blazers Inc. for the cable broadcast in the metropolitan area surrounding Portland, Oregon of pre-season, regular season and playoff basketball games of the Portland Trail Blazers, a National Basketball Association basketball team. Mr. Allen is the 100% owner of the Portland Trail Blazers and Trail Blazers Inc. After the acquisition of the Falcon cable systems in November 1999, we continued to operate under the terms of these agreements until their termination on September 30, 2001. Under the letter agreement, Trail Blazers Inc. was paid a fixed fee for each customer in areas directly served by the Falcon cable systems. Under the cable television agreement, we shared subscription revenues with Trail Blazers Inc. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, we paid approximately \$1 million, \$135,200, \$96,100 and \$22,300, respectively, in connection with the cable broadcast of Portland Trail Blazers basketball games under the October 1996 cable television agreement and subsequent local cable distribution agreements.

On July 1, 2001, Charter Holdco and Action Sports Cable Network ( Action Sports ), which was 100% owned by Mr. Allen, entered into a new carriage agreement for a five-year term, which became effective on October 1, 2001 with the expiration of the previous agreement. Under the July 2001 carriage agreement, Charter Holdco pays Action Sports a fixed fee for each customer receiving the Action Sports programming, which covered sporting events in the Pacific Northwest, including the Portland Trail Blazers, the Seattle Seahawks, a National Football League football team, and the Portland Fire, a Women's National Basketball Association basketball team. On November 5, 2002, Action Sports, which was 100% owned by Mr. Allen, announced that it was discontinuing its business following its failure to obtain an acceptable carriage agreement with AT&T Cable, the cable television provider in Portland, Oregon. Action Sports service was terminated on November 5, 2002 and Charter Holdco ceased carriage of the service. For the year ended December 31, 2002, we paid Action Sports approximately \$1 million for rights to carry its programming.

***Click2learn***

Charter Holdco executed a Software License Agreement effective September 30, 2002, with Click2learn, Inc. ( Click2learn ), a company which provided enterprise software for organizations seeking to capture, manage and disseminate knowledge throughout their extended enterprise. As of December 31, 2003, Mr. Allen owned an approximate 21% interest in Click2learn through 616,120 shares held of record by Vulcan Ventures and 387,096 shares issuable upon exercise of a warrant issued to Vulcan Ventures. In March 2004, Click2learn was merged with an unrelated company, resulting in a new company, SumTotal Systems, Inc., which is publicly traded. We have been informed by Vulcan that, as of December 31, 2004, Mr. Allen owned an approximate 10% interest in SumTotal Systems, Inc. through his ownership in Vulcan Ventures. Mr. Allen owns 100% of Vulcan Ventures. Ms. Jo Allen Patton is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is Executive Vice President of Vulcan Ventures. For the years ended December 31, 2002, 2003 and 2004, we paid approximately \$250,000, \$57,100 and \$0, respectively, to Click2learn. For the year ended December 31, 2004 and for the three months ended March 31, 2005, we paid approximately \$0 and \$0, respectively to SumTotal Systems, Inc.

***Digeo, Inc.***

In March 2001, Charter Ventures and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures Incorporated. The equity interest is subject to a priority return of

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capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. After Vulcan Ventures recovers its amount contributed and any cumulative loss allocations, Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls, and may require Vulcan Ventures, through January 24, 2004, to make certain additional contributions through DBroadband Holdings, LLC to acquire additional equity in Digeo as necessary to maintain Charter Ventures' pro rata interest in Digeo in the event of certain future Digeo equity financings by the founders of Digeo. These additional equity interests are also subject to a priority return of capital to Vulcan Ventures up to amounts contributed by Vulcan Ventures on Charter Ventures' behalf. DBroadband Holdings, LLC is therefore not included in our consolidated financial statements. Pursuant to an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf.

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

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

On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment supersedes the amendment of September 27, 2001. It provides for the development by Digeo Interactive of future features to be included in the Basic i-TV service provided by Digeo and for Digeo's development of an interactive toolkit to enable Charter to develop interactive local content. Furthermore, Charter may request that Digeo Interactive manage local content for a fee. The amendment provides for Charter to pay for development of the Basic i-TV service as well as license fees for customers who receive the service, and for Charter and Digeo to split certain revenues earned from the service. In 2002, 2003 and 2004 and for the three months ended March 31, 2005, we paid Digeo Interactive approximately \$3 million, \$4 million, \$3 million and \$2 million, respectively, for customized development of the i-channels and the local content tool kit. We received no revenues under the broadband carriage agreement in 2003. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

On June 30, 2003, Charter Holdco entered into an agreement with Motorola, Inc. for the purchase of 100,000 digital video recorder ( DVR ) units. The software for these DVR units is being supplied by Digeo Interactive under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deploys from a maximum of 10 headends through year-end 2004. This maximum number of headends was increased from 10 to 15 pursuant to a letter agreement executed on June 11, 2004 and the date for entering into license agreements for units deployed was extended to June 30, 2005. The number of headends was increased from 15 to 20 pursuant to a letter agreement dated August 4, 2004, from 20 to 30 pursuant to a letter agreement dated September 28, 2004 and from 30 to 50 headends by a letter agreement in February 2005. The license granted for each unit deployed under the

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agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement provides that Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. Charter paid approximately \$474,400 and \$920,300 in license and maintenance fees for the year ending December 31, 2004 and the three months ending March 31, 2005, respectively.

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

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

In late 2003, Microsoft sued Digeo for \$9 million in a breach of contract action, involving an agreement that Digeo and Microsoft had entered into in 2001. Digeo informed us that it believed it had an indemnification claim against us for half that amount. Digeo settled with Microsoft agreeing to make a cash payment and to purchase certain amounts of Microsoft software products and consulting services through 2008. In consideration of Digeo agreeing to release us from its potential claim against us, after consultation with outside counsel we agreed, in June 2005, to purchase a total of \$2.3 million in Microsoft consulting services through 2008, a portion of which amounts Digeo has informed us will count against Digeo's purchase obligations with Microsoft. To date, we have made no such payments under this agreement.

We believe that Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 60% equity interest in Digeo, Inc., on a fully-converted non-diluted basis. Mr. Allen is a director of Digeo, and Mr. Vogel was a director of Digeo in 2002, 2003 and 2004. During 2002, 2003, 2004 and 2005, Mr. Vogel held options to purchase 10,000 shares of Digeo common stock.

**Other Miscellaneous Relationships*****Viacom Networks***

Pursuant to certain affiliation agreements with networks of Viacom, Inc. ( "Viacom" ), including MTV, MTV2, Nickelodeon, VH1, TVLand, CMT, Spike TV, Comedy Central, Viacom Digital Suite, CBS-owned and operated broadcast stations, Showtime, The Movie Channel, and Flix, Viacom provides Charter with programming for distribution via our cable systems. The affiliation agreements provide for, among other things, rates and terms of carriage, advertising on the Viacom networks, which Charter can sell to local advertisers and marketing support. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, Charter paid Viacom approximately \$177 million, \$188 million, \$194 million and \$50 million, respectively, for programming. Charter recorded approximately \$5 million, \$5 million, \$8 million and \$0 as receivables from Viacom networks related to launch incentives for certain channels and marketing support, respectively, for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group.

**Table of Contents*****ADC Telecommunications Inc.***

Charter and Charter Holdco purchase certain equipment for use in our business from ADC Telecommunications, which provides broadband access and network equipment. Mr. Wangberg serves as a director for ADC Telecommunications. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, we paid \$759,600, \$60,100, \$344,800 and \$112,800, respectively, to ADC Telecommunications under this arrangement.

***HDNet and HDNet Movies Network***

On January 10, 2003 we signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. HDNet Movies delivers a commercial-free schedule of full-length feature films converted from 35mm to high-definition, including titles from an extensive library of Warner Bros. films. HDNet Movies will feature a mix of theatrical releases, made-for-TV movies, independent films and shorts. The HDNet channel features a variety of HDTV programming, including live sports, sitcoms, dramas, action series, documentaries, travel programs, music concerts and shows, special events, and news features including the popular HDNet World Report. HDNet also offers a selection of classic and recent television series. We paid HDNet and HDNet Movies approximately \$21,900, \$609,100 and \$447,400 in 2003 and 2004 and for the three months ended March 31, 2005. We believe that entities controlled by Mr. Cuban owned approximately 81% of HDNet as of December 31, 2003 and 2004 and for the three months ended March 31, 2005. As of March 31, 2005, we believe that Mark Cuban, co-founder and president of HDNet, owned approximately 19,000,000 shares, or 6.2% of the total common equity in Charter based on a Schedule 13G filed with the SEC on May 21, 2003. However, we believe Mr. Cuban disposed of his interest in Charter in April 2005.

***Affiliate Leases and Agreements***

David L. McCall, who served as Senior Vice President Operations Eastern Division during 2002 and January 2003, is a partner in a partnership that leases office space to us under a lease agreement, which expires December 31, 2010. The partnership received approximately \$117,600, \$189,200, \$43,400 and \$0 pursuant to such lease and related agreements for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively. In addition, during 2002 and 2003, we paid approximately \$644,800 and \$381,300, respectively, for construction services to a construction company controlled by Mr. McCall's brother under a construction agreement that expired on December 31, 2003. We also paid approximately \$3 million, \$373,800, \$0 and \$0 during 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively, for construction services to a construction company controlled by Mr. McCall's son under several agreements, the last of which expired January 31, 2004.

Companies controlled by Mr. Nathanson, a director of Charter, leased certain warehouse space in Riverside, California, to our subsidiaries. For the years ended December 31, 2002 and 2003, total rent paid for the Riverside warehouse space was approximately \$76,000 and \$16,600, respectively, under a lease agreement which expired March 15, 2003.

***Carriage Fees***

We have carried The Outdoor Channel on a month-to-month basis since the expiration of an affiliation agreement in July 2002. We paid approximately \$1 million, \$1 million, \$1 million and \$298,300 to The Outdoor Channel during 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively. In December 2003, Mr. Merritt became director of Outdoor Channel Holdings, Inc., an affiliate of The Outdoor Channel, Inc.

***Payments for Relatives Services***

Additionally, in 1999, Heather Wood, a daughter of Howard Wood, a former director, who resigned as a Vice President of Charter Holdco in February 2002, received a bonus in the form of a three-year

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promissory note bearing interest at 7% per year. One-third of the original outstanding principal amount of the note and interest were forgiven as long as she remained employed by Charter Holdco at the end of each of the first three anniversaries of the issue date in February 1999. The amount of principal and interest forgiven on this note for the year ended December 31, 2001, was \$85,500, and the outstanding balance on the note was forgiven effective as of February 22, 2002.

Since June 2003, Mr. Vogel's brother-in-law has been an employee of Charter Holdco and has received a salary commensurate with his position in the engineering department.

***Radio Advertising***

We believe that, through a third party advertising agency, we have paid approximately \$113,200, \$79,700 and \$49,700, in 2002, 2003 and 2004, respectively, to Mapleton Communications, an affiliate of Mapleton Investments, LLC that owns radio stations in Oregon and California. Mr. Nathanson is the Chairman and owner of Mapleton Investments, LLC.

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

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

In addition, Enstar Cable Corporation, the manager of the Enstar limited partnerships through a management agreement, engaged Charter Holdco to manage the Enstar limited partnerships. Pursuant to the management agreement, Charter Holdco provides management services to the Enstar limited partnerships in exchange for management fees. The Enstar limited partnerships also purchase basic and premium programming for their systems at cost from Charter Holdco. For the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, Charter Holdco earned approximately \$1 million, \$469,300, \$0 and \$0, respectively, by providing management services to the Enstar limited partnerships. In September 2003 the Enstar limited partnerships completed sales of all their remaining assets, and as a result no further management fees were paid in 2004. In November 2004, the Enstar limited partnerships were dissolved.

All of the executive officers of Charter (with the exception of Mr. Allen), Charter Holdco and Charter Holdings act as officers of Enstar Communications Corporation.

***Indemnification Advances***

Pursuant to Charter's bylaws (and the employment agreements of certain of our current and former officers), Charter is obligated (subject to certain limitations) to indemnify and hold harmless, to the fullest extent permitted by law, any officer, director or employee against all expense, liability and loss (including, among other things, attorneys fees) reasonably incurred or suffered by such officer, director or employee as a result of the fact that he or she is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding by reason of the fact that he or she is or was a director, officer or employee of Charter. In addition, Charter is obligated to pay, as an advancement of its indemnification obligation, the expenses (including attorneys' fees) incurred by any officer, director or employee in defending any such action, suit or proceeding in advance of its final disposition, subject to an obligation to

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repay those amounts under certain circumstances. Pursuant to these indemnification arrangements and as an advancement of costs, Charter has reimbursed certain of its current and former directors and executive officers a total of approximately \$3 million, \$8 million, \$3 million and \$0 in respect of invoices received in 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively, in connection with their defense of certain legal actions described herein. See Business Legal Proceedings. Those current and former directors and officers include: Paul G. Allen, David C. Andersen, David G. Barford, Mary Pat Blake, J. Christian Fenger, Kent D. Kalkwarf, Ralph G. Kelly, Jerald L. Kent, Paul E. Martin, David L. McCall, Ronald L. Nelson, Nancy B. Peretsman, John C. Pietri, William D. Savoy, Steven A. Schumm, Curtis S. Shaw, William J. Shreffler, Stephen E. Silva, James Trey Smith and Carl E. Vogel. These amounts were submitted to Charter's director and officer insurance carrier and have been reimbursed consistent with the terms of the Securities Class Action and Derivative Action Settlements described in Business Legal Proceedings. On or about February 22, 2005, Charter filed lawsuits against the four former officers who were indicted and pled guilty as part of the government investigation conducted by the United States Attorney's Office. These suits seek to recover fees and related expenses that Charter advanced these former officers under the indemnification provisions described above. One of these former officers, James Smith, has counterclaimed against Charter alleging, among other things, that Charter owes him additional indemnification for legal fees that Charter did not pay. Another of these former officers, David McCall, has counterclaimed against Charter that Charter owes him accrued sick leave.



**Table of Contents****DESCRIPTION OF NOTES**

The 5.875% convertible senior notes due 2009 offered hereby (the Notes) were issued under an indenture dated as of November 22, 2004 between us and Wells Fargo Bank, N.A., as trustee. Copies of the indenture, the pledge agreement, the resale registration rights agreement and the borrow facility registration rights agreement are included as exhibits to the registration statement of which this prospectus forms a part and will be made available upon request. We have summarized portions of these documents below. This summary is not complete. We urge you to read the indenture, the pledge agreement, the resale registration rights agreement and the borrow facility registration rights agreement because these documents define your rights as a holder of the Notes. In this section, Charter Communications, Inc., we, our and us each refers only to Charter Communications, Inc. and not to any existing or future subsidiary.

**General**

The Notes are senior unsecured obligations of Charter Communications, Inc. and are convertible into our Class A common stock as described under Conversion Rights below. The Notes were issued in an aggregate original principal amount of \$862,500,000 and will mature on November 16, 2009.

The Notes bear interest at the rate of 5.875% per year on the accreted principal amount from November 22, 2004, the date of original issuance of the Notes, or from the most recent date to which interest had been paid or provided for. Interest is payable semi-annually in arrears on May 16 and November 16 of each year, commencing May 16, 2005, to holders of record at the close of business on the preceding May 1 and November 1, respectively. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. In the event of the maturity, conversion, purchase by us at the option of the holder or redemption of a Note, interest will cease to accrue on the Note under the terms of and subject to the conditions of the indenture.

Principal is payable, and Notes may be presented for conversion, registration of transfer and exchange, without service charge, at our office or agency in New York, New York, which is initially the office or agency of the trustee in New York, New York. See Form, Denomination and Registration.

The principal amount of the Notes will increase if we elect to accrete the principal amount to pay liquidated damages we may owe in connection with the registered borrow facility. See Registered Borrow Facility Registration Rights on Shares Covered by Share Lending Agreement. We will be entitled to defer any interest, which we refer to as the deferred interest, that accrues with respect to the excess of the accreted principal amount over the original principal amount until May 16, 2008, or any earlier purchase by us at the option of the holder, redemption or acceleration of the Notes. We will pay any accrued deferred interest on May 16, 2008 to the record holders of the Notes as of the close of business on May 1, 2008 unless paid earlier. We may elect to pay any accrued deferred interest on any interest payment date prior to May 16, 2008 if we notify the trustee and the record holders of Notes at least 10 days prior to the record date for such interest payment date. We will not pay any additional interest on such accrued deferred interest.

The indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by us. The indenture will contain no covenants or other provisions to protect holders of the Notes in the event of a highly leveraged transaction or a fundamental change, except to the extent described under Fundamental Change Requires Us to Repurchase Notes at the Option of the Holder below.

**Ranking**

The Notes are our unsecured, except with respect to the Pledged Securities as described below, and unsubordinated obligations. The Notes rank, in right of payment, the same as all of our existing and future unsecured and unsubordinated indebtedness, except with respect to the Pledged Securities as described below. The Notes rank senior in right of payment to all of our subordinated indebtedness and will be

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effectively subordinated to any secured indebtedness, except with respect to the Pledged Securities as described below, and structurally subordinated to indebtedness and other liabilities of our subsidiaries.

As of March 31, 2005, Charter Communications, Inc. had no secured indebtedness and our subsidiaries had total indebtedness and other liabilities of \$20.5 billion, excluding intercompany obligations.

**Security**

Our subsidiary, Charter Communications Holding Company, LLC, which we refer to as Charter Holdco, has purchased and pledged to us as security for an intercompany note, and pursuant to a pledge agreement we repledged to the trustee as security for the benefit of the holders of the Notes (and not for the benefit of our other creditors), U.S. government securities, which we refer to as the Pledged Securities, in such amount as will be sufficient upon receipt of scheduled payments with respect to such Pledged Securities to provide for payment in full of the first six scheduled interest payments due on the Notes, without regard to any liquidated damages we may owe or any deferred interest in respect of accretion of the principal amount of the Notes. Charter Holdco used approximately \$144 million of the net proceeds from the offering to acquire such Pledged Securities.

The Pledged Securities were repledged by us to the trustee for the exclusive benefit of the holders of the Notes and are held by the trustee in a pledge account. Immediately prior to each of the first six interest payment dates, the trustee will release from the pledge account cash generated by Pledged Securities then maturing sufficient to pay the interest then due on the original principal amount of the Notes. A failure to pay interest on the original principal amount of the Notes when due through the first six scheduled interest payment dates will constitute an immediate event of default under the indenture, with no grace period (unless the failure to make such payment results from the failure by the trustee to release such proceeds from the pledge account, provided such failure is not caused by any act or omission by us). Upon any conversion of Notes prior to November 16, 2007, the trustee will liquidate a portion of the Pledged Securities and release from the pledge account proceeds sufficient to pay the Early Conversion Make Whole Amount described under Conversion Rights Interest Make Whole Upon Conversion. If any Early Conversion Make Whole Amount is limited by the formula described therein, the portion of the proceeds of the liquidation of the Pledged Securities not paid to the converting holder as a result of such limitation will be released to Charter Holdco from the pledge account.

If prior to November 16, 2007

an event of default under the Notes occurs and is continuing, and

the trustee or the holders of 25% in aggregate original principal amount of the Notes accelerate the Notes by declaring the accreted principal amount of the Notes to be immediately due and payable (by written consent, at a meeting of Note holders or otherwise), except for the occurrence of an event of default relating to our bankruptcy, insolvency or reorganization, upon which the Notes will be accelerated automatically, then the proceeds from the liquidation of the Pledged Securities will be promptly released to Note holders, subject to the automatic stay provisions of bankruptcy law, if applicable. Distributions from the pledge account will be applied: first, to any accrued and unpaid interest on the Notes, and

second, to the extent available, to the repayment of a portion of the principal amount of the Notes.

However, if any event of default is cured or waived prior to the acceleration of the Notes by the trustee or holders of the Notes referred to above, the trustee and the holders of the Notes will not be able to accelerate the Notes as a result of that event of default.

For example, if the first two interest payments were made when due but the third interest payment was not made when due and the Note holders promptly exercised their right to declare the accreted principal amount of the Notes to be immediately due and payable then, assuming automatic stay

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provisions of bankruptcy law are inapplicable and the proceeds of the Pledged Securities are promptly distributed from the pledge account,

an amount equal to the interest payment due with respect to the third interest payment would be distributed from the pledge account as accrued interest, and

the balance of the proceeds of the pledge account would be distributed as a portion of the principal amount of the Notes.

In addition, Note holders would have an unsecured claim against us for the remainder of the accreted principal amount of their Notes.

Once we make the first six scheduled interest payments on the Notes, all of the remaining Pledged Securities, if any, will be released to Charter Holdco from the pledge account and thereafter the Notes will be unsecured.

### **Conversion Rights**

#### ***General***

Holders may convert their Notes into shares of our Class A common stock at an initial conversion rate of 413.2231 shares of our Class A common stock, par value \$.001 per share, per \$1,000 original principal amount of Notes, unless previously redeemed or purchased. This is equivalent to an initial conversion price of approximately \$2.42 per share.

The conversion rate and the equivalent conversion price in effect at any given time are referred to as the applicable conversion rate and the applicable conversion price, respectively, and will be subject to adjustment as set forth in

Conversion Rate Adjustments below. In addition, if we elect to accrete the principal amount of the Notes to pay any liquidated damages, we will increase the conversion rate at the same rate as the accretion rate and over the same period of time. A holder may convert fewer than all of such holder's Notes so long as the Notes converted are a multiple of \$1,000 original principal amount.

Upon conversion of a Note, a holder will not receive any cash payment of interest (unless such conversion occurs between a regular record date and the interest payment date to which it relates), subject to our obligations described under Interest Make Whole Upon Conversion below, and we will not adjust the conversion rate to account for accrued and unpaid interest. Our delivery to the holder of cash and shares, if any, of our Class A common stock into which the Note is convertible will be deemed to satisfy our obligation with respect to such Note, subject to our obligations described under Interest Make Whole Upon Conversion below. Except to the extent we are required to make payments in respect of such obligations, any accrued but unpaid interest will be deemed to be paid in full upon conversion, rather than cancelled, extinguished or forfeited. For a discussion of the tax treatment to a holder of receiving our Class A common stock upon conversion, see United States Federal Income Tax Considerations.

Holders of Notes at the close of business on a regular record date will receive payment of interest payable on the corresponding interest payment date notwithstanding the conversion of such Notes at any time after the close of business on the applicable regular record date. Notes surrendered for conversion by a holder after the close of business on any regular record date but prior to the next interest payment date must be accompanied by payment of an amount equal to the interest that the holder is to receive on the Notes; *provided, however*, that no such payment need be made (1) if the conversion date is prior to November 16, 2007, (2) we have specified a redemption date that is after a record date and on or prior to the next interest payment date, (3) if we have specified a purchase date following a fundamental change that is after a record date and on or prior to the next interest payment date or (4) only to the extent of overdue interest, if any overdue interest exists at the time of conversion with respect to such Note.

If a holder converts Notes, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of our Class A common stock upon the conversion, if any, unless the tax is due because

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the holder requests the shares to be issued or delivered to a person other than the holder, in which case the holder will pay that tax.

If a holder wishes to exercise its conversion right, such holder must deliver an irrevocable duly completed conversion notice, together, if the Notes are in certificated form, with the certificated security, to the conversion agent along with appropriate endorsements and transfer documents, if required, and pay any transfer or similar tax, if required. The date a holder makes such required deliveries is the conversion date for the Notes converted. The conversion agent will, on the holder's behalf, convert the Notes into shares of our Class A common stock, subject to our right to deliver cash or a combination of cash and shares. Holders may obtain copies of the required form of the conversion notice from the conversion agent. A certificate, or a book-entry transfer through The Depository Trust Company, New York, New York, or DTC, for the number of full shares of our Class A common stock into which any Notes are converted, together with a cash payment for any fractional shares, and cash or shares, if applicable, with respect to any Early Conversion Make Whole Amount or Redemption Make Whole Amount as described under

Interest Make Whole Upon Conversion below, will be delivered through the conversion agent on the conversion settlement date, which will be as soon as practicable, but no later than the fifth business day, following the conversion date, unless we elect cash settlement as described under Cash Settlement Option below. The trustee will initially act as the conversion agent.

Notes called for redemption may be surrendered for conversion at any time prior to the close of business on the business day immediately preceding the redemption date. If a holder has already delivered a purchase notice as described under Fundamental Change Requires Us to Repurchase Notes at the Option of the Holder with respect to a Note, however, the holder may not surrender that Note for conversion until the holder has withdrawn the purchase notice in accordance with the indenture.

***Cash Settlement Option***

Upon conversion, we will have the right to deliver, in lieu of shares of our Class A common stock, cash or a combination of cash and Class A common stock. We will inform converting holders through the trustee no later than two business days following the conversion date if we elect to pay cash in lieu of delivering shares and will specify in such notice the percentage of the shares otherwise deliverable for which we will pay cash, unless we have already informed holders of our election in a notice of redemption for the Notes, as described under Redemption below. If we elect to pay holders cash upon conversion, such payment will be based on the average price of our Class A common stock. If we elect cash settlement, the conversion settlement date on which we deliver the cash and shares of our Class A common stock, if any, together with the cash or shares, if applicable, with respect to any Early Conversion Make Whole Amount or Redemption Make Whole Amount, to converting holders will be the third business day following the determination of the average price. We will deliver cash in lieu of any fractional shares of our Class A common stock issuable in connection with any conversion of Notes based upon the average price.

The average price of our Class A common stock means, with respect to any conversion of Notes, the average of the sale prices of our Class A common stock over the 20 trading day period beginning on the third trading day immediately following the applicable conversion date.

The sale price of our Class A common stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the bid and asked prices or, if more than one in either case, the average of the average bid and the average asked prices) on that date as reported in transactions for the principal U.S. securities exchange on which our common stock is traded or, if our common stock is not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq National Market. The sale price will be determined without reference to after-hours or extended market trading.

If our Class A common stock is not listed for trading on a U.S. national or regional securities exchange and not reported by the Nasdaq National Market on the relevant date, the sale price will be the last quoted bid price for our common stock on the Nasdaq Small Cap Market or in the over-the-counter market on the relevant date as reported by Pink Sheets LLC or any similar organization.

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If our Class A common stock is not so quoted, the sale price will be the average of the mid-point of the last bid and asked prices for our common stock on the relevant date from each of at least three nationally recognized independent investment banking firms selected by us for this purpose.

Trading day means a day during which trading in securities generally occurs on the principal U.S. national or regional securities exchange on which our Class A common stock is then listed or, if our Class A common stock is not then listed on a national or regional securities exchange, on the Nasdaq National Market or, if our Class A common stock is not then quoted on Nasdaq National Market, on the principal other market on which our Class A common stock is then traded.

***Limitation on Beneficial Ownership***

Notwithstanding the foregoing, no holder of Notes will be entitled to receive shares of our Class A common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than the specified percentage of the shares of Class A common stock outstanding at such time. With respect to any conversion prior to November 16, 2008, the specified percentage will be 4.9%, and with respect to any conversion thereafter until the maturity of the Notes, the specified percentage will be 9.9%. Any purported delivery of shares of our Class A common stock upon conversion of Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than the specified percentage of the shares of Class A common stock outstanding at such time. If any delivery of shares of our Class A common stock owed to a holder upon conversion of Notes is not made, in whole or in part, as a result of this limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after, but in no event later than two trading days after, any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than the specified percentage of the shares of Class A common stock outstanding at such time.

***Interest Make Whole Upon Conversion******Early Conversion Make Whole Amount***

Holders who convert their Notes prior to November 16, 2007 will receive, in addition to a number of shares of our Class A common stock equal to the conversion rate, or cash in lieu thereof, the cash proceeds, subject to the limitation described below, of the sale by the trustee of the Pledged Securities remaining with respect to the Notes being converted, which we refer to as the Early Conversion Make Whole Amount; *provided* that if a holder converts Notes after the close of business on any regular record date but prior to the next interest payment date, the Pledged Securities with respect to the Notes being converted that will mature immediately prior to the applicable interest payment date shall be excluded from such sale and from the Early Conversion Make Whole Amount since the proceeds thereof will be paid to such holder on such interest payment date. The Early Conversion Make Whole Amount will not compensate a converting holder for any deferred interest in respect of accretion of the principal amount of the Notes if we elect to accrete such principal amount to pay any liquidated damages we may owe.

Upon receipt by the conversion agent of a conversion notice, the trustee will liquidate a portion of the Pledged Securities, excluding, in the case of any conversion after the close of business on any regular record date but prior to the next interest payment date, Pledged Securities that will mature immediately prior to the applicable interest payment date, rounded down to the nearest whole multiple of the minimum denomination of such Pledged Securities, and release the cash proceeds thereof to the converting holder. The percentage of the remaining Pledged Securities to be sold will be determined based on the aggregate original principal amount of Notes being converted as a percentage of the total original principal amount of Notes then outstanding.

If a holder converts Notes prior to the earlier of (1) the sale of such Notes pursuant to an effective registration statement (including under this prospectus) or (2) November 22, 2006, the Early Conversion

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Make Whole Amount such holder will receive upon conversion of each \$1,000 original principal amount of Notes will not exceed \$18.18, which is the amount determined pursuant to the following formula:

$$1000 - 1.1(\text{CR} * \text{OP})$$

Where CR is 413.2231, the initial conversion rate for the Notes and OP is \$2.16, the last reported sale price of our Class A common stock on the date we priced this offering of Notes. The portion of the Early Conversion Make Whole Amount not paid to the holder upon conversion of its Notes because of the limitation described above will be paid to Charter Holdco promptly following the sale of the relevant Pledged Securities.

Notwithstanding the foregoing paragraph, the cash proceeds received upon conversion by any holders who convert Notes that have been called for redemption will not be limited by the formula described above.

*Redemption Make Whole Amount*

Any holders who convert Notes that have been called for redemption shall receive, in addition to the Early Conversion Make Whole Amount, if applicable, the present value of the interest on the Notes converted that would have been payable for the period from and including November 16, 2007, or if later, the redemption date, to but excluding November 16, 2009, plus any accrued and unpaid deferred interest, which we refer to as the Redemption Make Whole Amount. The Redemption Make Whole Amount shall be calculated by discounting the amount of such interest, other than any deferred interest, on a semi-annual basis using a discount rate equal to 3.0% plus the arithmetic mean of the yields under the respective headings *This Week* and *Last Week* published in the Statistical Release under the caption *Treasury Constant Maturities* for the maturity (rounded to the nearest month) corresponding to the period from and including the redemption date to but excluding November 16, 2009. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the applicable rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purpose of calculating the applicable rate, the most recent Statistical Release published prior to the date of determination of the Redemption Make Whole Amount shall be used.

The term *Statistical Release* shall mean the statistical release designated *H.15(519)* or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination under the indenture, then such other reasonably comparable index that we will designate.

We may pay the Redemption Make Whole Amount in cash or in shares of our Class A common stock, with the number of such shares determined based on the average of the sale prices of our Class A common stock over the ten trading days immediately preceding the applicable conversion date. If we elect to pay the Redemption Make Whole Amount in shares of our Class A common stock, the number of shares we deliver, together with the shares deliverable upon conversion, shall not exceed 462 per \$1,000 original principal amount of Notes, subject to adjustment in the same manner as the conversion rate as set forth under *Conversion Rate Adjustments*, and we must deliver cash with respect to the remainder of the Redemption Make Whole Amount, if any.

*Make Whole Amount and Public Acquirer Change of Control*

If a transaction described in clause (2) of the definition of change of control (as set forth under *Fundamental Change Requires Us to Repurchase Notes at the Option of the Holder*) occurs on or prior to November 16, 2009, we must give notice to all record holders of Notes and the trustee at least ten trading days prior to the anticipated effective date of such change of control transaction. We must also give notice to all record holders of Notes and the trustee that such a transaction has occurred within 15 days after the actual effective date of such change of control transaction. If a holder elects to convert its Notes at any time following the date we give notice of the anticipated effective date of such change of

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control transaction we will increase the applicable conversion rate for the Notes surrendered for conversion by a number of additional shares of Class A common stock (the additional shares), as described below.

The number of additional shares will be determined by reference to the table below and is based on the date on which such change of control transaction becomes effective (the effective date) and the price (the stock price) paid per share of our Class A common stock in such transaction. If the holders of our Class A common stock receive only cash in the change of control transaction, the stock price shall be the cash amount paid per share. Otherwise the stock price shall be the average of the sale prices of our Class A common stock on the 10 trading days up to but not including the effective date.

The additional shares will be delivered to holders who elect to convert their Notes during the period described above on the later of (1) five business days following the effective date and (2) the conversion settlement date for those Notes.

The stock prices set forth in the first row of the table (i.e., the column headers) will be adjusted as of any date on which the conversion rate of the Notes is adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the conversion rate as so adjusted. Our obligation to deliver the additional shares will be subject to adjustment in the same manner as the conversion rate as set forth under Conversion Rate Adjustments.

The following table sets forth the hypothetical stock price and number of additional shares to be received per \$1,000 original principal amount of Notes.

Effective Date	Stock Price							
	\$2.16	\$2.25	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
November 16, 2004	37.5	32.2	20.2	4.9	0.0	0.0	0.0	0.0
November 16, 2005	54.7	48.2	33.6	14.6	3.5	0.0	0.0	0.0
November 16, 2006	74.2	66.2	48.5	25.4	12.1	4.1	0.0	0.0
November 16, 2007	95.1	85.5	64.0	36.5	20.9	11.7	6.3	3.0
November 16, 2008	85.6	75.0	52.0	24.5	10.7	3.8	0.8	0.0
November 16, 2009	49.7	31.2	0.0	0.0	0.0	0.0	0.0	0.0

The exact stock price and effective dates may not be set forth on the table, in which case:

1. if the stock price is between two stock price amounts on the table or the effective date is between two dates on the table, the additional premium will be determined by straight-line interpolation between the number of additional shares set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 365 day year;

2. if the stock price is in excess of \$5.00 per share (subject to adjustment), no additional shares will be issued upon conversion; and

3. if the stock price is less than \$2.16 per share (the last reported sale price of our Class A common stock on the date the Notes were priced) (subject to adjustment), no additional shares will be issued upon conversion.

Notwithstanding the foregoing, in no event will the total number of shares of Class A common stock issuable upon conversion exceed 462 per \$1,000 original principal amount of Notes, subject to adjustment in the same manner as the conversion rate as set forth under Conversion Rate Adjustments.

Our obligation to deliver the additional shares could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

Notwithstanding the foregoing, and in lieu of adjusting the conversion rate as set forth above, in the case of a public acquirer change of control (as defined below) we may elect that, from and after the effective date of such public acquirer change of control, the right to convert a Note will be changed into a



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right to convert a Note into a number of shares of acquirer common stock (as defined below). The conversion rate following the effective date of such transaction will be a number of shares of acquirer common stock equal to the product of:

the conversion rate in effect immediately prior to the effective date of such change of control, times

the average of the quotients obtained, for each trading day in the 10 consecutive trading day period commencing on the trading day next succeeding the effective date of such public acquirer change of control (the valuation period), of:

(i) the acquisition value of our Class A common stock on each such trading day in the valuation period, divided by

(ii) the closing sale price of the acquirer common stock on each such trading day in the valuation period.

The acquisition value of our Class A common stock means, for each trading day in the valuation period, the value of the consideration paid per share of our Class A common stock in connection with such public acquirer change of control, as follows:

for any cash, 100% of the face amount of such cash,

for any acquirer common stock or any other securities that are traded on a U.S. national securities exchange or approved for quotation on the Nasdaq National Market, 100% of the closing sale price of such acquirer common stock or other traded securities on each such trading day; and

for any other securities, assets or property, 102% of the fair market value of such security, asset or property on each such trading day, as determined by two independent nationally recognized investment banks selected by the trustee for this purpose.

After the adjustment of the conversion rate in connection with a public acquirer change of control, the conversion rate will be subject to further similar adjustments in the event that any of the events described above occur thereafter.

A public acquirer change of control is any transaction described in clause (2) of the definition of change control below where the acquirer, or any entity that is a direct or indirect beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the total voting power of all shares of such acquirer's capital stock that are entitled to vote generally in the election of directors has a class of common stock traded on a national securities exchange or quoted on the Nasdaq National Market or which will be so traded or quoted when issued or exchanged in connection with such change of control. We refer to such acquirer's or other entity's class of common stock traded on a national securities exchange or quoted on the Nasdaq National Market or which will be so traded or quoted when issued or exchanged in connection with such fundamental change as the acquirer common stock.

***Conversion Rate Adjustments***

The initial conversion rate will be adjusted for certain events, including:

(1) the issuance of our Class A common stock as a dividend or distribution on our Class A common stock, or certain subdivisions and combinations of our Class A common stock, in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{OS^1}{OS_0}$$

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where,

$CR_0$	=	the conversion rate in effect at the close of business on the record date
$CR^1$	=	the conversion rate in effect immediately after the record date
$OS_0$	=	the number of shares of our Class A common stock outstanding at the close of business on the record date
$OS^1$	=	the number of shares of our Class A common stock that would be outstanding immediately after such event

(2) the issuance to all holders of our Class A common stock of certain rights or warrants to purchase our Class A common stock (or securities convertible into our Class A common stock) for a period expiring 45 days or less from the date of issuance of such rights or warrants at less than (or having a conversion price per share less than) the current market price of our Class A common stock; *provided* that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to the expiration, in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

$CR_0$	=	the conversion rate in effect at the close of business on the record date
$CR^1$	=	the conversion rate in effect immediately after the record date
$OS_0$	=	the number of shares of our Class A common stock outstanding at the close of business on the record date
$X$	=	the total number of shares of our Class A common stock issuable pursuant to such rights
$Y$	=	the number of shares of our Class A common stock equal to the aggregate price payable to exercise such rights divided by the average of the sale prices of our Class A common stock for the ten consecutive trading days prior to the business day immediately preceding the announcement of the issuance of such rights

(3) the dividend or other distribution to all holders of our Class A common stock of shares of our capital stock (other than Class A common stock) or evidences of our indebtedness or our assets (excluding (A) any dividend, distribution or issuance covered by clause (1) or (2) above and (B) any dividend or distribution paid exclusively in cash), in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

- $CR_0$  = the conversion rate in effect at the close of business on the record date
- $CR^1$  = the conversion rate in effect immediately after the record date
- $SP_0$  = the current market price
- FMV = the fair market value (as determined by our board of directors) of the shares of capital stock, evidences of indebtedness, assets or property distributed with respect to each outstanding share of our Class A common stock on the record date for such distribution

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With respect to an adjustment pursuant to this clause (3) where there has been a payment of a dividend or other distribution on our Class A common stock or shares of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

$CR_0$	=	the conversion rate in effect at the close of business on the record date
$CR^1$	=	the conversion rate in effect immediately after the record date
$FMV_0$	=	the average of the sale prices of the capital stock or similar equity interest distributed to holders of our Class A common stock applicable to one share of our Class A common stock over the 10 trading days commencing on and including the fifth trading day after the date on which ex-distribution trading commences for such dividend or distribution on the Nasdaq National Market or such other national or regional exchange or market on which the securities are then listed or quoted
$MP_0$	=	the average of the sale prices of our Class A common stock over the 10 trading days commencing on and including the fifth trading day after the date on which ex-distribution trading commences for such dividend or distribution on the Nasdaq National Market or such other national or regional exchange or market on which the securities are then listed or quoted

(4) dividends or other distributions consisting exclusively of cash to all holders of our Class A common stock, in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{SP_0}{SP_0 - C}$$

where,

$CR_0$	=	the conversion rate in effect at the close of business on the record date
$CR^1$	=	the conversion rate in effect immediately after the record date
$SP_0$	=	the current market price
$C$	=	the amount in cash per share we distribute to holders of our Class A common stock

(5) we or one or more of our subsidiaries make purchases of our Class A common stock pursuant to a tender offer or exchange offer by us or one of our subsidiaries for our Class A common stock to the extent that the cash and value of any other consideration included in the payment per share of our Class A common stock exceeds the

current market price per share of our Class A common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer (the expiration date ), in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{FMV + (SP^1 \times OS^1)}{OS_0 \times SP^1}$$

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where,

CR <sub>0</sub>	=	the conversion rate in effect on the expiration date
CR <sup>1</sup>	=	the conversion rate in effect immediately after the expiration date
FMV	=	the fair market value (as determined by our board of directors) of the aggregate value of all cash and any other consideration paid or payable for shares validly tendered or exchanged and not withdrawn as of the expiration date (the purchased shares )
OS <sup>1</sup>	=	the number of shares of our Class A common stock outstanding immediately after the expiration date less any purchased shares
OS <sub>0</sub>	=	the number of shares of our Class A common stock outstanding immediately after the expiration date, including any purchased shares
SP <sup>1</sup>	=	the sale price of our Class A common stock on the trading day next succeeding the expiration date

(6) someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the expiration date, our board of directors is not recommending rejection of the offer, in which event the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{FMV + (SP^1 \times OS^1)}{OS_0 \times SP^1}$$

where,

CR <sub>0</sub>	=	the conversion rate in effect on the expiration date
CR <sup>1</sup>	=	the conversion rate in effect immediately after the expiration date
FMV	=	the fair market value (as determined by our board of directors) of the aggregate consideration payable to our shareholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the expiration date
OS <sup>1</sup>	=	the number of shares of our Class A common stock outstanding immediately after the expiration date less any purchased shares
OS <sub>0</sub>	=	the number of shares of our Class A common stock outstanding immediately after the expiration date, including any purchased shares
SP <sup>1</sup>	=	the sale price of our Class A common stock on the trading day next succeeding the expiration date

The adjustment referred to in this clause (6) will only be made if:

the tender offer or exchange offer is for an amount that increases the offeror's ownership of Class A common stock to more than 25% of the total shares of Class A common stock outstanding; and

the cash and value of any other consideration included in the payment per share of Class A common stock exceeds the sale price of our Class A common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer.

However, the adjustment referred to in this clause (6) will generally not be made if as of the closing of the offer, the offering documents disclose a plan or an intention to cause us to engage in a consolidation or merger or a sale of the consolidated assets of us and our subsidiaries substantially as an entirety.

Current market price of our Class A common stock on any day means the average of the sale price of our Class A common stock for each of the 10 consecutive trading days ending on the earlier of the day in question and the day before the ex-date with respect to the issuance or distribution requiring such



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computation. For purposes of this paragraph, *ex-date* means the first date on which the shares of our Class A common stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such issuance or distribution.

*Record date* means, for purpose of this section, with respect to any dividend, distribution or other transaction or event in which the holders of our Class A common stock have the right to receive any cash, securities or other property or in which our Class A common stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of holders of our Class A common stock entitled to receive such cash, securities or other property (whether such date is fixed by our board of directors or by statute, contract or otherwise).

To the extent that we have a rights plan in effect upon conversion of the Notes into Class A common stock, you will receive, in addition to the Class A common stock, the rights under the rights plan, unless prior to any conversion, the rights have separated from the Class A common stock, in which case the conversion rate will be adjusted at the time of separation as if we distributed, to all holders of our Class A common stock, shares of our capital stock, evidences of indebtedness or assets as described above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

Except as stated above, the conversion rate will not be adjusted for the issuance of our Class A common stock or any securities convertible into or exchangeable for our Class A common stock or carrying the right to purchase any of the foregoing.

In the case of any recapitalization, reclassification or change of our Class A common stock (other than changes resulting from a subdivision or combination), a consolidation, merger or combination involving us, a sale, lease or other transfer to another corporation of the consolidated assets of ours and our subsidiaries substantially as an entirety, or any statutory share exchange, in each case as a result of which holders of our Class A common stock are entitled to receive stock, other securities, other property or assets (including cash or any combination thereof) with respect to or in exchange for our Class A common stock, the holders of the Notes then outstanding will be entitled thereafter to convert those Notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that they would have owned or been entitled to receive upon such recapitalization, reclassification, change, consolidation, merger, combination, sale, lease, transfer or statutory share exchange had such Notes been converted into our Class A common stock immediately prior to such transaction. We will agree in the indenture not to become a party to any such transaction unless its terms are consistent with the foregoing.

We may from time to time, to the extent permitted by law and subject to applicable rules of The Nasdaq Stock Market, increase the conversion rate of the Notes by any amount for any period of at least 20 days. In that case we will give at least 15 days notice of such increase. We may make such increases in the conversion rate, to the extent permitted by law and subject to applicable rules of The Nasdaq Stock Market, in addition to those set forth above, as our board of directors deems advisable to avoid or diminish any income tax to holders of our Class A common stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes.

As a result of any adjustment of the conversion rate, the holders of Notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of Class A common stock. In addition, non-U.S. holders of Notes in certain circumstances may be deemed to have received a distribution subject to U.S. federal withholding tax requirements. See *United States Federal Income Tax Considerations Tax Consequences to U.S. Holders Constructive Dividends* and *Tax Consequences to Non-U.S. Holders Constructive Dividends*.

**Exchange in Lieu of Conversion**

Unless we have called the relevant Notes for redemption, when a holder surrenders Notes for conversion, we may direct the conversion agent to surrender, on or prior to the date two business days



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following the conversion date, such Notes to a financial institution designated by us for exchange in lieu of conversion. In order to accept any such Notes, the designated institution must agree to deliver, in exchange for such Notes, a number of shares of our common stock equal to the applicable conversion rate, or at its option, cash or a combination of cash and shares of our common stock in lieu thereof, calculated based on the average price, plus cash for any fractional shares and any Early Conversion Make Whole Amount.

If the designated institution accepts any such Notes, it will deliver the appropriate number of shares of our common stock (and cash, if any), or cash in lieu thereof, to the conversion agent and the conversion agent will deliver those shares or cash to the holder. Such designated institution will also deliver cash equal to any Early Conversion Make Whole Amount we would owe such holder if we had converted its Notes. Any Notes exchanged by the designated institution will remain outstanding. If the designated institution agrees to accept any Notes for exchange but does not timely deliver the related consideration, we will, as promptly as practical thereafter, but not later than the third business day following (1) the conversion date, or (2) if the designated institution elects to deliver cash or a combination of cash and shares of our common stock, the determination of the average price, convert the Notes and deliver shares of our common stock, as described under Conversion Rights General, or, at our option cash in lieu thereof based on the average price, along with any applicable Early Conversion Make Whole Amount.

Our designation of an institution to which the Notes may be submitted for exchange does not require the institution to accept any Notes. If the designated institution declines to accept any Notes surrendered for exchange, we will convert those Notes into shares of our Class A common stock, or cash in lieu thereof, as described under

Conversion Rights above. We will not pay any consideration to, or otherwise enter into any arrangement with, the designated institution for or with respect to such designation.

**Redemption**

Following the earlier of (1) the sale of any Notes pursuant to the registration statement of which this prospectus forms a part or (2) November 22, 2006, we may redeem for cash the Notes (or, in the case of clause (1) above, any such Notes that have been sold pursuant to an effective registration statement) in whole or in part, at a price equal to 100% of the accreted principal amount of such Notes plus accrued and unpaid interest, deferred interest and liquidated damages, if any, on the Notes to, but excluding, the redemption date, if the closing price of our Class A common stock has exceeded, for at least 20 trading days in any consecutive 30 trading day period, 180% of the conversion price if such 30 trading day period begins prior to November 16, 2007 and 150% if such 30 trading day period begins thereafter. The conversion price as of any day will equal the accreted principal amount of \$1,000 original principal amount of Notes divided by the conversion rate in effect on such day. We are required to give notice of redemption to the trustee and all registered holders not less than 30 nor more than 60 days prior to the redemption date. We must specify in such notice (1) whether we will deliver shares of our Class A common stock, or cash in lieu thereof, upon conversion of any Notes called for redemption, (2) if we elect to deliver cash, the percentage of the shares otherwise deliverable for which we will pay cash and (3) whether we will deliver cash or shares of our Class A common stock upon conversion with respect to the Redemption Make Whole Amount.

Notes or portions of Notes called for redemption will be convertible by the holder until the close of business on the business day prior to the redemption date.

If we decide to redeem fewer than all of the outstanding Notes, the trustee will select the Notes to be redeemed (in original principal amounts of \$1,000 or integral multiples thereof) by lot, on a pro rata basis or by another method the trustee considers fair and appropriate.

If any Notes are to be redeemed in part only, we will issue a new Note or Notes with a principal amount equal to the unredeemed principal portion thereof. If the trustee selects a portion of your Note for partial redemption and you convert a portion of the same Note, the converted portion will be deemed to

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be from the portion selected for redemption. In the event of any redemption in part, we will not be required to issue, register the transfer of or exchange any certificated Note during a period of 15 days before the mailing of the redemption notice.

**Fundamental Change Requires Us to Repurchase Notes at the Option of the Holder**

If a fundamental change occurs, each holder of Notes will have the right to require us to purchase some or all of that holder's Notes for cash on a repurchase date that is not less than 20 nor more than 35 business days after the date of our notice of the fundamental change. We will purchase such Notes at a purchase price equal to 100% of the accreted principal amount of the Notes to be purchased, plus any accrued and unpaid interest (including deferred interest and liquated damages, if any) to but excluding the fundamental change repurchase date, unless such fundamental change repurchase date falls after a record date and on or prior to the corresponding interest payment date, in which case we will pay the full amount of accrued and unpaid interest (including liquated damages, if any, but excluding any deferred interest) payable on such interest payment date to the holder of record at the close of business on the corresponding record date.

Within 20 days after the occurrence of a fundamental change, we are required to give notice to all holders of Notes, as provided in the indenture, of the occurrence of the fundamental change and of their resulting repurchase right and the fundamental change repurchase date. We must also deliver a copy of our notice to the trustee. To exercise the repurchase right, a holder of Notes must deliver, on or before the fundamental change repurchase date specified in our notice, written notice to the trustee of the holder's exercise of its repurchase right, together with the Notes with respect to which the right is being exercised. We will promptly pay the repurchase price for Notes surrendered for repurchase following the fundamental change repurchase date.

You may withdraw any written repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the repurchase date. The withdrawal notice must state:

the original principal amount of the withdrawn Notes;

if certificated Notes have been issued, the certificate number of the withdrawn Notes (or, if your Notes are not certificated, your withdrawal notice must comply with appropriate DTC procedures); and

the original principal amount, if any, that remains subject to the repurchase notice.

Payment of the repurchase price for a Note for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the Note, together with necessary endorsements, to the paying agent at its corporate trust office in the Borough of Manhattan, The City of New York, or any other office of the paying agent, at any time after delivery of the repurchase notice. Payment of the repurchase price for the Note will be made promptly following the later of the fundamental change repurchase date and the time of book-entry transfer or delivery of the Note. If the paying agent holds money sufficient to pay the repurchase price of the Note, on the repurchase date, then, on and after the business day following the repurchase date:

the Note will cease to be outstanding;

interest will cease to accrue; and

all other rights of the holder will terminate, other than the right to receive the repurchase price upon delivery of the Note.

This will be the case whether or not book-entry transfer of the Note has been made or the Note has been delivered to the paying agent.

A fundamental change will be deemed to have occurred upon a change of control or a termination of trading.

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A termination of trading will be deemed to have occurred if our Class A common stock (or other common stock into which the Notes are then convertible) is neither listed for trading on a U.S. national securities exchange nor approved for trading on the Nasdaq National Market; *provided* that a termination of trading will not occur so long as our Class A common stock is listed for trading on the Nasdaq Small Cap market or quoted bid prices for our Class A common stock in the over-the-counter market are reported by Pink Sheets LLC or any similar organization.

A change of control will be deemed to have occurred at such time after the original issuance of the Notes when the following has occurred:

(1) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any person or group within the meaning of Section 13(d) of the Exchange Act other than Paul G. Allen and Related Parties, becomes the direct or indirect beneficial owner as defined in Rule 13d-3 under the Exchange Act of more than 35% of the Voting Stock of Charter Communications, Inc., measured by voting power rather than number of shares, unless Mr. Allen and the Related Parties, collectively, beneficially own, directly or indirectly, a greater percentage of Voting Stock of Charter Communications, Inc., measured by voting power rather than number of shares, than such person;

(2) the consummation of any transaction or event (whether by means of a liquidation, share exchange, tender offer, consolidation, recapitalization, reclassification, merger of us or any sale, lease or other transfer of the consolidated assets of ours and our subsidiaries) or a series of related transactions or events pursuant to which our common stock is exchanged for, converted into or constitutes solely the right to receive cash, securities or other property more than 10% of the fair market value of which consists of cash, securities or other property that are not, or upon issuance will not be, traded on any U.S. national securities exchange or quoted on the Nasdaq National Market;

(3) the sale, transfer, conveyance, lease or other disposition (including by way of liquidation or dissolution, but excluding by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of Charter Communications, Inc. and its subsidiaries, taken as a whole, to any person or group as defined above;

(4) the purchase by Mr. Allen or any Allen Affiliates in any transaction or series of transactions, of shares of our Class A common stock, which results in the aggregate number of shares of Class A common stock held by Mr. Allen and any Allen Affiliates exceeding 70% of the total number of shares of Class A common stock issued and outstanding (including any shares borrowed pursuant to the share lending agreement) at such time to the extent that the closing price per share of the Class A common stock for any five trading days within the period of the ten consecutive trading days immediately after the later of the last date of such purchases or the public announcement of such purchases is less than 100% of the applicable conversion price of the Notes in effect on each of those trading days; *provided* that the calculation of the number of shares of Class A common stock held by Mr. Allen and any Allen Affiliates will not include any share of our Class A common stock acquired by Mr. Allen or any Allen Affiliates as a result of the exchange or conversion of membership units of Charter Holdco or shares of our Class B common stock or any securities exchangeable or convertible into shares of Class A common stock or issued in exchange (by merger or otherwise) for shares of a Person that holds units of Charter Holdco.

(5) the adoption of a plan relating to the liquidation or dissolution of Charter Holdco; or

(6) continuing directors (as defined below in this section) cease to constitute at least a majority of our board of directors.

As used in connection with the definition of change of control, the following terms will have the meaning described below:

Allen Affiliate means any person in which Mr. Allen, directly or indirectly, owns at least a 50.1% equity interest, provided that Charter Communications, Inc., Charter Holdco or any of its subsidiaries will not be included in such definition.

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Continuing director means a director who either was a member of our board of directors on November 16, 2004 or who becomes a member of our board of directors subsequent to that date and whose appointment, election or nomination for election by our shareholders is duly approved by a majority of the continuing directors on our board of directors at the time of such approval, either by a specific vote or by approval of the proxy statement issued by us on behalf of the board of directors in which such individual is named as nominee for director.

Related Party means:

(i) the spouse or an immediate family member, estate or heir of the Mr. Allen; or

(ii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or persons beneficially holding an 80% or more controlling interest of which consist of Mr. Allen and/or such other persons referred to in the immediately preceding clause (i) or this clause (ii).

Voting Stock of any person as of any date means the capital stock of such person that is at the time entitled to vote in the election of the board of directors of such person.

The beneficial owner shall be determined in accordance with Rule 13d-3 promulgated by the SEC under the Exchange Act. The term person includes any syndicate or group which would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

The definition of change of control includes a phrase relating to the conveyance, transfer, sale, lease or disposition of our consolidated assets substantially as an entirety. There is no precise, established definition of the phrase substantially as an entirety. under applicable law. Accordingly, your ability to require us to repurchase your Notes as a result of a conveyance, transfer, sale, lease or other disposition of less than all our assets may be uncertain.

Rule 13e-4 under the Exchange Act, as amended, requires the dissemination of certain information to security holders if an issuer tender offer occurs and may apply if the repurchase option becomes available to holders of the Notes. We will comply with this rule to the extent applicable at that time.

We may, to the extent permitted by applicable law, at any time purchase the Notes in the open market or by tender at any price or by private agreement. Any Note so purchased by us may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any Notes surrendered to the trustee may not be reissued or resold and will be canceled promptly.

The foregoing provisions would not necessarily protect holders of the Notes if highly leveraged or other transactions involving us occur that may adversely affect holders.

Our ability to repurchase Notes upon the occurrence of a fundamental change is subject to important limitations. Our subsidiaries existing credit agreements and indentures contain and any future credit agreements or other agreements relating to our indebtedness may also contain provisions prohibiting repurchase of the Notes under certain circumstances, or expressly prohibit our repurchase of the Notes upon a fundamental change or may provide that a fundamental change constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from repurchasing Notes, we could seek the consent of our or our subsidiaries lenders and noteholders to repurchase the Notes or attempt to refinance this debt. If we do not obtain consent, we would not be permitted to repurchase the Notes. Our failure to repurchase tendered Notes would constitute an event of default under the indenture, which might constitute a default under the terms of our other indebtedness.

No Notes may be purchased by us at the option of the holders upon a fundamental change if the accreted principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date.

The fundamental change purchase feature of the Notes may in certain circumstances make more difficult or discourage a takeover of our company. The fundamental change repurchase feature, however, is not the result of our knowledge of any specific effort to accumulate shares of our Class A common stock,

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to obtain control of us by means of a merger, tender offer solicitation or otherwise, or by management to adopt a series of anti-takeover provisions. Instead, the fundamental change repurchase feature is a standard term contained in securities similar to the Notes.

### **Consolidation, Merger and Sale of Assets**

We may, without the consent of the holders of Notes, consolidate with, merge into or sell, lease or otherwise transfer in one transaction or a series of related transactions the consolidated assets of ours and our subsidiaries substantially as an entirety to any corporation, limited liability company, partnership or trust organized under the laws of the United States or any of its political subdivisions provided that:

the surviving entity assumes all our obligations under the indenture and the Notes;

if as a result of such transaction the Notes become convertible into common stock or other securities issued by a third party that is not the successor under the Notes and the indenture, such third party fully and unconditionally guarantees all obligations of Charter Communications, Inc. or such successor under the Notes and the indenture;

at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have happened and be continuing; and

an officers' certificate and an opinion of counsel, each stating that the consolidation, merger or transfer complies with the provisions of the indenture, have been delivered to the trustee.

### **Information Requirement**

We will agree that for a period of two years after closing, during any period in which we are not subject to the reporting requirements of the Exchange Act, to make available to holders of the Notes, or beneficial owners of interests therein, or any prospective purchaser of the Notes, the information required by Rule 144A(d)(4) to be made available in connection with the sale of Notes or beneficial interests in the Notes.

### **Covenant**

We agreed in the indenture that we will redeem our outstanding 5.75% convertible senior notes due 2005 to the extent of the proceeds from the sale of the Notes, net of the purchase price of Pledged Securities and expenses of the offering, and that we will issue the related notice of redemption no later than the close of business on the business day immediately following the closing of the sale of the Notes. We consummated the redemption on December 23, 2004.

### **Events of Default**

Each of the following will constitute an event of default under the indenture:

our failure to pay when due the principal on any of the Notes at maturity, upon redemption or exercise of a repurchase right or otherwise;

our failure to pay an installment of interest (including liquidated damages, if any) other than any deferred interest on any of the Notes for 30 days after the date when due; *provided* that a failure to make any of the first six scheduled interest payments on the original principal amount of the Notes on the applicable interest payment date will constitute an event of default with no grace or cure period (unless the failure to make such payment results from the failure by the trustee to release the relevant cash amount from the pledge account, provided that such failure is not caused by any act or omission by us);

our failure to deliver shares of our Class A common stock, or cash in lieu thereof, when due upon conversion of Notes, together with cash in respect of any fractional shares and any Early

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Conversion Make Whole Amount and any Redemption Make Whole Amount, upon conversion of a Note, and that failure continues for 10 days;

our failure to comply with our obligations described under Covenant when required and such failure continues for five days;

our failure for 30 days after written notice thereof has been given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate original principal amount of the Notes then outstanding to comply with any of the other covenants or agreements in the indenture;

our failure to make any payment under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us or any of our significant subsidiaries (or the payment of which is guaranteed by us or any of our significant subsidiaries) whether such indebtedness or guarantee now exists, or is created after the issue date, if that default:

(i) is caused by a failure to pay at final stated maturity the principal amount on such indebtedness prior to the expiration of the grace period provided in such indebtedness on the date of such default (a Payment Default ); or

(ii) results in the acceleration of such indebtedness prior to its express maturity, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$100 million or more;

our failure to give timely notice of a fundamental change or of the anticipated effective date of a change of control transaction as described under Conversion Rights Make Whole Amount and Public Acquirer Change of Control ; and

certain events of our bankruptcy, insolvency or reorganization or any significant subsidiary of ours.

Significant subsidiary has the meaning set forth in clauses (1) and (2) of the definition thereof in Regulation S-X under the Securities Act.

If an event of default specified in the eighth bullet point above occurs and is continuing, then the principal of all the Notes and the interest thereon shall automatically become immediately due and payable. If an event of default shall occur and be continuing, other than an event of default specified in the eighth bullet point above, the trustee or the holders of at least 25% in aggregate original principal amount of the Notes then outstanding may declare the Notes due and payable at their accreted principal amount together with accrued and unpaid interest (including deferred interest and liquidated damages, if any), and thereupon the trustee may, at its discretion, proceed to protect and enforce the rights of the holders of Notes by appropriate judicial proceedings. Such declaration may be rescinded and annulled with the written consent of the holders of a majority in aggregate original principal amount of the Notes then outstanding, subject to the provisions of the indenture.

The holders of a majority in aggregate original principal amount of Notes at the time outstanding through their written consent, or the holders of a majority in aggregate original principal amount of Notes then outstanding represented at a meeting at which a quorum is present by a written resolution, may waive any existing default or event of default and its consequences except any default or event of default:

in any payment on the Notes;

in respect of the failure to convert the Notes; or

in respect of the covenants or provisions in the indenture that may not be modified or amended without the consent of the holder of each Note affected as described in Modification, Waiver and Meetings below.

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Holders of a majority in aggregate original principal amount of the Notes then outstanding through their written consent, or the holders of a majority in aggregate original principal amount of the Notes then outstanding represented at a meeting at which a quorum is present by a written resolution, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred upon the trustee, subject to the provisions of the indenture. The indenture contains a provision entitling the trustee, subject to the duty of the trustee during a default to act with the required standard of care, to be indemnified by the holders of Notes before proceeding to exercise any right or power under the indenture at the request of such holders. The rights of holders of the Notes to pursue remedies with respect to the indenture and the Notes are subject to a number of additional requirements set forth in the indenture.

The indenture provides that the trustee shall, within 90 days of the occurrence of a default, give to the registered holders of the Notes notice of all uncured defaults known to it, but the trustee shall be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such registered holders, except in the case of a default in the payment of the principal of, or premium, if any, or interest on, any of the Notes when due or in the payment of any conversion, redemption or repurchase obligation.

We are required to furnish annually to the trustee a statement as to the fulfillment of our obligations under the indenture. In addition, we are required to file with the trustee a written notice of the occurrence of any default or event of default within five business days of our becoming aware of the occurrence of any default or event of default.

### **Modification, Waiver and Meetings**

The indenture contains provisions for convening meetings of the holders of Notes to consider matters affecting their interests.

The indenture (including the terms and conditions of the Notes) may be modified or amended by us and the trustee, without the consent of the holder of any Note, for the purposes of, among other things:

adding to our covenants for the benefit of the holders of Notes;

adding additional dates on which holders may require us to repurchase their Notes;

surrendering any right or power conferred upon us;

providing for conversion rights of holders of Notes if any reclassification or change of our Class A common stock or any consolidation, merger or sale of the consolidated assets of us and our subsidiaries substantially as an entirety occurs;

providing for the assumption of our obligations to the holders of Notes in the case of a merger, consolidation, conveyance, sale, transfer or lease;

increasing the conversion rate in the manner described in the indenture, provided that the increase will not adversely affect the interests of holders of Notes in any material respect;

complying with the requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act of 1939, as amended;

making any changes or modifications to the indenture necessary in connection with the registration of the Notes under the Securities Act, as contemplated by the registration rights agreement, provided that this action does not adversely affect the interests of the holders of the Notes in any material respect;

curing any ambiguity or correcting or supplementing any defective provision contained in the indenture; *provided* that such modification or amendment does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of Notes in any material respect; *provided further* that any amendment made



solely to conform the provisions of the indenture to the

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description of the Notes in this prospectus will not be deemed to adversely affect the interests of the holders of the Notes; or

adding or modifying any other provisions which we and the trustee may deem necessary or desirable and which will not adversely affect the interests of the holders of Notes.

Modifications and amendments to the indenture or to the terms and conditions of the Notes may also be made, and noncompliance by us with any provision of the indenture or the Notes may be waived, either:

with the written consent of the holders of at least a majority in aggregate original principal amount of the Notes at the time outstanding; or

by the adoption of a resolution at a meeting of holders at which a quorum is present by at least a majority in aggregate original principal amount of the Notes represented at such meeting.

However, no such modification, amendment or waiver may, without the written consent or the affirmative vote of the holder of each Note affected:

change the maturity of the principal of or any installment of interest on any Note (including any payment of liquidated damages);

reduce the principal amount of, or any premium, if any, on any Note;

reduce the interest rate or amount of interest (including any liquidated damages) on any Note;

reduce the Early Conversion Make Whole Amount or the Redemption Make Whole Amount or otherwise modify the provisions of the indenture related thereto in a manner adverse to the holders of the Notes;

modify the provisions of the indenture relating to the Pledged Securities as described above under Security in a manner adverse to the holders of the Notes;

other than as contemplated by the terms of the indenture, change the currency of payment of principal of, premium, if any, or interest on any Note;

impair the right to institute suit for the enforcement of any payment on or with respect to, or the conversion of, any Note;

except as otherwise permitted or contemplated by provisions of the indenture concerning specified reclassifications or corporate reorganizations, impair or adversely affect the conversion rights of holders of the Notes;

adversely affect any repurchase option of holders;

modify the redemption provisions of the indenture in a manner adverse to the holders of Notes;

reduce the percentage in aggregate original principal amount of Notes outstanding necessary to modify or amend the indenture or to waive any past default; or

reduce the percentage in aggregate original principal amount of Notes outstanding required for any other waiver under the indenture.

The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate original principal amount of the Notes at the time outstanding.

**Form, Denomination and Registration**

The Notes were issued in fully registered form, without coupons, in denominations of \$1,000 original principal amount and whole multiples of \$1,000.

**Table of Contents****Global Notes: Book-Entry Form**

The Notes are evidenced by one or more global Notes deposited with the trustee as custodian for DTC, and registered in the name of Cede & Co., as DTC's nominee. Record ownership of the global Notes may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee, except as set forth below.

Ownership of beneficial interests in a global Note will be limited to persons that have accounts with DTC or its nominee (participants) or persons that may hold interests through participants. Transfers between direct DTC participants will be effected in the ordinary way in accordance with DTC's rules and will be settled in same-day funds. Holders may also beneficially own interests in the global Notes held by DTC through certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a direct DTC participant, either directly or indirectly.

So long as Cede & Co., as nominee of DTC, is the registered owner of the global Notes, Cede & Co. for all purposes will be considered the sole holder of the global Notes. Except as provided below, owners of beneficial interests in the global Notes will not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered holders thereof. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in the global Notes to such persons may be limited.

We will wire, through the facilities of the trustee, principal, premium, if any, and interest payments on the global Notes to Cede & Co., the nominee for DTC, as the registered owner of the global Notes. We, the trustee and any paying agent will have no responsibility or liability for paying amounts due on the global Notes to owners of beneficial interests in the global Notes.

It is DTC's current practice, upon receipt of any payment of principal of and premium, if any, and interest on the global Notes, to credit participants' accounts on the payment date in amounts proportionate to their respective beneficial interests in the Notes represented by the global Notes, as shown on the records of DTC, unless DTC believes that it will not receive payment on the payment date. Payments by DTC participants to owners of beneficial interests in Notes represented by the global Notes held through DTC participants will be the responsibility of DTC participants, as is now the case with securities held for the accounts of customers registered in street name.

If a holder would like to convert Notes into Class A common stock pursuant to the terms of the Notes, the holder should contact the holder's broker or other direct or indirect DTC participant to obtain information on procedures, including proper forms and cut-off times, for submitting those requests.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and other banks, a holder's ability to pledge the holder's interest in the Notes represented by global Notes to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

Neither we nor the trustee (nor any registrar, paying agent or conversion agent under the indenture) will have any responsibility for the performance by DTC or direct or indirect DTC participants of their obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of Notes, including, without limitation, the presentation of Notes for conversion as described below, only at the direction of one or more direct DTC participants to whose account with DTC interests in the global Notes are credited and only for the principal amount of the Notes for which directions have been given.

DTC has advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC participants and to facilitate the clearance and settlement of securities transactions between DTC participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and

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clearing corporations and may include certain other organizations such as the initial purchasers of the Notes. Certain DTC participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global Notes among DTC participants, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by us within 90 days, we will cause Notes to be issued in definitive registered form in exchange for the global Notes. None of us, the trustee or any of their respective agents will have any responsibility for the performance by DTC, direct or indirect DTC participants of their obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to, or payments made on account of, beneficial ownership interests in global Notes.

According to DTC, the foregoing information with respect to DTC has been provided to its participants and other members of the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

### **Certificated Notes**

We will issue the Notes in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depository or DTC ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended and a successor depository is not appointed by us within 90 days. In addition, beneficial interests in a global Note may be exchanged for definitive certificated Notes upon request by or on behalf of DTC in accordance with customary procedures. The indenture permits us to determine at any time and in our sole discretion that Notes shall no longer be represented by global Notes. DTC has advised us that, under its current practices, it would notify its participants of our request, but will only withdraw beneficial interests from the global Notes at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Any Note that is exchangeable pursuant to the preceding sentence is exchangeable for Notes registered in the names which DTC will instruct the trustee. It is expected that DTC's instructions may be based upon directions received by DTC from its participants with respect to ownership of beneficial interests in that global Note. Subject to the foregoing, a global Note is not exchangeable except for a global Note or global Notes of the same aggregate denominations to be registered in the name of DTC or its nominee.

### **Notices**

Except as otherwise provided in the indenture, notices to holders of Notes will be given by mail to the addresses of holders of the Notes as they appear in the Note register.

### **Governing Law**

The indenture, the Notes and the registration rights agreement are governed by, and construed in accordance with, the law of the State of New York.

### **Information Regarding the Trustee**

Wells Fargo Bank, N.A., as trustee under the indenture, has been appointed by us as paying agent, collateral agent, conversion agent, registrar and custodian with regard to the Notes. The trustee or its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

### **Resale Registration Rights**

We have agreed to file with the SEC, at our expense, the shelf registration statement of which this prospectus forms a part covering resales by holders of all Notes and the Class A common stock issuable

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upon conversion of the Notes. Under the terms of the registration rights agreement, we agreed to use our reasonable best efforts to:

file such shelf registration statement with the SEC within 30 days after the earliest date of original issuance of any of the Notes;

cause such registration statement to become effective as promptly as is practicable, but in no event later than 150 days after the earliest date of original issuance of any of the Notes; and

keep the registration statement effective for a period (the registration period) from the date such registration statement is declared effective by the SEC until such date that is the earlier of (1) the date as of which all the Notes or the Class A common stock issuable upon conversion of the Notes have been sold either under Rule 144 under the Securities Act (or any similar provision then in force) or pursuant to the shelf registration statement; (2) the date as of which all the Notes or the Class A common stock issuable upon conversion of the Notes held by non-affiliates are eligible to be sold to the public pursuant to Rule 144(k) under the Securities Act or any successor provision; and (3) the date on which there are no outstanding registrable securities.

This prospectus forms a part of the registration statement that we agreed to file, cause to become effective and keep effective, as described above.

We also agreed to provide to each registered holder copies of this prospectus, notify each registered holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of the Notes and the Class A common stock issuable upon conversion of the Notes. A holder who sells those securities pursuant to the shelf registration statement generally will be required to be named as a selling securityholder in this prospectus and to deliver a prospectus to purchasers and will be bound by the provisions of the registration rights agreement, which are applicable to that holder (including certain indemnification provisions). If a shelf registration statement covering the Notes and Class A common stock is not effective, they may not be sold or otherwise transferred except pursuant to an exemption from registration under the Securities Act and any other applicable securities laws or in a transaction not subject to those laws.

We may suspend the holder's use of the prospectus for a maximum of 45 days in any 90-day period, and not to exceed an aggregate of 90 days in any 12-month period, if (i) we, in our reasonable judgment, believe we may possess material non-public information the disclosure of which would have a material adverse effect on us and our subsidiaries taken as a whole or (ii) the prospectus would, in our judgment, contain a material misstatement or omission as a result of an event that has occurred or is continuing. However, if the disclosure relates to a proposed or pending material business transaction, the disclosure of which we determine in good faith would be reasonably likely to impede our ability to consummate such transaction, or would otherwise have a material adverse effect on us and our subsidiaries taken as a whole, we may extend the suspension period from 45 days to 60 days. We will not specify the nature of the event giving rise to a suspension in any notice to holders of the Notes of the existence of such a suspension.

If,

on the 30th day following the earliest date of original issuance of any of the Notes, the shelf registration statement had not been filed with the SEC; or

on the 150th day following the earliest date of original issuance of any of the Notes, the shelf registration statement was not declared effective; or

prior to or on the 45th, 60th or 90th day, as the case may be, of any period that the prospectus has been suspended as described in the preceding paragraph (in each case except as the result of filing of a post-effective amendment solely to add additional selling securityholders), such suspension has not been terminated (each, a registration default), liquidated damages will accrue on the Notes, from and including the day following the registration default to but excluding the earlier of (i) the day after the end of the registration period and (ii) the day on

which the registration default has been cured. Liquidated damages will be paid semi-annually in arrears, with the first semi-annual payment due on the first interest payment date, as

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applicable, following the date on which such liquidated damages begin to accrue, and will accrue at a rate equal to:

0.25% per annum of the accreted principal amount for the first 90 days following such registration default; and

0.50% per annum of the accreted principal amount after the first 90 days following such registration default.

Because the registration statement of which this prospectus forms a part was not declared effective on or prior to April 21, 2005 (i.e., the 150<sup>th</sup> day following the original issuance of the Notes), we incurred liquidated damages as described above from April 22, 2005 through July 14, 2005, the day prior to the effective date of the registration statement.

In no event will liquidated damages relating to the resale registration statement accrue at a rate per year exceeding 0.50%. Liquidated damages will be computed on the basis of a 360-day year composed of twelve 30-day months. If a holder has converted some or all of its Notes into Class A common stock, the holder will be entitled to receive equivalent amounts based on the accreted principal amount of the Notes converted. A holder's right to liquidated damages shall be its sole remedy in the event of a registration default.



**Table of Contents****REGISTERED BORROW FACILITY****Share Lending Agreement**

We understand that, when we sold the notes, and for some time thereafter, it was difficult for investors in the notes to borrow shares of our Class A common stock for the purpose of shorting such stock to hedge their investment in the notes. We also understand that many investors in convertible securities seek to hedge their exposure to the issuer's common stock by selling the stock short to establish an initial hedge position that partially offsets the long position represented by the convertible securities. Such investors then dynamically adjust their hedge position over time as the market price of the underlying stock and the time to maturity of the convertible securities changes. As the stock price increases, investors will generally increase their hedge position by borrowing and shorting more shares, and as the stock price decreases, investors will generally decrease their hedge position by buying shares in the market and closing out their stock loans.

Because there were not sufficient shares of our Class A common stock available for investors to borrow when we offered the notes, and because we understood that the shares that were available were relatively expensive to borrow, we were concerned that, in order to sell the notes, we would be forced to offer terms that would have been unfavorable to us. To address this concern, and to make it possible or less expensive for prospective investors in the notes to hedge their investment, we entered into a share lending agreement, dated November 22, 2004, with Citigroup Global Markets Inc. ( Citigroup ), as agent for Citigroup Global Markets Limited ( CGML ), as borrower. Under this agreement, we agreed to loan to CGML up to 150 million shares of our Class A common stock on one or more occasions prior to November 16, 2006 or, if earlier, the date as of which all of the notes cease to be outstanding as the result of conversion, repurchase, redemption or otherwise. We will receive a loan fee of \$.001 per share for each share that we loan to CGML, payable at the time such share is borrowed. Citigroup Global Markets Holdings Inc. guaranteed the obligations of CGML under the share lending agreement.

Notwithstanding the difficulties that we believe holders faced in establishing hedge positions at the time we initially sold the notes and for some time thereafter, we now understand that many investors in the notes have since been able to borrow shares of our Class A common stock for the purpose of shorting such stock to hedge their investment in the notes. However, we are nonetheless required under the registration rights agreement to register the shares. As noted below, we have been advised by CGML that it or its affiliates intend to use the short sales of our Class A common stock to facilitate the establishment by the holders of our notes of hedged positions with respect to such notes. These holders may include holders who have not yet established hedge positions and may also include other holders who have already established hedge positions but wish to establish new hedge positions through CGML because these new hedge positions will be less expensive to maintain than their pre-existing hedge positions. We understand that such holders who are already hedged will likely seek to close out their existing hedge positions by obtaining shares in the open market.

Under the agreement, CGML agreed that it will not transfer or dispose of the borrowed shares except for the purpose of directly or indirectly facilitating the hedging of the notes by holders. Any shares of our Class A common stock that Citigroup returns to us to reduce its stock loan after such shares have been sold into the public market pursuant to a registration statement cannot be reborrowed.

Share loans under the share lending agreement will terminate and the borrowed shares must be returned to us:

if and when CGML in its discretion terminates all or any portion of a loan at any time;

if and when we terminate any or all of the outstanding loans upon a default by CGML under the share lending agreement, including a breach by CGML of any of its representations and warranties, covenants or agreements under the share lending agreement or the bankruptcy of CGML; or

on November 16, 2009, the termination date for the share lending agreement or, sooner, if and when all of the notes have been converted, repaid, redeemed or are otherwise no longer outstanding.

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We will not otherwise have the right to terminate any loan of borrowed shares.

Any shares that we loan to CGML will be issued and outstanding for corporate law purposes, and accordingly, the purchasers of the borrowed shares and their transferees have all of the rights of a holder of our outstanding shares of Class A common stock, including the right to vote the shares on all matters submitted to a vote of our stockholders and the right to receive any dividends or other distributions that we may pay or make on our outstanding shares of Class A common stock, although. However, under the share lending agreement, CGML has agreed:

to pay to us an amount equal to any cash dividends that we pay on the borrowed shares, and

to pay or deliver to us any other distribution, in liquidation or otherwise, that we make on the borrowed shares.

CGML has also agreed under the share lending agreement that it will not vote any borrowed shares of which it is the record owner and it will not transfer or dispose of any borrowed shares except pursuant to a registration statement that is effective under the Securities Act of 1933, as amended. However, investors that purchase the shares from CGML (and any subsequent transferees of such purchasers) will be entitled to the same voting rights with respect to those shares as any other holder of our Class A common stock.

If the credit ratings of Citigroup Global Markets Holdings, Inc., the guarantor of CGML's obligations under the share lending agreement, decline below a specified level, CGML has agreed under the share lending agreement to post and maintain with Citigroup, as collateral agent on our behalf, collateral in the form of cash, government securities, certificates of deposit, high grade commercial paper of U.S. issuers or money market shares with a market value at least equal to 100% of the market value of the borrowed shares as security for the obligation of CGML to return the borrowed shares to us when required.

In view of the contractual undertakings of CGML in the share lending agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, we believe that under U.S. generally accepted accounting principles currently in effect, the borrowed shares will not be considered outstanding for the purpose of computing and reporting our earnings per share.

The existence of the share lending agreement and the short positions established in connection with facilitating the hedging of the notes could have the effect of causing the market price of our Class A common stock to be lower over the term of the share lending agreement than it would have been had we not entered into the agreement.

Our issuance of 150 million shares of our Class A common stock offered pursuant to the share lending agreement will be essentially analogous to a sale of shares coupled with a forward contract for the reacquisition of the shares at a future date. An instrument that requires physical settlement by repurchase of a fixed number of shares in exchange for cash is considered a forward purchase instrument. While the share lending agreement does not require a cash payment upon return of the shares, physical settlement is required (i.e., the 150 million shares must be returned at the end of the arrangement. Assuming that the entire 150 million shares are lent, the fair value of the common stock to be lent is approximately \$200 million based on the closing price of our common stock on July 18, 2005. However, the net effect on shareholders' deficit of the share lending agreement (exclusive of the adjustment for the fair value of the stock borrow facility discussed below) which includes our requirement to lend the shares and the counterparties' requirement to return the shares, is to increase equity by \$150,000, which represents the cash received upon lending of the shares and is equal to the par value of the common stock to be issued.

The shares to be issued are required to be returned, in accordance with the contractual arrangement, and will be treated in basic and diluted earnings per share as if they were already returned and retired. Consequently, there will be no impact of the 150 million shares of common stock subject to the share lending agreement in the earnings per share calculation. However, the shares will nonetheless be issued and outstanding and will be eligible for trading in the Nasdaq National Market. Accordingly, the increase in supply of shares may have an adverse impact on the trading price of our Class A common stock. See

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**Risk Factors** Additional Risks Related to this Offering, the Notes and the Class A Common Stock The effect of the issuance of our shares of Class A common stock pursuant to the share lending agreement and upon conversion of the notes, including sales of our Class A common stock in short sale transactions by the holders of the notes, may have a negative effect on the market price of our Class A common stock. Accordingly, the existence of the share lending agreement and the short positions established in connection with facilitating the hedging of the notes could have the effect of causing the market price of our Class A common stock to be lower over the term of the share lending agreement than it would have been had we not entered into the agreement, but we believe that entering into the share lending agreement was in our best interests and the best interests of our shareholders as it facilitated the sale of the notes on terms more favorable to us than we could have otherwise obtained.

The share lending agreement was entered into to facilitate the ability of the purchasers of the notes to improve or enhance their yield on the notes and as such was a cost of the 5.875% notes issuance transaction. We determined that the fair value of the stock borrow facility was approximately \$13 million on the date of issuance of these notes. Therefore, we recorded such value at issuance as an increase to deferred financing fees and additional paid in capital in our consolidated financial statements. We are amortizing the value of the stock borrow facility to interest expense over the five-year term of these notes.

**Registration Rights on Shares Covered by Share Lending Agreement**

We agreed to use our reasonable best efforts to cause to become effective within 130 days after the original issue date of the notes, a registration statement with the Securities and Exchange Commission covering our Class A common stock that can be used by Citigroup Global Markets Inc., as agent for the borrower, to sell up to 150 million shares that we will loan to borrower pursuant to the share lending agreement.

Such registration statement was not declared effective by that date, and we therefore have incurred liquidated damages as defined in the related indenture from April 2, 2005 and will continue to incur such damages until July 17, 2005, the day prior to the effective date. These liquidated damages have been or will be paid in cash, at a rate of 0.25% per month of the accreted principal amount of the convertible notes for the first 60 days of the default, and at a rate of 0.50% per month of the accreted principal amount of the convertible notes thereafter.

All borrow facility liquidated damages will be computed on the basis of a 360-day year composed of twelve 30-day months and when accrued will be paid, or added to the accreted principal amount of the notes, monthly on the sixteenth day of each month to record holders of notes as of the close of business on the first day of each month. Holders who convert their notes into our Class A common stock will not be entitled to any borrow facility liquidated damages.

If less than 150 million shares are sold by Citigroup Global Markets Inc., as agent for the borrower, Citigroup Global Markets Inc. has the right to request that we file up to four additional registration statements to register the remaining shares of our Class A common stock that may be lent pursuant to the share lending agreement. In each such case, we will be required to use our commercially reasonable efforts to cause such registration to become effective. However, we are not subject to liquidated damages if any such registration statement is not declared effective by any specific date (or at all).

**Table of Contents****DESCRIPTION OF CERTAIN INDEBTEDNESS**

As of March 31, 2005 and December 31, 2004, our actual total debt was approximately \$18.9 billion and \$19.5 billion, as summarized below (in millions):

	Actual March 31, 2005		Actual December 31, 2004		Interest payment dates	Start date for cash interest payment on discount notes	Maturity date(b)
	Face value	Accreted value(a)	Face value	Accreted value(a)			
<b>Charter Communications, Inc.:</b>							
4.750% convertible senior notes due 2006(c)	\$ 122	\$ 122	\$ 156	\$ 156	12/1 & 6/1		6/1/06
5.875% convertible senior notes due 2009(c)	863	835	863	834	5/16 & 11/16		11/16/09
<b>Charter Holdings:</b>							
8.250% senior notes due 2007(d)	167	167	451	451	4/1 & 10/1		4/1/07
8.625% senior notes due 2009	1,244	1,243	1,244	1,243	4/1 & 10/1		4/1/09
9.920% senior discount notes due 2011	1,108	1,108	1,108	1,108	4/1 & 10/1	10/1/04	4/1/11
10.000% senior notes due 2009	640	640	640	640	4/1 & 10/1		4/1/09
10.250% senior notes due 2010	318	318	318	318	1/15 & 7/15		1/15/10
11.750% senior discount notes due 2010	450	450	450	448	1/15 & 7/15	7/15/05	1/15/10
10.750% senior notes due 2009	874	874	874	874	4/1 & 10/1		10/1/09
11.125% senior notes due 2011	500	500	500	500	1/15 & 7/15		1/15/11
13.500% senior discount notes due 2011	675	608	675	589	1/15 & 7/15	7/15/06	1/15/11
9.625% senior notes due 2009	640	638	640	638	5/15 & 11/15		11/15/09
10.000% senior notes due 2011	710	708	710	708	5/15 & 11/15		5/15/11
11.750% senior discount notes due 2011	939	825	939	803	5/15 & 11/15	11/15/06	5/15/11
12.125% senior discount notes due 2012	330	267	330	259	1/15 & 7/15	7/15/07	1/15/12
<b>CCH II:</b>	1,601	1,601	1,601	1,601			9/15/10

10.250% senior notes due 2010					3/15 & 9/15		
<b>CCO Holdings:</b>							
8.750% senior notes due 2013	500	500	500	500	5/15 & 11/15		11/15/13
Senior floating rate notes due 2010	550	550	550	550	3/15, 6/15, 9/15 & 12/15		12/15/10
<b>Charter Operating:</b>							
8% senior second lien notes due 2012	1,100	1,100	1,100	1,100	4/30 & 10/30		4/30/12
8 <sup>3</sup> / <sub>8</sub> % senior second lien notes due 2014(d)	671	671	400	400	4/30 & 10/30		4/30/14
<b>Renaissance:</b>							
10.000% senior discount notes due 2008	114	116	114	116	4/15 & 10/15	10/15/03	4/15/08
<b>CC V Holdings:</b>							
11.875% senior discount notes due 2008(e)			113	113	6/1 & 12/1	6/1/04	12/1/08
<b>Credit Facilities</b>							
Charter Operating	5,088	5,088	5,515	5,515			
	\$ 19,204	\$ 18,929	\$ 19,791	\$ 19,464			

- (a) The accreted value presented above represents the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.
- (b) In general, the obligors have the right to redeem all of the notes set forth in the above table (except with respect to the 5.875% convertible senior notes due 2009 and the Charter Holdings notes with terms of eight years) in whole or part at their option, beginning at various times prior to their stated maturity dates, subject to certain conditions, upon the payment of the outstanding principal amount (plus a specified redemption premium) and all accrued and unpaid interest. The 5.875% convertible senior notes are redeemable if the closing price of our Class A common stock exceeds the conversion price by certain percentages as described below. For additional information, see Note 9 to our consolidated financial statements included elsewhere in this prospectus.
- (c) The 4.75% convertible senior notes and the 5.875% convertible senior notes are convertible at the option of the holders into shares of Class A common stock at a conversion rate, subject to certain adjustments, of 38.0952 and 413.2231 shares, respectively, per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 and \$2.42 per share, respectively. Certain anti-dilutive provisions cause adjustments to occur automatically upon the occurrence of specified events. Additionally, the conversion ratio may be adjusted by us when deemed appropriate. Since March 31,

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2005, we repurchased, from a small number of institutional holders, a total of \$97 million principal amount of the 4.75% convertible senior notes, leaving \$25 million principal amount outstanding.

- (d) Since March 31, 2005, Charter Operating, consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in a private placement, approximately \$62 million principal amount of its 8.375% senior second lien notes due 2014 in exchange for approximately \$62 million of the Charter Holdings 8.25% senior notes due 2007. The Charter Holdings notes received in the exchange were thereafter distributed to Charter Holdings and cancelled.
- (e) On March 14, 2005, CC V Holdings, LLC redeemed all of its outstanding notes, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. We are not required to redeem any of the other notes listed above prior to their stated maturity dates.

As of March 31, 2005 and December 31, 2004, our long-term debt totaled approximately \$18.9 billion and \$19.5 billion, respectively. This debt was comprised of approximately \$5.1 billion and \$5.5 billion of credit facility debt, \$12.9 billion and \$13.0 billion accreted value of high-yield notes and \$957 million and \$990 million accreted value of convertible senior notes at December 31, 2004 and 2003, respectively.

As of March 31, 2005 and December 31, 2004, the weighted average interest rate on the credit facility debt was approximately 7.0% and 6.8%, respectively, the weighted average interest rate on our high-yield notes was approximately 9.9% and 9.9%, and the weighted average interest rate on the convertible senior notes was approximately 5.7% and 5.7%, respectively, resulting in a blended weighted average interest rate of 8.9% and 8.8%, respectively. The interest rate on approximately 82% and 83% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements as of March 31, 2005 and December 31, 2004, respectively. The fair value of our high-yield notes was \$11.2 billion and \$12.2 billion at March 31, 2005 and December 31, 2004, respectively. The fair value of our convertible senior notes was \$859 million and \$1.1 billion at March 31, 2005 and December 31, 2004, respectively. The fair value of our credit facilities was approximately \$5.1 billion and \$5.5 billion at March 31, 2005 and December 31, 2004, respectively. The fair value of high-yield and convertible notes is based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

The following description is a summary of certain material provisions of the amended and restated Charter Operating credit facilities and the public notes of our subsidiaries (collectively, the Debt Agreements). The summary does not restate the terms of the Debt Agreements in their entirety, nor does it describe all terms of the Debt Agreements. The agreements and instruments governing each of the Debt Agreements are complicated and you should consult such agreements and instruments for more detailed information regarding the Debt Agreements.

***Charter Operating Credit Facilities – General***

The Charter Operating credit facilities were amended and restated concurrently with the sale of \$1.5 billion senior second-lien notes in April 2004, among other things, to defer maturities and increase availability under these facilities and to enable Charter Operating to acquire the interests of the lenders under the CC VI Operating, CC VIII Operating and Falcon credit facilities, thereby consolidating all credit facilities under one amended and restated Charter Operating credit agreement.

The Charter Operating credit facilities:  
provide borrowing availability of up to \$6.5 billion;

provide for two term facilities:

- (i) a Term A facility with a total principal amount of \$2.0 billion, of which 12.5% matures in 2007, 30% matures in 2008, 37.5% matures in 2009 and 20% matures in 2010; and

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(ii) a Term B facility with a total principal amount of \$3.0 billion, which shall be repayable in 27 equal quarterly installments aggregating in each loan year to 1% of the original amount of the Term B facility, with the remaining balance due at final maturity in 2011; and

provide for a revolving credit facility, in a total amount of \$1.5 billion, with a maturity date in 2010.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating's election, at a base rate or the Eurodollar rate, as defined, plus a margin for Eurodollar loans of up to 3.00% for the Term A facility and revolving credit facility, and up to 3.25% for the Term B facility, and for base rate loans of up to 2.00% for the Term A facility and revolving credit facility, and up to 2.25% for the Term B facility. A quarterly commitment fee of up to .75% is payable on the average daily unborrowed balance of the revolving credit facilities.

The obligations of our subsidiaries under the Charter Operating credit facilities (the Obligations) are guaranteed by Charter Operating's immediate parent company, CCO Holdings, and the subsidiaries of Charter Operating, except for immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of the provisions of other indebtedness to which they are subject (the non-guarantor subsidiaries, primarily Renaissance and its subsidiaries). The Obligations are also secured by (i) a lien on all of the assets of Charter Operating and its subsidiaries (other than assets of the non-guarantor subsidiaries), to the extent such lien can be perfected under the Uniform Commercial Code by the filing of a financing statement, and (ii) by a pledge by CCO Holdings of the equity interests owned by it in Charter Operating or any of Charter Operating's subsidiaries, as well as intercompany obligations owing to it by any of such entities. Upon the Charter Holdings Leverage Ratio (as defined in the indenture governing the Charter Holdings senior notes and senior discount notes) being under 8.75 to 1.0, the Charter Operating credit facilities require that the 11.875% notes due 2008 issued by CC V Holdings, LLC be redeemed. Because such Leverage Ratio was determined to be under 8.75 to 1.0, CC V Holdings, LLC redeemed such notes in March 2005, and CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) became guarantors of the Obligations and have granted a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

***Charter Operating Credit Facilities Restrictive Covenants***

The Charter Operating credit facilities contain representations and warranties, and affirmative and negative covenants customary for financings of this type. The financial covenants measure performance against standards set for leverage, debt service coverage, and interest coverage, tested as of the end of each quarter. The maximum allowable leverage ratio is 4.25 to 1.0 until maturity, tested as of the end of each quarter beginning September 30, 2004. Additionally, the Charter Operating credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not reinvested in assets useful in the business of the borrower within a specified period, and upon the incurrence of certain indebtedness when the ratio of senior first lien debt to operating cash flow is greater than 2.0 to 1.0.

The Charter Operating credit facilities permit Charter Operating and its subsidiaries to make distributions to pay interest on the Charter Operating senior second-lien notes, the CCH II senior notes, the CCO Holdings senior notes, the Charter convertible senior notes and the Charter Holdings senior notes, provided that, among other things, no default has occurred and is continuing under the Charter Operating credit facilities. Conditions to future borrowings include absence of a default or an event of default under the Charter Operating credit facilities and the continued accuracy in all material respects of the representations and warranties, including the absence since December 31, 2003 of any event, development or circumstance that has had or could reasonably be expected to have a material adverse effect on our business.

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The events of default under the Charter Operating credit facilities include, among other things:

- (i) the failure to make payments when due or within the applicable grace period,
- (ii) the failure to comply with specified covenants, including but not limited to a covenant to deliver audited financial statements with an unqualified opinion from our independent auditors,
- (iii) the failure to pay or the occurrence of events that cause or permit the acceleration of other indebtedness owing by CCO Holdings, Charter Operating or Charter Operating's subsidiaries in amounts in excess of \$50 million in aggregate principal amount,
- (iv) the failure to pay or the occurrence of events that result in the acceleration of other indebtedness owing by certain of CCO Holdings' direct and indirect parent companies in amounts in excess of \$200 million in aggregate principal amount,
- (v) Paul Allen and/or certain of his family members and/or their exclusively owned entities (collectively, the Paul Allen Group) ceasing to have the power, directly or indirectly, to vote at least 35% of the ordinary voting power of Charter Operating,
- (vi) the consummation of any transaction resulting in any person or group (other than the Paul Allen Group) having power, directly or indirectly, to vote more than 35% of the ordinary voting power of Charter Operating, unless the Paul Allen Group holds a greater share of ordinary voting power of Charter Operating,
- (vii) certain of Charter Operating's indirect or direct parent companies having indebtedness in excess of \$500 million aggregate principal amount which remains undefeased three months prior to the final maturity of such indebtedness, and
- (viii) Charter Operating ceasing to be a wholly-owned direct subsidiary of CCO Holdings, except in certain very limited circumstances.

## **Outstanding Notes**

### ***Charter Communications, Inc. Notes***

#### ***Charter 5.875% Convertible Senior Notes due 2009***

See Description of Notes for the terms of \$862.5 million outstanding principal amount of 5.875% convertible senior notes due 2009.

#### ***Charter 4.75% Convertible Senior Notes due 2006***

In May 2001, Charter issued 4.75% convertible senior notes with a total principal amount at maturity of \$633 million. As of March 31, 2005, there was \$122 million in total principal amount of these notes outstanding. Since March 31, 2005, we repurchased, from a small number of institutional holders, \$97 million total principal amount of these notes, leaving \$25 million in principal amount outstanding. The 4.75% convertible notes rank equally with any of our future unsubordinated and unsecured indebtedness, but are structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

The 4.75% convertible notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.0952 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, Charter may adjust the conversion ratio under certain circumstances when deemed appropriate. These notes are redeemable at our option at amounts decreasing from 101.9% to 100% of the principal amount, plus accrued and unpaid interest beginning on June 4, 2004, to the date of redemption. Interest is payable semiannually on December 1 and June 1, beginning December 1, 2001, until maturity on June 1, 2006.





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Upon a change of control, subject to certain conditions and restrictions, Charter may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

***Charter Communications Holdings, LLC Notes***

***March 1999 Charter Holdings Notes***

The March 1999 Charter Holdings notes were issued under three separate indentures, each dated as of March 17, 1999, among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. Charter Holdings and Charter Capital exchanged these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The March 1999 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the March 1999 9.920% Charter Holdings notes began to accrue on April 1, 2004.

The March 1999 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the March 1999 8.250% Charter Holdings notes prior to their maturity on April 1, 2007. Charter Holdings and Charter Capital may redeem some or all of the March 1999 8.625% Charter Holdings notes and the March 1999 9.920% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of March 1999 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after April 1, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding March 1999 Charter Holdings notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the March 1999 Charter Holdings notes contain restrictive covenants that limit certain transactions or activities by Charter Holdings and its restricted subsidiaries. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes. Substantially all of Charter Holdings direct and indirect subsidiaries are currently restricted subsidiaries.

***January 2000 Charter Holdings Notes***

The January 2000 Charter Holdings notes were issued under three separate indentures, each dated as of January 12, 2000, among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In June 2000, Charter Holdings and Charter Capital exchanged these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2000 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the January 2000 11.75% Charter Holdings notes began to accrue on January 15, 2005.

The January 2000 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

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Charter Holdings and Charter Capital will not have the right to redeem the January 2000 10.00% Charter Holdings notes prior to their maturity on April 1, 2009. Charter Holdings and Charter Capital may redeem some or all of the January 2000 10.25% Charter Holdings notes and the January 2000 11.75% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2000 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2008.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2000 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2000 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

*January 2001 Charter Holdings Notes*

The January 2001 Charter Holdings notes were issued under three separate indentures, each dated as of January 10, 2001, each among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In March 2001, Charter Holdings and Charter Capital exchanged these notes for new notes, with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the January 2001 13.500% Charter Holdings notes will not accrue prior to January 15, 2006.

The January 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the January 2001 10.750% Charter Holdings notes prior to their maturity on October 1, 2009. On or after January 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the January 2001 11.125% Charter Holdings notes and the January 2001 13.500% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

*May 2001 Charter Holdings Notes*

The May 2001 Charter Holdings notes were issued under three separate indentures, each among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In September 2001, Charter Holdings and Charter Capital exchanged substantially all of these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

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The May 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the May 2001 11.750% Charter Holdings notes will not accrue prior to May 15, 2006.

The May 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the May 2001 9.625% Charter Holdings notes prior to their maturity on November 15, 2009. On or after May 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the May 2001 10.000% Charter Holdings notes and the May 2001 11.750% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the May 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after May 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding May 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the May 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

*January 2002 Charter Holdings Notes*

The January 2002 Charter Holdings notes were issued under three separate indentures, each among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee, two of which were supplements to the indentures for the May 2001 Charter Holdings notes. In July 2002, Charter Holdings and Charter Capital exchanged substantially all of these notes for new notes, with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2002 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the January 2002 12.125% Charter Holdings notes will not accrue prior to January 15, 2007.

The January 2002 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with the current and future unsecured and unsubordinated debt of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

The Charter Holdings 12.125% senior discount notes are redeemable at the option of the issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2002 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2002 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

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*Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes*

The limitations on incurrence of debt and issuance of preferred stock contained in Charter Holdings indentures permit Charter Holdings and its subsidiaries to incur additional debt or issue preferred stock, so long as there is no default under the Charter Holdings indentures. These limitations restrict the incurrence of debt unless, after giving pro forma effect to the incurrence, the Charter Holdings Leverage Ratio would be below 8.75 to 1.0. In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, Charter Holdings and its restricted subsidiaries are permitted to issue:

up to \$3.5 billion of debt under credit facilities,

up to \$75 million of debt incurred to finance the purchase or capital lease of new assets,

up to \$300 million of additional debt for any purpose,

additional debt in an amount equal to 200% of new cash equity proceeds received by Charter Holdings and its restricted subsidiaries since March 1999, the date of our first indenture, and not allocated for restricted payments or permitted investments, and

other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

Indebtedness under a single facility or agreement may be incurred in part under one of the categories listed above and in part under another. Accordingly, indebtedness under our credit facilities is incurred under a combination of the categories of permitted indebtedness listed above.

The restricted subsidiaries of Charter Holdings are generally not permitted to issue debt securities contractually subordinated in right of payment to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The Charter Holdings indentures permit Charter Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than Charter Holdings indentures, so our subsidiaries that are subject to the Charter Operating credit facilities may not be permitted to utilize the full debt incurrence that would otherwise be available under the Charter Holdings indenture covenants.

Generally, under Charter Holdings high-yield indentures:

Charter Holdings and its restricted subsidiaries are generally permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if, after giving pro forma effect to the transaction, the Charter Holdings Leverage Ratio would be below 8.75 to 1.0 and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments in a total amount of up to 100% of Charter Holdings consolidated EBITDA, as defined, minus 1.2 times its consolidated interest expense, plus 100% of new cash and non-cash equity proceeds received by Charter Holdings and not allocated to the debt incurrence covenant or to permitted investments, all cumulatively from March 1999, the date of the first Charter Holdings indenture, plus \$100 million.

In addition, Charter Holdings may make distributions or restricted payments, so long as no default exists or would be caused by transactions:

to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year,

regardless of the existence of any default, to pay pass-through tax liabilities in respect of ownership of equity interests in Charter Holdings or its restricted subsidiaries, or

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to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

Charter Holdings and its restricted subsidiaries may not make investments except permitted investments if there is a default under the indentures or if, after giving effect to the transaction, the Charter Holdings Leverage Ratio would be above 8.75 to 1.0.

Permitted investments include:

investments by Charter Holdings in restricted subsidiaries or by restricted subsidiaries in Charter Holdings,

investments in productive assets (including through equity investments) aggregating up to \$150 million since March 1999,

investments aggregating up to 100% of new cash equity proceeds received by Charter Holdings since March 1999 and not allocated to the debt incurrence or restricted payments covenant, and

other investments aggregating up to \$50 million since March 1999.

Charter Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries credit facilities, liens securing the purchase price of new assets, liens securing indebtedness of up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of Charter Holdings.

Charter Holdings and Charter Capital, its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless after giving effect to the transaction, the Charter Holdings Leverage Ratio would be below 8.75 to 1.0, no default exists, and the surviving entity is a U.S. entity that assumes the Charter Holdings notes.

Charter Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. Charter Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Holdings notes with any remaining proceeds.

Charter Holdings and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Holdings could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

Charter Holdings restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indentures, unless those restrictions are on customary terms that will not materially impair Charter Holdings ability to repay the high-yield notes.

The restricted subsidiaries of Charter Holdings are generally not permitted to guarantee or pledge assets to secure debt of Charter Holdings, unless the guaranteeing subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

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The indentures also restrict the ability of Charter Holdings and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors of Charter Holdings that the transaction is on terms no less favorable than arms length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction addressed to the holders of the Charter Holdings notes.

***CCH II, LLC Notes***

In September 2003, CCH II and CCH II Capital Corp. jointly issued approximately \$1.6 billion total principal amount of 10.25% senior notes due 2010. The CCH II notes are general unsecured obligations of CCH II and CCH II Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCH II and CCH II Capital Corp. The CCH II notes are structurally subordinated to all obligations of subsidiaries of CCH II, including the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Interest on the CCH II notes accrues at 10.25% per annum and is payable semi-annually in arrears on each March 15 and September 15, commencing on March 15, 2004.

At any time prior to September 15, 2006, the issuers of the CCH II notes may redeem up to 35% of the total principal amount of the CCH II notes on a pro rata basis at a redemption price equal to 110.25% of the principal amount of CCH II notes redeemed, plus any accrued and unpaid interest.

On or after September 15, 2008, the issuers of the CCH II notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 105.125% to a redemption price on or after September 15, 2009 of 100.0% of the principal amount of the CCH II notes redeemed, plus, in each case, any accrued and unpaid interest.

In the event of specified change of control events, CCH II must offer to purchase the outstanding CCH II notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

The indenture governing the CCH II notes contains restrictive covenants that limit certain transactions or activities by CCH II and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCH II's direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCH II notes that restricts incurrence of debt and issuance of preferred stock permits CCH II and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving effect to the incurrence, CCH II could meet a leverage ratio (ratio of consolidated debt to four times EBITDA from the most recent fiscal quarter for which internal financial reports are available) of 5.5 to 1.0.

In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, CCH II and its restricted subsidiaries are permitted to incur or issue:

up to \$9.75 billion of debt under credit facilities, including debt under credit facilities outstanding on the issue date of the CCH II notes,

up to \$75 million of debt incurred to finance the purchase or capital lease of new assets,

up to \$300 million of additional debt for any purpose, and

other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

The restricted subsidiaries of CCH II are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

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The CCH II indenture permits CCH II and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. Our and our subsidiaries' credit agreements generally impose more restrictive limitations on incurring new debt than the CCH II indenture, so we and our subsidiaries that are subject to credit agreements are not permitted to utilize the full debt incurrence that would otherwise be available under the CCH II indenture covenants.

Generally, under the CCH II indenture, CCH II and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCH II can incur \$1.00 of new debt under the leverage ratio test, which requires that CCH II meet a 5.5 to 1.0 leverage ratio after giving effect to the transaction, and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments in a total amount of up to 100% of CCH II's consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and non-cash equity proceeds received by CCH II and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced July 1, 2003, plus \$100 million.

In addition, CCH II may make distributions or restricted payments, so long as no default exists or would be caused by transactions:

to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;

regardless of the existence of any default, to pay pass-through tax liabilities in respect of ownership of equity interests in CCH II or its restricted subsidiaries;

regardless of the existence of any default, to pay interest when due on Charter Holdings notes, to pay, so long as there is no default, interest on the convertible senior notes (including the notes) of Charter, to purchase, redeem or refinance, so long as CCH II could incur \$1.00 of indebtedness under the 5.5 to 1.0 leverage ratio test referred to above and there is no default, Charter Holdings notes, Charter notes, and other direct or indirect parent company notes (including the CCH II notes);

to make distributions in connection with the private exchanges pursuant to which the CCH II notes were issued; and

other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

The indenture governing the CCH II notes restricts CCH II and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCH II could not incur \$1.00 of new debt under the 5.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by CCH II and its restricted subsidiaries in CCH II and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment;

investments aggregating up to 100% of new cash equity proceeds received by CCH II since September 23, 2003 to the extent the proceeds have not been allocated to the restricted payments covenant described above;

investments resulting from the private exchanges pursuant to which the CCH II notes were issued;

other investments up to \$750 million outstanding at any time; and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.



CCH II is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries credit facilities, liens

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securing the purchase price of new assets, liens securing indebtedness up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of CCH II.

***CCO Holdings, LLC Notes******8<sup>3</sup>/<sub>4</sub>% Senior Notes due 2013***

In November 2003, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$500 million total principal amount of 8<sup>3</sup>/<sub>4</sub>% senior notes due 2013. The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings subsidiaries, including the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Interest on the CCO Holdings senior notes accrues at 8<sup>3</sup>/<sub>4</sub>% per year and is payable semi-annually in arrears on each May 15 and November 15.

At any time prior to November 15, 2006, the issuers of the CCO Holdings senior notes may redeem up to 35% of the total principal amount of the CCO Holdings senior notes to the extent of public equity proceeds they have received on a pro rata basis at a redemption price equal to 108.75% of the principal amount of CCO Holdings senior notes redeemed, plus any accrued and unpaid interest.

On or after November 15, 2008, the issuers of the CCO Holdings senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 104.375% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings senior notes redeemed, plus, in each case, any accrued and unpaid interest.

***Senior Floating Rate Notes Due 2010***

In December 2004, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$550 million total principal amount of senior floating rate notes due 2010.

Interest on the CCO Holdings senior floating rate notes accrues at the LIBOR rate plus 4.125% annually, from December 15, 2004 or, if interest already has been paid, from the date it was most recently paid. Interest is reset and payable quarterly in arrears on each March 15, June 15, September 15 and December 15, commencing on March 15, 2005.

At any time prior to December 15, 2006, the issuers of the senior floating rate notes may redeem up to 35% of the notes in an amount not to exceed the amount of proceeds of one or more public equity offerings at a redemption price equal to 100% of the principal amount, plus a premium equal to the interest rate per annum applicable to the notes on the date notice of redemption is given, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the original aggregate principal amount of the notes issued remains outstanding after the redemption.

The issuers of the senior floating rate notes may redeem the notes in whole or in part at the issuers' option from December 15, 2006 until December 14, 2007 for 102% of the principal amount, from December 15, 2007 until December 14, 2008 for 101% of the principal amount and from and after December 15, 2008, at par, in each case, plus accrued and unpaid interest.

***Additional terms of the CCO Holdings Senior Notes and Senior Floating Rate Notes***

The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of subsidiaries of CCO Holdings, including the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

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In the event of specified change of control events, CCO Holdings must offer to purchase the outstanding CCO Holdings senior notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

The indenture governing the CCO Holdings senior notes contains restrictive covenants that limit certain transactions or activities by CCO Holdings and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCO Holdings' direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCO Holdings senior notes that restricts incurrence of debt and issuance of preferred stock permits CCO Holdings and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving pro forma effect to the incurrence or issuance, CCO Holdings could meet a leverage ratio (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 4.5 to 1.0.

In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, CCO Holdings and its restricted subsidiaries are permitted to incur or issue:

up to \$9.75 billion of debt under credit facilities, including debt under credit facilities outstanding on the issue date of the CCO Holdings senior notes;

up to \$75 million of debt incurred to finance the purchase or capital lease of new assets;

up to \$300 million of additional debt for any purpose; and

other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

The restricted subsidiaries of CCO Holdings are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The CCO Holdings indenture permits CCO Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than CCO Holdings' indenture, so our subsidiaries that are subject to credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the CCO Holdings indenture covenants.

Generally, under CCO Holdings' indenture:

CCO Holdings and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCO Holdings can incur \$1.00 of new debt under the leverage ratio test, which requires that CCO Holdings meet a 4.5 to 1.0 leverage ratio after giving effect to the transaction, and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments are permitted in a total amount of up to 100% of CCO Holdings' consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and appraised non-cash equity proceeds received by CCO Holdings and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced on October 1, 2003, plus \$100 million.

In addition, CCO Holdings may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;

to pay, regardless of the existence of any default, pass-through tax liabilities in respect of ownership of equity interests in Charter Holdings or its restricted subsidiaries;

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to pay, regardless of the existence of any default, interest when due on Charter Holdings notes and our notes;

to pay, so long as there is no default, interest on the Charter convertible notes;

to purchase, redeem or refinance Charter Holdings notes, CCH II notes, Charter notes, and other direct or indirect parent company notes, so long as CCO Holdings could incur \$1.00 of indebtedness under the 4.5 to 1.0 leverage ratio test referred to above and there is no default; or

to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

The indenture governing the CCO Holdings senior notes restricts CCO Holdings and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCO Holdings could not incur \$1.00 of new debt under the 4.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by CCO Holdings and its restricted subsidiaries in CCO Holdings and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,

investments aggregating up to 100% of new cash equity proceeds received by CCO Holdings since November 10, 2003 to the extent the proceeds have not been allocated to the restricted payments covenant described above,

other investments up to \$750 million outstanding at any time, and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

CCO Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries credit facilities, liens securing the purchase price of new assets, liens securing indebtedness up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of CCO Holdings.

CCO Holdings and CCO Holdings Capital, its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless CCO Holdings and its subsidiaries could incur \$1.00 of new debt under the 4.5 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the CCO Holdings senior notes.

CCO Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. CCO Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the CCO Holdings senior notes with any remaining proceeds.

CCO Holdings and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, CCO Holdings could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

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CCO Holdings' restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to CCO Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indenture, unless those restrictions are on customary terms that will not materially impair CCO Holdings' ability to repay its notes.

The restricted subsidiaries of CCO Holdings are generally not permitted to guarantee or pledge assets to secure debt of CCO Holdings, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of CCO Holdings and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the CCO Holdings notes.

***Charter Communications Operating, LLC Notes***

On April 27, 2004, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.1 billion of 8% senior second lien notes due 2012 and \$400 million of 8<sup>3</sup>/<sub>8</sub>% senior second lien notes due 2014, for total gross proceeds of \$1.5 billion.

The Charter Operating notes were sold in a private transaction that was not subject to the registration requirements of the Securities Act of 1933. The Charter Operating notes are not expected to have the benefit of any exchange or other registration rights, except in specified limited circumstances.

In the first quarter of 2005, as a result of the occurrence of the guarantee and pledge date (generally, upon the Charter Holdings leverage ratio being below 8.75 to 1.0), CCO Holdings and those subsidiaries of Charter Operating that are currently guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations provided guarantees of the Charter Operating notes. The note guarantee of each such existing guarantor is, and the note guarantee of any additional future subsidiary guarantor will be:

a senior obligation of such guarantor;

structurally senior to the outstanding senior notes of CCO Holdings and CCO Holdings Capital Corp. (except in the case of CCO Holdings' note guarantee, which is structurally *pari passu* with such senior notes), the outstanding senior notes of CCH II and CCH II Capital Corp., the outstanding senior notes and senior discount notes of Charter Holdings, the outstanding convertible senior notes of Charter and any future indebtedness of parent companies of CCO Holdings (but subject to provisions in the Charter Operating indenture that permit interest and, subject to meeting the 4.25 to 1.0 leverage ratio test, principal payments to be made thereon); and

senior in right of payment to any future subordinated indebtedness of such guarantor.

All the subsidiaries of Charter Operating (except CCO NR Sub, LLC, and certain other subsidiaries that are not deemed material and are designated as nonrecourse subsidiaries under the Charter Operating credit facilities) are restricted subsidiaries of Charter Operating under the Charter Operating notes. Unrestricted subsidiaries generally will not be subject to the restrictive covenants in the Charter Operating indenture.

In the event of specified change of control events, Charter Operating must offer to purchase the Charter Operating notes at a purchase price equal to 101% of the total principal amount of the Charter Operating notes repurchased plus any accrued and unpaid interest thereon.

The limitations on incurrence of debt contained in the indenture governing the Charter Operating notes permit Charter Operating and its restricted subsidiaries that are guarantors of the Charter Operating

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notes to incur additional debt or issue shares of preferred stock if, after giving pro forma effect to the incurrence, Charter Operating could meet a leverage ratio test (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 4.25 to 1.0.

In addition, regardless of whether the leverage ratio test could be met, so long as no default exists or would result from the incurrence or issuance, Charter Operating and its restricted subsidiaries are permitted to incur or issue:

up to \$6.5 billion of debt under credit facilities (but such incurrence is permitted only by Charter Operating and its restricted subsidiaries that are guarantors of the Charter Operating notes, so long as there are such guarantors), including debt under credit facilities outstanding on the issue date of the Charter Operating notes;

up to \$75 million of debt incurred to finance the purchase or capital lease of assets;

up to \$300 million of additional debt for any purpose, and

other items of indebtedness for specific purposes such as refinancing of existing debt and interest rate swaps to provide protection against fluctuation in interest rates and, subject to meeting the leverage ratio test, debt existing at the time of acquisition of a restricted subsidiary.

The indenture governing the Charter Operating notes permits Charter Operating to incur debt under one of the categories above, and later reclassify the debt into a different category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than the Charter Operating indenture, so our subsidiaries that are subject to the Charter Operating credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the Charter Operating indenture covenants.

Generally, under Charter Operating's indenture, Charter Operating and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if Charter Operating could incur \$1.00 of new debt under the leverage ratio test, which requires that Charter Operating meet a 4.25 to 1.0 leverage ratio after giving effect to the transaction, and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments are permitted in a total amount of up to 100% of Charter Operating's consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and appraised non-cash equity proceeds received by Charter Operating and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced April 1, 2004, plus \$100 million.

In addition, Charter Operating may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;

regardless of the existence of any default, to pay pass-through tax liabilities in respect of ownership of equity interests in Charter Operating or its restricted subsidiaries;

to pay, regardless of the existence of any default, interest when due on the Charter Holdings notes, the CCH II notes, CCO Holdings notes, and our notes;

to pay, so long as there is no default, interest on the Charter convertible notes;

to purchase, redeem or refinance the Charter Holdings notes, CCH II notes, the CCO Holdings notes, the Charter notes, and other direct or indirect parent company notes, so long as Charter Operating could incur \$1.00 of indebtedness under the 4.25 to 1.0 leverage ratio test referred to above and there is no default, or

to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.



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The indenture governing the Charter Operating notes restricts Charter Operating and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if Charter Operating could not incur \$1.00 of new debt under the 4.25 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by Charter Operating and its restricted subsidiaries in Charter Operating and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,

investments aggregating up to 100% of new cash equity proceeds received by Charter Operating since April 27, 2004 to the extent the proceeds have not been allocated to the restricted payments covenant described above,

other investments up to \$750 million outstanding at any time, and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

Charter Operating and its restricted subsidiaries are not permitted to grant liens senior to the liens securing the Charter Operating notes, other than permitted liens, on their assets to secure indebtedness or other obligations, if, after giving effect to such incurrence, the senior secured leverage ratio (generally, the ratio of obligations secured by first priority liens to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) would exceed 3.75 to 1.0. Permitted liens include liens securing indebtedness and other obligations under permitted credit facilities, liens securing the purchase price of new assets, liens securing indebtedness of up to \$50 million and other specified liens incurred in the ordinary course of business.

Charter Operating and Charter Communications Operating Capital Corp., its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless Charter Operating and its subsidiaries could incur \$1.00 of new debt under the 4.25 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the Charter Operating notes.

Charter Operating and its restricted subsidiaries generally may not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. Charter Operating and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Operating notes with any remaining proceeds.

Charter Operating and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Operating could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

Charter Operating's restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Operating on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when Charter Operating entered into the indenture governing the Charter Operating senior second lien notes unless those restrictions are on customary terms that will not materially impair Charter Operating's ability to repay the Charter Operating notes.



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The restricted subsidiaries of Charter Operating are generally not permitted to guarantee or pledge assets to secure debt of Charter Operating, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of Charter Operating and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the Charter Operating notes.

Charter Operating and its restricted subsidiaries are generally not permitted to transfer equity interests in restricted subsidiaries unless the transfer is of all of the equity interests in the restricted subsidiary or the restricted subsidiary remains a restricted subsidiary and net proceeds of the equity sale are applied in accordance with the asset sales covenant.

Since the occurrence of the guarantee and pledge date, the collateral for the Charter Operating notes consists of all of Charter Operating's and its subsidiaries' assets that secure the obligations of Charter Operating or any subsidiary of Charter Operating with respect to the Charter Operating credit facilities and the related obligations. The collateral currently consists of the capital stock of Charter Operating held by CCO Holdings, all of the intercompany obligations owing to CCO Holdings by Charter Operating or any subsidiary of Charter Operating, and substantially all of Charter Operating's and the guarantors' assets (other than the assets of CCO Holdings) in which security interests may be perfected under the Uniform Commercial Code by filing a financing statement (including capital stock and intercompany obligations), including, but not limited to:

with certain exceptions, all capital stock (limited in the case of capital stock of foreign subsidiaries, if any, to 66% of the capital stock of first tier foreign Subsidiaries) held by Charter Operating or any guarantor; and

with certain exceptions, all intercompany obligations owing to Charter Operating or any guarantor.

In March 2005, CC V Holdings, LLC redeemed in full the notes outstanding under the CC V indenture. Following that redemption CC V Holdings, LLC and its subsidiaries guaranteed the Charter Operating credit facilities and the related obligations and secured those guarantees with first-priority liens, and guaranteed the notes and secured the Charter Operating senior second lien notes with second-priority liens, on substantially all of their assets in which security interests may be perfected under the Uniform Commercial Code by filing a financing statement (including capital stock and intercompany obligations).

In addition, if Charter Operating or its subsidiaries exercise any option to redeem in full the notes outstanding under the Renaissance indenture, then, provided that the Leverage Condition remains satisfied, the Renaissance entities will be required to provide corresponding guarantees of the Charter Operating credit facilities and related obligations and note guarantees and to secure the Charter Operating notes and the Charter Operating credit facilities and related obligations with corresponding liens.

In the event that additional liens are granted by Charter Operating or its subsidiaries to secure obligations under the Charter Operating credit facilities or the related obligations, second priority liens on the same assets will be granted to secure the Charter Operating notes, which liens will be subject to the provisions of an intercreditor agreement (to which none of Charter Operating or its affiliates are parties). Notwithstanding the foregoing sentence, no such second priority liens need be provided if the time such lien would otherwise be granted is not during a guarantee and pledge availability period (when the Leverage Condition is satisfied), but such second priority liens will be required to be provided in accordance with the foregoing sentence on or prior to the fifth business day of the commencement of the next succeeding guarantee and pledge availability period.

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***CC V Holdings, LLC Notes***

These notes were redeemed on March 14, 2005 and are therefore no longer outstanding. See Summary Recent Events.

***Renaissance Media Notes***

The 10% senior discount notes due 2008 were issued by Renaissance Media (Louisiana) LLC, Renaissance Media (Tennessee) LLC and Renaissance Media Holdings Capital Corporation, with Renaissance Media Group LLC as guarantor and the United States Trust Company of New York as trustee. Renaissance Media Group LLC, which is the direct or indirect parent company of these issuers, is now a subsidiary of Charter Operating. The Renaissance 10% notes and the Renaissance guarantee are unsecured, unsubordinated debt of the issuers and the guarantor, respectively. In October 1998, the issuers of the Renaissance notes exchanged \$163 million of the original issued and outstanding Renaissance notes for an equivalent value of new Renaissance notes. The form and terms of the new Renaissance notes are the same in all material respects as the form and terms of the original Renaissance notes except that the issuance of the new Renaissance notes was registered under the Securities Act.

There was no payment of any interest in respect of the Renaissance notes prior to October 15, 2003. Since October 15, 2003, interest on the Renaissance notes is payable semi-annually in arrears in cash at a rate of 10% per year. On April 15, 2003, the Renaissance notes became redeemable at the option of the issuers thereof, in whole or in part, initially at 105% of their principal amount at maturity, plus accrued interest, declining to 100% of the principal amount at maturity, plus accrued interest, on or after April 15, 2006.

Our acquisition of Renaissance triggered change of control provisions of the Renaissance notes that required us to offer to purchase the Renaissance notes at a purchase price equal to 101% of their accreted value on the date of the purchase, plus accrued interest, if any. In May 1999, we made an offer to repurchase the Renaissance notes, and holders of Renaissance notes representing 30% of the total principal amount outstanding at maturity tendered their Renaissance notes for repurchase.

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

if, after giving effect to the incurrence, Renaissance Media Group could meet a leverage ratio (ratio of consolidated debt to four times consolidated EBITDA, as defined, from the most recent quarter) of 6.75 to 1.0, and, regardless of whether the leverage ratio could be met,

up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated annualized EBITDA, as defined,

up to an amount equal to 5% of Renaissance Media Group's consolidated total assets to finance the purchase of new assets,

up to two times the sum of (a) the net cash proceeds of new equity issuances and capital contributions, and (b) 80% of the fair market value of property received by Renaissance Media Group or an issuer as a capital contribution, in each case received after the issue date of the Renaissance notes and not allocated to make restricted payments, and

other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt and interest rate swaps to provide protection against fluctuation in interest rates.

The indenture governing the Renaissance notes permits us to incur debt under one of the categories above, and reclassify the debt into a different category.

Under the indenture governing the Renaissance notes, Renaissance Media Group and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, make restricted investments, or make other specified restricted payments only if Renaissance Media Group could incur



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\$1.00 of additional debt under the debt incurrence test, which requires that Renaissance Media Group meet the 6.75 to 1.0 leverage ratio after giving effect to the transaction of the indebtedness covenant and that no default exists or would occur as a consequence thereof. If those conditions are met, Renaissance Media Group and its restricted subsidiaries are permitted to make restricted payments in a total amount not to exceed the result of 100% of Renaissance Media Group's consolidated EBITDA, as defined, minus 130% of its consolidated interest expense, plus 100% of new cash equity proceeds received by Renaissance Media Group and not allocated to the indebtedness covenant, plus returns on certain investments, all cumulatively from June 1998. Renaissance Media Group and its restricted subsidiaries may make permitted investments up to \$2 million in related businesses and other specified permitted investments, restricted payments up to \$10 million, dividends up to 6% each year of the net cash proceeds of public equity offerings, and other specified restricted payments without meeting the foregoing test.

Renaissance Media Group and its restricted subsidiaries are not permitted to grant liens on their assets other than specified permitted liens, unless corresponding liens are granted to secure the Renaissance notes. Permitted liens include liens securing debt permitted to be incurred under credit facilities, liens securing debt incurred under the incurrence of indebtedness test, in amounts up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated EBITDA, as defined, liens as deposits for acquisitions up to 10% of the estimated purchase price, liens securing permitted financings of new assets, liens securing debt permitted to be incurred by restricted subsidiaries, and specified liens incurred in the ordinary course of business.

Renaissance Media Group and the issuers of the Renaissance notes are generally not permitted to sell or otherwise dispose of all or substantially all of their assets or merge with or into other companies unless their consolidated net worth after any such transaction would be equal to or greater than their consolidated net worth immediately prior to the transaction, or unless Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which would require them to meet a leverage ratio of 6.75 to 1.00 after giving effect to the transaction.

Renaissance Media Group and its subsidiaries may generally not otherwise sell assets or, in the case of subsidiaries, equity interests, unless they receive consideration at least equal to the fair market value of the assets, consisting of at least 75% cash, temporary cash investments or assumption of debt. Charter Holdings and its restricted subsidiaries are then required within 12 months after any asset sale either to commit to use the net cash proceeds over a specified threshold either to acquire assets used in their own or related businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Renaissance notes with any remaining proceeds.

Renaissance Media Group and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless the lease term does not exceed three years or the proceeds are applied in accordance with the covenant limiting asset sales.

Renaissance Media Group's restricted subsidiaries may generally not enter into restrictions on their abilities to make dividends or distributions or transfer assets to Renaissance Media Group except those not more restrictive than is customary in comparable financings.

The restricted subsidiaries of Renaissance Media Group are not permitted to guarantee or pledge assets to secure debt of the Renaissance Media Group or its restricted subsidiaries, unless the guarantying subsidiary issues a guarantee of the Renaissance notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction.

Renaissance Media Group and its restricted subsidiaries are generally not permitted to issue or sell equity interests in restricted subsidiaries, except sales of common stock of restricted subsidiaries so long as the proceeds of the sale are applied in accordance with the asset sale covenant, and issuances as a result of which the restricted subsidiary is no longer a restricted subsidiary and any remaining investment in that subsidiary is permitted by the covenant limiting restricted payments.

The indenture governing the Renaissance notes also restricts the ability of Renaissance Media Group and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in

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excess of \$2 million without a determination by the disinterested members of the board of directors that the transaction is on terms no less favorable than arms length, or transactions with affiliates involving over \$4 million with affiliates without receiving an independent opinion as to the fairness of the transaction to Renaissance Media Group.

All of these covenants are subject to additional specified exceptions. In general, the covenants of the Charter Operating credit facilities are more restrictive than those of our indentures.

**Cross-Defaults**

Our indentures and those of certain of our subsidiaries include various events of default, including cross-default provisions. Under these provisions, a failure by any of the issuers or any of their restricted subsidiaries to pay at the final maturity thereof the principal amount of other indebtedness having a principal amount of \$100 million or more (or any other default under any such indebtedness resulting in its acceleration) would result in an event of default under the indenture governing the applicable notes. The Renaissance indenture contains a similar cross-default provision with a \$10 million threshold that applies to the issuers of the Renaissance notes and their restricted subsidiaries. As a result, an event of default related to the failure to repay principal at maturity or the acceleration of the indebtedness under the Charter Holdings notes, CCH II notes, CCO Holdings notes, Charter Operating notes, the Charter Operating credit facilities or the Renaissance notes could cause cross-defaults under our subsidiaries indentures.

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**DESCRIPTION OF CAPITAL STOCK AND MEMBERSHIP UNITS**

**General**

Our capital stock and the provisions of our restated certificate of incorporation and bylaws are as described below. These summaries are qualified by reference to the restated certificate of incorporation and the bylaws, copies of which have been filed with the Securities and Exchange Commission.

Our authorized capital stock consists of 1.750 billion shares of Class A common stock, par value \$.001 per share, 750 million shares of Class B common stock, par value \$.001 per share, and 250 million shares of preferred stock, par value \$.001 per share.

Our restated certificate of incorporation and Charter Communications Holding Company, LLC's amended and restated limited liability company agreement contain provisions that are designed to cause the number of shares of our common stock that are outstanding to equal the number of common membership units of Charter Communications Holding Company, LLC owned by Charter and to cause the value of a share of common stock to be equal to the value of a common membership unit. These provisions are meant to allow a holder of our common stock to easily understand the economic interest that such holder's common shares represent of Charter Communications Holding Company, LLC's business.

In particular, provisions in our restated certificate of incorporation provide that:

(1) at all times the number of shares of our common stock outstanding will be equal to the number of Charter Communications Holding Company, LLC common membership units owned by Charter.

(2) Charter will not hold any assets other than, among other allowable assets:

working capital and cash held for the payment of current obligations and receivables from Charter Communications Holding Company, LLC;

common membership units of Charter Communications Holding Company, LLC; and

obligations and equity interests of Charter Communications Holding Company, LLC that correspond to obligations and equity interests issued by Charter;

(3) Charter will not borrow any money or enter into any capital lease unless Charter Communications Holding Company, LLC enters into the same arrangements with Charter so that Charter's liability flows through to Charter Communications Holding Company, LLC.

Provisions in Charter Communications Holding Company, LLC's amended and restated limited liability company agreement provide that, upon the contribution by Charter of assets acquired through the issuance of common stock by Charter, Charter Communications Holding Company, LLC will issue to Charter that number of common membership units as equals the number of shares of common stock issued by Charter. In the event of the contribution by Charter of assets acquired through the issuance of indebtedness or preferred interests of Charter, Charter Communications Holding Company, LLC will issue to Charter a corresponding obligation or interest, respectively to allow Charter to pass through to Charter Communications Holding Company, LLC these liabilities or preferred interests. Such liabilities or preferred interest of Charter Communication Holding Company, LLC will be assets of Charter, in addition to the Class B common units of Charter Communications Holding Company, LLC that are held by Charter.

**Common Stock**

As of March 31, 2005, there were 304,763,192 shares of Class A common stock issued and outstanding and 50,000 shares of Class B common stock issued and outstanding. If, as described below, all shares of Class B common stock convert to shares of Class A common stock as a result of dispositions by Mr. Allen and his affiliates, the holders of Class A common stock will be entitled to elect all members of

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the board of directors, other than any members elected separately by the holders of any preferred shares with the right to vote, of which there are currently none outstanding.

**Voting Rights.** The holders of Class A common stock and Class B common stock generally have identical rights, except:

each Class A common shareholder is entitled to one vote per share; and

each Class B common shareholder is entitled to a number of votes based on the number of outstanding Class B common stock and Charter Communications Holding Company, LLC membership units exchangeable for Class B common stock. For example, Mr. Allen is entitled to ten votes for each share of Class B common stock held by him or his affiliates and ten votes for each membership unit held by him or his affiliates; and

the Class B common shareholders have the sole power to vote to amend or repeal the provisions of our restated certificate of incorporation relating to:

(1) the activities in which Charter may engage;

(2) the required ratio of outstanding shares of common stock to outstanding membership units owned by Charter; and

(3) the restrictions on the assets and liabilities that Charter may hold.

The effect of the provisions described in the final bullet point is that holders of Class A common stock have no right to vote on these matters. These provisions allow Mr. Allen, for example, to amend the restated certificate of incorporation to permit Charter to engage in currently prohibited business activities without having to seek the approval of holders of Class A common stock.

The voting rights relating to the election of Charter's board of directors are as follows:

The Class B common shareholders, voting separately as a class, are entitled to elect all but one member of our board of directors.

Class A and Class B common shareholders, voting together as one class, are entitled to elect the remaining member of our board of directors who is not elected by the Class B common shareholders.

Class A common shareholders and Class B common shareholders are not entitled to cumulate their votes in the election of directors.

In addition, Charter may issue one or more series of preferred stock that entitle the holders of such preferred stock to elect directors.

Other than the election of directors and any matters where Delaware law or Charter's restated certificate of incorporation or bylaws requires otherwise, all matters to be voted on by shareholders must be approved by a majority of the votes cast by the holders of shares of Class A common stock and Class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock.

Amendments to Charter's restated certificate of incorporation that would adversely alter or change the powers, preferences or special rights of the Class A common stock or the Class B common stock must be approved by a majority of the votes entitled to be cast by the holders of the outstanding shares of the affected class, voting as a separate class. In addition, the following actions by Charter must be approved by the affirmative vote of the holders of at least a majority of the voting power of the outstanding Class B common stock, voting as a separate class:

the issuance of any Class B common stock other than to Mr. Allen and his affiliates and other than pursuant to specified stock splits and dividends;





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the issuance of any stock other than Class A common stock (and other than Class B common stock as described above); and

the amendment, modification or repeal of any provision of its restated certificate of incorporation relating to capital stock or the removal of directors.

Charter will lose its rights to manage the business of Charter Communications Holding Company, LLC and Charter Investment, Inc. will become the sole manager of Charter Communications Holding Company, LLC if at any time a court holds that the holders of the Class B common stock no longer:

have the number of votes per share of Class B common stock described above;

have the right to elect, voting separately as a class, all but one member of Charter's board of directors, except for any directors elected separately by the holders of preferred stock; or

have the right to vote as a separate class on matters that adversely affect the Class B common stock with respect to:

(1) the issuance of equity securities of Charter other than the Class A common stock; or

(2) the voting power of the Class B common stock.

These provisions are contained in the amended and restated limited liability company agreement of Charter Communications Holding Company, LLC. The Class B common stock could lose these rights if a holder of Class A common stock successfully challenges in a court proceeding the voting rights of the Class B common stock. In any of these circumstances, Charter would also lose its 100% voting control of Charter Communications Holding Company, LLC as provided in Charter Communications Holding Company, LLC's amended and restated limited liability company agreement. These provisions exist to assure Mr. Allen that he will be able to control Charter Communications Holding Company, LLC in the event he was no longer able to control Charter through his ownership of Class B common stock. These events could have a material adverse impact on our business and the market price of the Class A common stock and the notes. See Risk Factors Risks Related to Our Business.

**Dividends.** Holders of Class A common stock and Class B common stock will share ratably (based on the number of shares of common stock held) in any dividend declared by our board of directors, subject to any preferential rights of any outstanding preferred stock. Dividends consisting of shares of Class A common stock and Class B common stock may be paid only as follows:

shares of Class A common stock may be paid only to holders of Class A common stock;

shares of Class B common stock may be paid only to holders of Class B common stock; and

the number of shares of each class of common stock payable per share of such class of common stock shall be equal in number.

Our restated certificate of incorporation provides that we may not pay a stock dividend unless the number of outstanding Charter Communications Holding Company, LLC common membership units are adjusted accordingly. This provision is designed to maintain the equal value between shares of common stock and membership units and the one-to-one exchange ratio.

**Conversion of Class B Common Stock.** Each share of outstanding Class B common stock will automatically convert into one share of Class A common stock if, at any time, Mr. Allen or any of his affiliates sells any shares of common stock of Charter or membership units of Charter Communications Holding Company, LLC and as a result of such sale, Mr. Allen and his affiliates no longer own directly and indirectly common stock and other equity interests in Charter and membership units in Charter Communications Holding Company, LLC that in total represent at least:

20% of the sum of the values, calculated as of November 12, 1999, of the shares of Class B common stock directly or indirectly owned by Mr. Allen and his affiliates and the shares of Class B common stock for which outstanding Charter Communications Holding Company, LLC member-



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ship units directly or indirectly owned by Mr. Allen and his affiliates were exchangeable on that date, and

5% of the sum of the values, calculated as of the measuring date, of shares of outstanding common stock and other equity interests in Charter and the shares of Charter common stock for which outstanding Charter Communications Holding Company, LLC membership units are exchangeable on such date.

These provisions exist to assure that Mr. Allen will no longer be able to control Charter if after sales of his equity interests he owns an insignificant economic interest in our business. The conversion of all Class B common stock in accordance with these provisions would not trigger Charter Communications Holding Company, LLC's limited liability company agreement provisions described above whereby Charter would lose its management rights and special voting rights relating to Charter Communications Holding Company, LLC in the event of an adverse determination of a court affecting the rights of the Class B common stock.

Each holder of a share of Class B common stock has the right to convert such share into one share of Class A common stock at any time on a one-for-one basis. If a Class B common shareholder transfers any shares of Class B common stock to a person other than an authorized Class B common shareholder, these shares of Class B common stock will automatically convert into shares of Class A common stock. Authorized Class B common shareholders are Paul G. Allen entities controlled by Mr. Allen, Mr. Allen's estate, any organization qualified under Section 501(c)(3) of the Internal Revenue Code that is Mr. Allen's beneficiary upon his death and certain trusts established by or for the benefit of Mr. Allen. In this context "controlled" means the ownership of more than 50% of the voting power and economic interest of an entity and "transfer" means the transfer of record or beneficial ownership of any such share of Class B common stock.

***Other Rights.*** Shares of Class A common stock will be treated equally in the event of any merger or consolidation of Charter so that:

each class of common shareholders will receive per share the same kind and amount of capital stock, securities, cash and/or other property received by any other class of common shareholders, provided that any shares of capital stock so received may differ in a manner similar to the manner in which the shares of Class A common stock and Class B common stock differ; or

each class of common shareholders, to the extent they receive a different kind (other than as described above) or different amount of capital stock, securities, cash and/or other property than that received by any other class of common shareholders, will receive for each share of common stock they hold, stock, securities, cash and/or either property having a value substantially equivalent to that received by such other class of common shareholders.

Upon Charter's liquidation, dissolution or winding up, after payment in full of the amounts required to be paid to preferred shareholders, if any, all common shareholders, regardless of class, are entitled to share ratably in any assets and funds available for distribution to common shareholders.

No shares of any class of common stock are subject to redemption or have preemptive right to purchase additional shares of common stock.

**Preferred Stock**

Charter's board of directors is authorized, subject to the approval of the holders of the Class B common stock, to issue from time to time up to a total of 250 million shares of preferred stock in one or more series and to fix the numbers, powers, designations, preferences, and any special rights of the shares of each such series thereof, including:

dividend rights and rates;

conversion rights;

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voting rights;

terms of redemption (including any sinking fund provisions) and redemption price or prices;

liquidation preferences; and

the number of shares constituting and the designation of such series.

Pursuant to their authority the board of directors has designated 1 million of the above-described 250 million shares as Series A Convertible Redeemable Preferred Stock ( Series A Preferred Stock ). Holders of the Series A Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Series A Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Series A 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 Series A Preferred Stock is convertible, in whole or in part, at the option of the holders on or before August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Series A Preferred Stock is the liquidation preference of \$100, subject to certain customary adjustments. At March 31, 2005, there were 545,259 shares of Series A Preferred Stock outstanding, with an aggregate liquidation preference of approximately \$55 million. These shares are convertible into approximately 2.2 million shares of Class A common stock.

Charter has no present plans to issue any other shares of preferred stock.

### **Options**

As of March 31, 2005, options to purchase a total of 1,809,751 membership units in Charter Communications Holding Company, LLC were outstanding pursuant to the 1999 Charter Communications Option Plan, and options to purchase a total of 27,258,077 shares of Class A common stock were outstanding pursuant to Charter's 2001 Stock Incentive Plan. Of these options, 9,745,313 have vested. The membership units received upon exercise of any of the options under the 1999 Charter Communications Option Plan are automatically exchanged for shares of our Class A common stock on a one-for-one basis. In addition, a portion of the unvested options will vest each month. There are also additional options outstanding to purchase an aggregate of 475,653 shares of Class A common stock, which were issued to a consultant outside of the plan. We have agreed to exchange 186,385 of these options for 18,638 shares of Class A common stock.

### **Convertible Notes**

At March 31, 2005, we had outstanding \$862.5 million principal amount of our 5.875% convertible senior notes due 2009, which are convertible (at approximately \$2.42 per share) into a total of approximately 356 million shares of our Class A common stock. At March 31, 2005, we also had outstanding approximately \$122 million principal amount of our 4.75% senior convertible notes due 2006, which are convertible (at approximately \$26.25 per share) into a total of approximately 4.6 million shares of Class A common stock.

### **Anti-takeover Effects of Provisions of Charter's Restated Certificate of Incorporation and Bylaws**

Provisions of Charter's restated certificate of incorporation and bylaws may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

**Special Meeting of Shareholders.** Our bylaws provide that, subject to the rights of holders of any series of preferred stock, special meetings of our shareholders may be called only by the chairman of our board of directors, our chief executive officer or a majority of our board of directors.

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***Advance Notice Requirements For Shareholder Proposals And Director Nominations.*** Our bylaws provide that shareholders seeking to bring business before an annual meeting of shareholders, or to nominate candidates for election as directors at an annual meeting of shareholders, must provide timely prior written notice of their proposals. To be timely, a shareholder's notice must be received at our principal executive offices not less than 45 days nor more than 70 days prior to the first anniversary of the date on which we first mailed our proxy statement for the prior year's annual meeting. If, however, the date of the annual meeting is more than 30 days before or after the anniversary date of the prior year's annual meeting, notice by the shareholder must be received not less than 90 days prior to the annual meeting or by the 10th day following the public announcement of the date of the meeting, whichever occurs later, and not more than 120 days prior to the annual meeting. Our bylaws specify requirements as to the form and content of a shareholder's notice. These provisions may limit shareholders in bringing matters before an annual meeting of shareholders or in making nominations for directors at an annual meeting of shareholders.

***Authorized But Unissued Shares.*** The authorized but unissued shares of Class A common stock are available for future issuance without shareholder approval and, subject to approval by the holders of the Class B common stock, the authorized but unissued shares of Class B common stock and preferred stock are available for future issuance. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

**Membership Units of Charter Communications Holding Company**

The Charter Communications Holding Company, LLC limited liability company agreement provides for three separate classes of common membership units designed Class A, Class B and Class C and one class of preferred membership units designated Class A. As of March 31, 2005, there were 643,945,223 Charter Communications Holding Company, LLC common membership units issued and outstanding, 304,813,192 of which were held by Charter.

***Class A Common Membership Units.*** As of March 31, 2005, there were a total of 324,300,479 issued and outstanding Class A common membership units, consisting of 217,585,246 units owned by Charter Investment, Inc. and 106,715,233 units owned by Vulcan Cable III Inc.

***Class B Common Membership Units.*** As of March 31, 2005, there were a total of 304,813,192 issued and outstanding Class B common membership units, all of which are owned by Charter.

***Class C Common Membership Units.*** As of March 31, 2005, there were a total of 14,831,552 issued and outstanding Class C common membership units, consisting of 5,233,612 units owned by Charter Investment, Inc. and 9,597,940 units owned by Vulcan Cable III Inc.

In addition, Charter Investment, Inc., an affiliate of Mr. Allen owns 24,273,943 units of CC VIII, LLC membership units. 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.

***Convertible Preferred Membership Units.*** As of March 31, 2005, there were a total of 545,259 issued and outstanding convertible preferred membership units. These units are owned by Charter and mirror the terms of Charter's Series A Preferred Stock.

Any matter requiring a vote of the members of Charter Communications Holding Company, LLC requires the affirmative vote of a majority of the Class B common membership units. Charter owns all Class B common membership units and therefore controls Charter Communications Holding Company, LLC. Because Mr. Allen owns high vote Class B common stock of Charter that entitles him to

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approximately 93% of the voting power of the outstanding common stock of Charter, Mr. Allen controls us and through us has voting control of Charter Communications Holding Company, LLC.

The net cash proceeds that Charter receives from any issuance of shares of common stock will be immediately transferred to Charter Communications Holding Company, LLC in exchange for membership units equal in number to the number of shares of common stock issued by Charter.

**Exchange Agreement**

Charter is a party to an agreement permitting Vulcan Cable III Inc., Charter Investment, Inc. and any other affiliate of Mr. Allen to exchange at any time on a one-for-one basis any or all of their Charter Holdco common membership units for shares of Class B common stock. This exchange may occur directly or, at the election of the exchanging holder, indirectly through a tax-free reorganization such as a share exchange or a statutory merger of any Allen-controlled entity with and into Charter or a wholly owned subsidiary of Charter. In the case of an exchange in connection with a tax-free share exchange or a statutory merger, shares of Class A common stock held by Mr. Allen or the Allen-controlled entity will also be exchanged for Class B common stock. Mr. Allen currently owns shares of Class A common stock as a result of the exercise of put rights granted to sellers in the Falcon acquisition and the Rifkin acquisition.

Charter Holdco common membership units held by Mr. Allen and his affiliates are exchangeable at any time for shares of our Class B common stock, which is then convertible into shares of Class A common stock. The exchange agreement and the 1999 Charter Communications Option Plan state that common membership units are exchangeable for shares of common stock at a value equal to the fair market value of the common membership units. The exchange ratio of common membership units to shares of Class A common stock will be one to one because Charter and Charter Holdco have been structured so that the fair market value of a share of the Class A common stock equals the fair market value of a common membership unit owned by Charter.

Our organizational documents achieve this result by:

limiting the assets and liabilities that Charter may hold; and

requiring the number of shares of our common stock outstanding at any time to equal the number of common membership units owned by Charter.

If we fail to comply with these provisions or they are changed, the exchange ratio may vary from one to one and will then be based on a pre-determined formula contained in the exchange agreements and the 1999 Charter Communications Option Plan. This formula will be based on the then current relative fair market values of common membership units and common stock.

**Special Tax Allocation Provisions.**

Charter Communications Holding Company, LLC's limited liability company agreement contains a number of provisions affecting allocation of net tax losses and net tax profits to its members. In some situations, these provisions could result in Charter having to pay income taxes in an amount that is more or less than it would have had to pay if these provisions did not exist. For additional information see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Income Taxes.

**Other Material Terms of the Amended and Restated Limited Company Agreement of Charter Communications Holding Company, LLC**

*General.* Charter Communications Holding Company, LLC's amended and restated limited liability company agreement contains provisions that permit each member (and its officers, directors, agents, shareholders, members, partners or affiliates) to engage in businesses that may compete with the businesses of Charter Communications Holding Company, LLC or any subsidiary. However, the directors

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of Charter, including Mr. Allen, are subject to fiduciary duties under Delaware corporate law that generally require them to present business opportunities in the cable transmission business to Charter.

The amended and restated limited liability company agreement restricts the business activities that Charter Communications Holding Company, LLC may engage in.

***Transfer Restrictions.*** The amended and restated limited liability company agreement restricts the ability of each member to transfer its membership interest unless specified conditions have been met. These conditions include:

the transfer will not result in the loss of any license or regulatory approval or exemption that has been obtained by Charter Communications Holding Company, LLC and is materially useful in its business as then conducted or proposed to be conducted;

the transfer will not result in a material and adverse limitation or restriction on the operations of Charter Communications Holding Company, LLC and its subsidiaries taken as a whole;

the proposed transferee agrees in writing to be bound by the limited liability company agreement; and

except for a limited number of permitted transfers under the limited liability company agreement, the transfer has been approved by the manager in its sole discretion.

***Amendments to the Limited Liability Company Agreement.*** Any amendment to the limited liability company agreement generally may be adopted only upon the approval of a majority of the Class B common membership units. The agreement may not be amended in a manner that adversely affects the rights of any class of common membership units without the consent of holders holding a majority of the membership units of that class.

### **Registration Rights**

***Holders of Class B Common Stock.*** Charter, Mr. Allen, Charter Investment, Inc. and Vulcan Cable III Inc., are parties to a registration rights agreement. The agreement gives Mr. Allen and his affiliates the right to cause us to register the shares of Class A common stock issued to them upon conversion of any shares of Class B common stock that they may hold.

This registration rights agreement provides that each eligible holder is entitled to unlimited piggyback registration rights permitting them to include their shares of Class A common stock in registration statements filed by us. These holders may also exercise their demand rights causing us, subject to specified limitations, to register their Class A shares, provided that the amount of shares subject to each demand has a market value at least equal to \$50 million or, if the market value is less than \$50 million, all of the Class A shares of the holders participating in the offering are included in such registration. We are obligated to pay the costs associated with all such registrations.

Holders may elect to have their shares registered pursuant to a shelf registration statement if at the time of the election, Charter is eligible to file a registration statement on Form S-3 and the amount of shares to be registered has a market value equal to at least \$100 million on the date of the election.

All shares of Class A common stock issuable to the registration rights holders in exchange for Charter Communications Holding Company, LLC membership units and upon conversion of outstanding Class B common stock and conversion of Class B common stock issuable to the registration rights holders upon exchange of Charter Communications Holding Company, LLC membership units are subject to the registration rights described above.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our Class A common stock is Mellon Investor Services, LLC.

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**SHARES ELIGIBLE FOR FUTURE SALE**

As of March 31, 2005, we had 304,763,192 shares of Class A common stock issued and outstanding, all of which are eligible for immediate resale (subject to limitations of Rule 144 in the case of shares held by affiliates).

As of March 31, 2005, the following additional shares of Class A common stock are or will be issuable after giving effect to the issuance of shares described in Registered Borrow Facility and the redemption of our 5.75% convertible senior notes due 2005:

339,132,031 shares of Class A common stock will be issuable upon conversion of Class B common stock issuable upon exchange of Charter Communications Holding Company, LLC membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. These membership units are exchangeable for shares of Class B common stock on a one-for-one basis. Shares of Class B common stock are convertible into shares of Class A common stock on a one-for-one basis.

24,273,943 shares of Class A common stock may be issuable upon the exchange of Charter Communications Holding Company, LLC membership units potentially issuable in exchange for CC VIII, LLC membership units held by an affiliate of Mr. Allen. 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.

50,000 shares of Class A common stock will be issuable upon conversion of outstanding Class B common stock on a one-for-one basis.

Up to 90,000,000 shares of Class A common stock (or units exchangeable for Class A common stock) are authorized for issuance pursuant to Charter's 2001 Stock Incentive Plan and 1999 Charter Communications Option Plan. At March 31, 2005, 1,309,620 shares had been issued under the plans upon exercise of options, 655,749 shares had been issued upon vesting of restricted stock grants, and 1,162,176 shares are subject to future vesting under restricted stock agreements. Of the remaining 86,872,455 shares covered by the plans, as of March 31, 2005, 29,067,828 were subject to outstanding options (30% of which were vested), and there were 11,627,420 performance units granted under Charter's long-term incentive program, which will vest on the third anniversary of the date of grant conditional upon Charter's performance against financial targets approved by the board of directors at the time of the awards. 46,177,207 shares remained available for future grant under the plans.

356,404,924 shares of Class A common stock are issuable upon conversion of our 5.875% convertible senior notes due 2009.

An aggregate of 6,850,671 shares of Class A common stock would be issuable upon conversion of our 4.75% convertible senior notes due 2006 and our Series A convertible redeemable preferred stock.

As more fully described in Business Legal Proceedings, 13,400,000 shares of Class A common stock issued on July 8, 2005 in settlement of certain legal proceedings.

Up to 150 million shares of Class A common stock to be issued as described in Registered Borrow Facility.

All of the shares of Class A common stock issuable upon exchange of Charter Communications Holding Company, LLC membership units and upon conversion of shares of our Class B common stock are subject to demand and piggyback registration rights.

All of the shares of Class A common stock issuable upon conversion of outstanding convertible senior notes due 2006 and convertible preferred stock would be eligible for immediate resale. Shares issuable





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upon conversion of the 5.875% convertible senior notes due 2009 are eligible for resale pursuant to the resale shelf registration statement of which this prospectus forms a part. All of the shares issuable to claimants pursuant to the settlements will be eligible for immediate resale and, upon filing of an anticipated shelf registration statement for the issuance of warrant shares, all of the shares issuable upon exercise of the warrants will also be eligible for immediate resale.

A registration statement on Form S-8 covering the Class A common stock issuable pursuant to the exercise of options under the 1999 Charter Communications Option Plan was filed with the Securities and Exchange Commission in May 2000 and registration statements on Form S-8 covering shares issuable under the 2001 Stock Incentive Plan were filed in May 2001 and November 2003. The shares of Class A common stock covered by the Form S-8 registration statements generally may be resold in the public market without restriction or limitation, except in the case of our affiliates who generally may only resell such shares in accordance with the provisions of Rule 144 of the Securities Act of 1933.

The sale of a substantial number of shares of Class A common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for the Class A common stock. In addition, any such sale or perception could 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.

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**UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion describes the material U.S. federal income tax consequences of the ownership and disposition of the notes and our Class A common stock into which the notes may be converted. This discussion applies only to notes that are held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers and certain traders in securities;

persons holding the notes as part of a straddle, hedge, conversion or similar transaction;

U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;

certain former citizens or residents of the United States;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes; and

persons subject to the alternative minimum tax.

This summary is based on the Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein, possibly with retroactive effect. **Persons considering the purchase of notes are strongly urged to consult with their tax advisors regarding all aspects of the United States federal income tax consequences of an investment in the notes and with respect to any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.**

**Classification of the Notes**

We believe that the notes will be treated as indebtedness subject to the special Treasury regulations governing contingent payment debt instruments (the contingent debt regulations). Such regulations generally apply to debt instruments that provide for one or more payments that are contingent in timing or amount, if the likelihood of such payment being made is not remote and the amount of such payment is not incidental. While it is unclear whether in fact any of the alternative payments on the notes are remote, we intend to take the position that the potential receipt of the Early Conversion Make Whole Amount may be a contingency that is not remote or incidental within the meaning of the contingent debt regulations. Accordingly, while the correct treatment of the notes is uncertain, we intend to treat the notes as debt instruments subject to the contingent debt regulations because of the potential receipt of the Early Conversion Make Whole Amount. Moreover, under the indenture governing the notes, we have agreed, and by acceptance of a beneficial interest in a note each holder of a note is deemed to have agreed (in the absence of an administrative pronouncement or judicial ruling to the contrary), for U.S. federal income tax purposes, to treat the notes as debt instruments that are subject to the contingent debt regulations and to be bound by our application of the contingent debt regulations to the notes, including our determination of the rate at which interest will be deemed to accrue on the notes and the related projected payment schedule determined by us as described below, and our treatment of the fair market value of any common stock received upon conversion of a note as a contingent payment.

We do not intend to seek a ruling from the Internal Revenue Service (IRS) with respect to the U.S. federal income tax consequences discussed below. Due to the absence of authorities that directly address the proper characterization of the notes and the application of the contingent payment regulations to the notes, no assurance can be given that the IRS will accept, or that a court will uphold, the characterization of the notes as indebtedness or the tax consequences described herein. Holders should be aware that a different treatment from that described below could affect the

amount, timing, source and

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character of income, gain or loss with respect to an investment in the notes. For example, a holder might be required to accrue interest income at a higher or lower rate, might not recognize income, gain or loss upon conversion of a note into common stock, and might recognize capital gain or loss upon a taxable disposition of a note.

The remainder of this discussion assumes that the notes are treated as indebtedness subject to the contingent debt regulations.

### **Tax Consequences to U.S. Holders**

As used herein, the term "U.S. Holder" means a beneficial owner of a note that is for United States federal income tax purposes:

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or

an estate the income of which is subject to United States federal income taxation regardless of its source or a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or that was in existence on, August 20, 1996, was treated as a United States person under the Code on that date and has made a valid election to be treated as a United States person under the Code.

#### *Interest Accruals on the Notes*

Pursuant to the contingent debt regulations, U.S. Holders of the notes are required to accrue interest income on the notes on a constant-yield basis, based on a comparable yield to maturity as described below, regardless of whether such holders use the cash or accrual method of tax accounting. As such, U.S. Holders generally are required to include interest in income each year in excess of any stated interest payments actually received in that year.

The contingent debt regulations provide that a U.S. Holder must accrue an amount of ordinary interest income, as original issue discount for U.S. federal income tax purposes, for each accrual period prior to and including the maturity date of the notes that equals:

the product of (a) the adjusted issue price (as defined below) of the notes as of the beginning of the accrual period and (b) the comparable yield to maturity (as defined below) of the notes, adjusted for the length of the accrual period;

divided by the number of days in the accrual period; and

multiplied by the number of days during the accrual period that the U.S. Holder held the notes.

The "issue price" of the notes is the first price at which a substantial amount of the notes is sold to the public, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The "adjusted issue price" of a note is its issue price increased by any interest income previously accrued, determined without regard to any adjustments to interest accruals described below, and decreased by the projected amount of any payments (in accordance with the projected payment schedule described below) previously made with respect to the notes.

The term "comparable yield" as used in the contingent debt regulations means the annual yield we would pay, as of the issue date, on a fixed-rate, nonconvertible debt instrument with no contingent payments, but with terms and conditions otherwise comparable to those of the notes. We have determined that the comparable yield for the notes is 15%, compounded semi-annually. The precise manner of calculating the comparable yield is not entirely clear. If our determination of the comparable yield were

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successfully challenged by the IRS, the redetermined yield could be materially greater or less than the comparable yield determined by us.

The contingent debt regulations require that we provide to U.S. Holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments (which we refer to as projected payments ) on the notes. This schedule must produce a yield to maturity that equals the comparable yield. The projected payment schedule includes an estimate for a payment at maturity taking into account the conversion feature. In this regard, the fair market value of any common stock (and cash, if any) received by a holder upon conversion will be treated as a contingent payment. U.S. Holders also may obtain the projected payment schedule by submitting a written request for such information to us at: Charter Communications, Inc., 12405 Powerscourt Drive, St. Louis, Missouri 63131. Attention: Senior Vice President, Investor Relations.

**The comparable yield and the projected payment schedule are not used for any purpose other than to determine a holder's interest accruals and adjustments thereto in respect of the notes for U.S. federal income tax purposes. They do not constitute a projection or representation by us regarding the actual amounts that will be paid on the notes, or the value at any time of the common stock into which the notes may be converted.** For U.S. federal income tax purposes, a U.S. Holder is required under the contingent debt regulations to use the comparable yield and the projected payment schedule established by us in determining interest accruals and adjustments in respect of a note, unless such U.S. Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

*Adjustments to Interest Accruals on the Notes*

If, during any taxable year, a U.S. Holder of notes receives actual payments with respect to such notes that, in the aggregate, exceed the total amount of projected payments for that taxable year, the U.S. Holder will incur a net positive adjustment under the contingent debt regulations equal to the amount of such excess. The U.S. Holder will treat a net positive adjustment as additional interest income in that taxable year.

If a U.S. Holder receives in a taxable year actual payments with respect to the notes that, in the aggregate, are less than the amount of projected payments for that taxable year, the U.S. Holder will incur a net negative adjustment under the contingent debt regulations equal to the amount of such deficit. This net negative adjustment will (a) reduce the U.S. Holder's interest income on the notes for that taxable year, and (b) to the extent of any excess after the application of (a), give rise to an ordinary loss to the extent of the U.S. Holder's interest income on the notes during prior taxable years, reduced to the extent such interest was offset by prior net negative adjustments.

A net negative adjustment is not subject to the two percent floor limitation on miscellaneous itemized deductions under Section 67 of the Code. Any net negative adjustment in excess of the amounts described in (a) and (b) will be carried forward as a negative adjustment to offset future interest income with respect to the notes or to reduce the amount realized on a sale, exchange, conversion, redemption or repurchase of the notes.

*Purchasers of Notes at a Price Other than the Adjusted Issue Price*

If a U.S. Holder purchases a note in the secondary market for an amount that differs from the adjusted issue price (as defined above) of the notes at the time of purchase, such holder will be required to accrue interest income on the notes in accordance with the comparable yield even if market conditions have changed since the date of issuance. A U.S. Holder must reasonably determine whether the difference between the tax basis in a note and the adjusted issue price of a note is attributable to a change in expectations as to the contingent amounts potentially payable in respect of the notes or a change in daily portion of interest, or both, and allocate the difference accordingly. If the tax basis in a note is less than its adjusted issue price, a positive adjustment discussed above in Adjustments to Interest Accruals on the Notes will result, and if the tax basis exceeds the adjusted issue price of a note, a negative adjustment discussed above in Adjustments to Interest Accruals on the Notes will result.

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Adjustments allocated to the contingent payments will be taken into account when the contingent payments are made. Adjustments allocated to the daily portion of interest will be taken into account as the daily portion of interest accrues. Any negative or positive adjustment of the kind described above made by a U.S. Holder will decrease or increase, respectively, the holder's tax basis in the notes. U.S. Holders should consult their own tax advisors regarding these allocations.

*Sale, Exchange, Conversion, Redemption or Repurchase of Notes*

Generally the sale, exchange, conversion, redemption or repurchase of a note will result in taxable gain or loss to a U.S. Holder. The amount of gain or loss on a sale, exchange, conversion, redemption or repurchase of a note will be equal to the difference between (a) the amount of cash plus the fair market value of any other property received by the U.S. Holder, including the fair market value of any common stock received, and (b) the U.S. Holder's adjusted tax basis in the note.

A U.S. Holder's adjusted tax basis in a note generally will be equal to the U.S. Holder's original purchase price for the note, increased by any interest income previously accrued by the U.S. Holder (determined without regard to any adjustments to interest accruals described above) and decreased by the amount of any projected payments that previously have been scheduled to be made in respect of the notes (without regard to the actual amount paid).

Gain recognized by a U.S. Holder upon a sale, exchange, conversion, redemption or repurchase of a Note generally will be treated as ordinary interest income; any loss will be ordinary loss to the extent of the excess of previous interest inclusions over the total net negative adjustments previously taken into account as ordinary losses in respect of the note, and thereafter capital loss (which will be long-term if the note is held for more than one year). The deductibility of capital losses is subject to limitations. A U.S. Holder who sells the notes at a loss that meets certain thresholds may be required to file a disclosure statement with the IRS.

A U.S. Holder's tax basis in common stock received upon a conversion of a note will equal the then current fair market value of such common stock. The U.S. Holder's holding period for the common stock received will commence on the day immediately following the date of conversion.

*Constructive Dividends*

If at any time we were to make a distribution of cash or property to our stockholders that would be taxable to the stockholders as a dividend for U.S. federal income tax purposes and, in accordance with the anti-dilution provisions of the notes, the conversion rate of the notes were increased, such increase may be deemed to be the payment of a taxable dividend to holders of the notes to the extent of our current and accumulated earnings and profits, notwithstanding the fact that the holders do not receive a cash payment.

If the conversion rate is increased at our discretion or in certain other circumstances, such increase also may be deemed to be the payment of a taxable dividend to holders, notwithstanding the fact that the holders do not receive a cash payment. In certain circumstances the failure to make an adjustment of the conversion rate under the indenture may result in a taxable distribution to holders of our common stock.

Any deemed distribution will be taxable as a dividend, return of capital or capital gain in accordance with the tax rules applicable to corporate distributions, but may not be eligible for the reduced rates of tax applicable to certain dividends paid to individual holders or the dividends-received deduction applicable to certain dividends paid to corporate holders.

Generally, a reasonable increase in the conversion rate in the event of stock dividends or distributions of rights to subscribe for our common stock will not be a taxable constructive dividend.

*Taxation of Distributions on Common Stock*

Distributions paid on our common stock received upon a conversion of a note, other than certain pro rata distributions of common shares, will be treated as a dividend to the extent paid out of current or

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accumulated earnings and profits (as determined under U.S. federal income tax principles) and will be includible in income by the U.S. Holder and taxable as ordinary income when received. If a distribution exceeds our current and accumulated earnings and profits, the excess will be first treated as a tax-free return of the U.S. Holder's investment, up to the U.S. Holder's basis in the common stock. Any remaining excess will be treated as a capital gain. Dividends received by non-corporate U.S. Holders in tax years prior to 2009 will be eligible to be taxed at reduced rates if the holder meets certain holding period and other applicable requirements. Dividends received by a corporate U.S. Holder will be eligible for the dividends-received deduction if the holder meets certain holding period and other applicable requirements.

### *Sale or Other Disposition of Common Stock*

Gain or loss realized by a U.S. Holder on the sale or other disposition of our common stock received upon a conversion of a note will be capital gain or loss for U.S. federal income tax purposes, and will be long-term capital gain or loss if the U.S. Holder held the common stock for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the U.S. Holder's tax basis in the common stock disposed of and the amount realized on the disposition. A U.S. Holder who sells the stock at a loss that meets certain thresholds may be required to file a disclosure statement with the IRS.

### **Tax Consequences to Non-U.S. Holders**

As used herein, the term "Non-U.S. Holder" means a beneficial owner of a note that is, for U.S. federal income tax purposes:

an individual who is classified as a nonresident alien for U.S. federal income tax purposes;

a foreign corporation; or

a foreign estate or trust.

**Non-U.S. Holders should consult their own tax advisors to determine the United States federal, state, local and foreign tax consequences that may be relevant to them.**

### *Payments on the Notes*

Generally, all payments on the notes made to a Non-U.S. Holder, including a payment in our common stock or cash pursuant to a conversion, exchange, redemption or retirement of a note and any gain realized on a sale of the notes, will be exempt from United States federal withholding tax, provided that:

1. in the case of gain realized on the sale, exchange, conversion, redemption or repurchase of the notes, we are not, and have not been within the shorter of the five-year period preceding such sale, conversion, exchange, redemption or retirement and the period during which the Non-U.S. Holder held the notes, a U.S. real property holding corporation; and

2. (a) such Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote, and is not a controlled foreign corporation related, directly or indirectly, to us through stock ownership and is not a bank receiving certain types of interest and the certification requirement described below has been fulfilled with respect to the Non-U.S. Holder; or

(b) such payments are effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States.

If, contrary to our expectations, the notes were not treated as indebtedness, any of the payments thereon could be subject to United States federal withholding tax despite a Non-U.S. Holder's compliance with all of the requirements enumerated above in clauses 1 and 2.

We believe that we are not, and do not anticipate becoming, a U.S. real property holding corporation.



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The certification requirement referred to above will be fulfilled if the beneficial owner of a note certifies on IRS Form W-8BEN, under penalties of perjury, that is not a U.S. person and provides its name and address.

If a Non-U.S. Holder of the notes is engaged in a trade or business in the United States, and if the payments on the notes are effectively connected with the conduct of this trade or business, the Non-U.S. Holder, although exempt from U.S. withholding tax, will generally be taxed in the same manner as a U.S. Holder (see Tax Consequences to U.S. Holders above), except that the Non-U.S. Holder will be required to provide a properly executed IRS Form W-8ECI in order to claim an exemption from withholding tax. These Non-U.S. Holders should consult their own tax advisors with respect to other tax consequences of the ownership of the notes, including the possible imposition of a branch profits tax at 30% (or at a reduced rate under an applicable tax treaty) for corporate Non-U.S. Holders.

*Constructive Dividends*

If a Non-U.S. Holder were deemed to have received a constructive dividend (see Tax Consequences to U.S. Holders Constructive Dividends above), the Non-U.S. Holder generally will be subject to withholding tax at a 30% rate, subject to reduction by an applicable tax treaty, on the taxable amount of the dividend. To claim the benefit of a tax treaty, a Non-U.S. Holder must comply with all certification requirements necessary to qualify for treaty benefits. In the case of any constructive dividend it is possible that the U.S. federal tax on this constructive dividend would be withheld from interest, shares of your common stock or sales proceeds subsequently paid or credited to a Non-U.S. Holder. A Non-U.S. Holder who is subject to withholding tax under such circumstances should consult its own tax advisor as to whether it can obtain a refund for all or a portion of the withholding tax.

*Common Stock*

Dividends paid to a Non-U.S. Holder of common stock generally will be subject to U.S. withholding tax at a 30% rate, subject to reduction under an applicable treaty. In order to obtain a reduced rate of withholding, a Non-U.S. Holder will be required to provide a properly executed IRS Form W-8BEN certifying its entitlement to benefits under a treaty. A Non-U.S. Holder who is subject to withholding tax under such circumstances should consult its tax advisor as to whether it can obtain a refund for all or a portion of the withholding tax.

If a Non-U.S. Holder of a common stock is engaged in a trade or business in the United States, and if the dividends (or constructive dividends) are effectively connected with the conduct of this trade or business, the Non-U.S. Holder, although exempt from U.S. withholding tax, will generally be taxed in the same manner as a U.S. Holder (see Tax Consequences to U.S. Holders above), except that the Non-U.S. Holder will be required to provide a properly executed IRS Form W-8ECI in order to claim an exemption from withholding tax. These Non-U.S. Holders should consult their own tax advisors with respect to other tax consequences of the ownership of our common stock, including the possible imposition of a branch profits tax at 30% (or at a reduced rate under an applicable tax treaty) for corporate Non-U.S. Holders.

A Non-U.S. Holder generally will not be subject to U.S. federal income and withholding tax on gain realized on a sale or other disposition of common stock received upon a conversion of a note, unless:

the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States;

in the case of a Non-U.S. Holder who is a nonresident alien individual, the individual is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met; or

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we are or have been a U.S. real property holding corporation at any time within the shorter of the five year period preceding such sale, exchange or disposition and the period the Non-U.S. Holder held the common stock. We believe that we were not, are not, and do not anticipate becoming, a U.S. real property holding corporation.

**Backup Withholding Tax and Information Reporting**

Information returns may be filed with the IRS in connection with payments on the notes, common stock and the proceeds from a sale or other disposition of the notes or common stock. A U.S. Holder may be subject to United States backup withholding tax on these payments if it fails to provide its taxpayer identification number to the paying agent and comply with certification procedures or otherwise establish an exemption from backup withholding. A Non-U.S. Holder may be subject to United States backup withholding tax on these payments unless the Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person. The certification procedures required to claim the exemption from withholding tax on certain payments on the notes, described above, will satisfy the certification requirements necessary to avoid the backup withholding tax as well. The amount of any backup withholding from a payment will be allowed as a credit against the Holder's U.S. federal income tax liability and may entitle the Holder to a refund, provided that the required information is timely furnished to the IRS.

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**SELLING SECURITYHOLDERS**

**Convertible Senior Notes and Shares of Class A Common Stock Issuable Upon Conversion**

We originally sold the 5.875% convertible senior notes offered hereby on November 22, 2004 to certain initial purchasers, who have advised us that the convertible senior notes were resold in transactions exempt from the registration requirements of the Securities Act to qualified institutional buyers, as defined in Rule 144A of the Securities Act. These subsequent purchasers, or their transferees, pledgees, donees or successors, may from time to time offer and sell any or all of the convertible senior notes and/or shares of the Class A common stock issuable upon conversion of the convertible senior notes pursuant to this prospectus.

The convertible senior notes and the shares of Class A common stock issuable upon conversion of the convertible senior notes have been registered in accordance with a registration rights agreement. Pursuant to the registration rights agreement, we were required to file a registration statement with regard to the convertible senior notes and the shares of our Class A common stock issuable upon conversion of the convertible senior notes and we are required to keep the registration statement effective until the earliest of:

- (1) the sale of all the registrable securities registered under the registration rights agreement;
- (2) the expiration of the holding period applicable to these securities under Rule 144(k) under the Securities Act with respect to persons who are not our affiliates; or
- (3) there are no registrable securities outstanding.

The selling securityholders may choose to sell convertible senior notes and/or the shares of Class A common stock issuable upon conversion of the convertible senior notes from time to time. See Plan of Distribution.

**Table Listing Securities Offered In This Prospectus**

The following table sets forth:

- (1) the name of each selling securityholder who has provided us with notice as of the date of this prospectus pursuant to the registration rights agreement entered into in connection with the issuance of the convertible senior notes or shares of Class A common stock, as applicable, of its possible intent to sell or otherwise dispose of convertible senior notes and/or shares of Class A common stock;
- (2) the amount of outstanding convertible senior notes beneficially owned by the selling securityholder prior to the offering, assuming no conversion of the convertible senior notes, and the principal amount of convertible senior notes which it may sell pursuant to the registration statement of which this prospectus forms a part; and
- (3) the principal number of shares of our Class A common stock issued or issuable to the selling securityholder prior to the offering, and the principal number of shares which it may sell pursuant to the registration statement of which this prospectus forms a part. The information contained under the column heading Shares That May be Sold assumes conversion of the full amount of the convertible senior notes held by the holder at the initial rate of 413.3321 shares of Class A common stock per each \$1,000 principal amount of convertible senior notes prior to the offering.

To our knowledge, no selling securityholder nor any of its affiliates has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus.

A selling securityholder may offer all or some portion of the convertible senior notes and shares of the Class A common stock. Accordingly, no estimate can be given as to the amount or percentage of convertible senior notes or our Class A common stock that will be held by the selling securityholders upon termination of sales pursuant to this prospectus. In addition, the selling securityholders identified below

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may have sold, transferred or disposed of all or a portion of their convertible senior notes since the date on which they provided the information regarding their holdings in transactions exempt from the registration requirements of the Securities Act.

Selling Securityholder	Convertible Senior Notes		Shares of Class A Common Stock	
	Amount of Notes Owned Before Offering	Principal Amount of Notes That May Be Sold	Shares of Class A Common Stock Owned Before Offering	Shares That May Be Sold
ADAR Investment Fund LTD	\$ 22,145,000	\$ 22,145,000	9,150,825	9,150,825
AG Domestic Convertibles, L.P.	\$ 11,600,000	\$ 11,600,000	4,793,387	4,793,387
AG Offshore Convertibles, Ltd.	\$ 26,900,00	\$ 26,900,000	11,115,701	11,115,701
AHFP Context	\$ 300,000	\$ 300,000	123,966	123,966
Akanthos Arbitrage Master Fund, LP	\$ 16,000,000	\$ 16,000,000	6,611,569	6,611,569
Banc of America Securities LLC	\$ 350,000	\$ 350,000	144,628	144,628
Basso Fund Ltd.	\$ 1,700,000	\$ 1,700,000	702,479	702,479
Basso Holdings Ltd.	\$ 4,800,000	\$ 4,800,000	1,983,470	1,983,470
Basso Multi-Strategy Holding Fund Ltd.	\$ 11,200,000	\$ 11,200,000	4,628,098	4,628,098
BBT Fund, L.P.	\$ 3,000,000	\$ 3,000,000	1,239,669	1,239,669
Bear, Stearns & Co., Inc.	\$ 1,000,000	\$ 1,000,000	413,223	413,223
CC Convertible Arbitrage, Ltd.	\$ 4,950,000	\$ 4,950,000	2,045,454	2,045,454
Citigroup Global Markets, Inc.(1)	\$ 23,751,000	\$ 23,751,000	9,814,461	9,814,461
Citigroup Global Markets Ltd.(1)	\$ 141,387,000	\$ 141,387,000	58,424,374	58,424,374
CNH CA Master Account, L.P.	\$ 1,500,000	\$ 1,500,000	619,834	619,834
Context Convertible Arbitrage Fund, LP	\$ 1,725,000	\$ 1,725,000	712,809	712,809
Context Convertible Arbitrage Offshore, Ltd.	\$ 5,400,000	\$ 5,400,000	2,231,404	2,231,404
Corporate High Yield III, Inc.	\$ 945,000	\$ 945,000	390,495	390,495
Corporate High Yield V, Inc.	\$ 1,555,000	\$ 1,555,000	642,561	642,561
Corporate High Yield VI, Inc.	\$ 1,625,000	\$ 1,625,000	671,487	671,487
Corporate High Yield Fund, Inc.	\$ 875,000	\$ 875,000	361,570	361,570
DBAG London	\$ 17,600,000	\$ 17,600,000	7,272,726	7,272,726
Deephaven Domestic Convertible Trading Ltd.	\$ 4,650,000	\$ 4,650,000	1,921,487	1,921,487
Delaware Delchester Fund	\$ 1,080,000	\$ 1,080,000	446,280	446,280
Delaware Diversified Income Fund	\$ 415,000	\$ 415,000	171,487	171,487
Delaware Dividend Income Fund	\$ 500,000	\$ 500,000	206,611	206,611
Delaware High-Yield Opportunities Fund	\$ 290,000	\$ 290,000	119,834	119,834
	\$ 45,000	\$ 45,000	18,595	18,595

## Delaware VIP Diversified Income Series

Delaware VIP High Yield Series	\$	655,000	\$	655,000	270,661	270,661
Deutsche Bank Securities Inc.	\$	4,584,000	\$	4,584,000	1,894,214	1,894,214
Dividend & Income Fund	\$	165,000	\$	165,000	68,181	68,181
DKR Saturn Multi-Strategy Holding Fund Ltd.	\$	2,000,000	\$	2,000,000	826,446	826,446
Edge Investment Master Fund, LTD	\$	3,500	\$	3,500	1,446	1,446
Eton Park Fund, L.P.	\$	1,872,000	\$	1,872,000	773,553	773,553
Eton Park Master Fund, Ltd.	\$	2,928,000	\$	2,928,000	1,209,917	1,209,917
Finch Tactical Plus Class B	\$	200,000	\$	200,000	82,644	82,644
Fore Convertible Master Fund, Ltd.	\$	1,500,000	\$	1,500,000	619,834	619,834
Fore ERISA Fund, Ltd.	\$	179,000	\$	179,000	73,966	73,966
Fore Multi Strategy Master Fund, Ltd.	\$	350,000	\$	350,000	144,628	144,628
Fore Opportunity Fund, LP	\$	69,000	\$	69,000	28,512	28,512
Fore Opportunity Offshore Fund, Ltd	\$	231,000	\$	231,000	95,454	95,454

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Selling Securityholder	Convertible Senior Notes		Shares of Class A Common Stock	
	Amount of Notes Owned Before Offering	Principal Amount of Notes That May Be Sold	Shares of Class A Common Stock Owned Before Offering	Shares That May Be Sold
Geode U.S. Convertible Arbitrage Fund, aggregated account of Geode Capital Master Fund Ltd.	\$ 3,000,000	\$ 3,000,000	1,239,669	1,239,669
Global Dividend & Income Fund	\$ 40,000	\$ 40,000	16,528	10,330
Grace Brothers, Ltd.	\$ 1,500,000	\$ 1,500,000	619,834	619,834
Guggenheim Portfolio Company VIII (Cayman), Ltd.	\$ 1,138,000	\$ 1,138,000	470,247	470,247
HFR RVA Combined Master Trust	\$ 125,000	\$ 125,000	51,652	51,652
Highbridge International LLC	\$ 36,520,000	\$ 36,520,000	15,090,907	15,090,907
Kamunting Street Master Fund, LTD	\$ 22,500,000	\$ 22,500,000	9,297,519	9,297,519
KBC Financial Products USA Inc.	\$ 4,885,000	\$ 4,885,000	2,018,594	2,018,594
KDC Convertible Arbfund L.P.	\$ 2,000,000	\$ 2,000,000	826,446	826,446
Laurel Ridge Capital, LP	\$ 5,000,000	\$ 5,000,000	2,066,115	2,066,115
LDG Limited	\$ 322,000	\$ 322,000	133,057	133,057
Lincoln National Life Insurance Company Separate Account 20	\$ 590,000	\$ 590,000	243,801	243,801
Lyxor/ Context Fund Ltd.	\$ 1,075,000	\$ 1,075,000	444,214	444,214
Man Convertible Bond Master Fund, Ltd.	\$ 3,000,000	\$ 3,000,000	1,239,669	1,239,669
Man Mac I, Limited	\$ 3,391,000	\$ 3,391,000	1,401,239	1,401,239
Marathon Global Convertible Master Fund Ltd.	\$ 1,500,000	\$ 1,500,000	619,834	619,834
Merced Partners Limited Partnership	\$ 2,500,000	\$ 2,500,000	1,033,057	1,033,057
Merrill Lynch Bond High Income Fund	\$ 9,000,000	\$ 9,000,000	3,719,007	3,719,007
Merrill Lynch Global Investment Series: Income Strategies Fund	\$ 5,000,000	\$ 5,000,000	2,066,115	2,066,115
MLIF US High Yield Fund, Inc.	\$ 500,000	\$ 500,000	206,611	206,611
ML Master US High Yield Fund, Inc.	\$ 2,200,000	\$ 2,200,000	909,090	909,090
Mohican VCA Master Fund, Ltd.	\$ 500,000	\$ 500,000	206,611	206,611
Morgan Stanley Convertible Securities Trust	\$ 800,000	\$ 800,000	330,578	330,578
MSS Convertible Arbitrage 1 c/o TQA Investors, LLC	\$ 31,000	\$ 31,000	12,809	12,809

National Bank of Canada	\$	700,000	\$	700,000	289,256	289,256
Oppenheimer Convertible Securities Fund	\$	1,000,000	\$	1,000,000	413,223	413,223
Optimum Fixed Income Fund	\$	65,000	\$	65,000	26,859	26,859
President and Fellows of Harvard College	\$	350,000	\$	350,000	144,628	144,628
Putnam Convertible Income-Growth Trust	\$	8,425,000	\$	8,425,000	3,481,404	3,481,404
Putnam High Income Bond Fund	\$	2,075,000	\$	2,075,000	857,437	857,437
Raytheon Savings & Investment Plan Trust	\$	150,000	\$	150,000	61,983	61,983
Regiment Capital, Ltd.	\$	650,000	\$	650,000	268,595	268,595
Royal Bank of Canada (Norshield)	\$	100,000	\$	100,000	41,322	41,322
Royal Bank of Ontario	\$	2,000,000	\$	2,000,000	826,446	826,446
Saranac Capital Management L.P. on behalf of Citigroup Alternative Investments Diversified Arbitrage Strategies Fund Ltd.	\$	357,000	\$	357,000	147,520	147,520
Saranac Capital Management L.P. on behalf of Citigroup Alternative Investments Enhanced Arbitrage Strategies Fund	\$	65,000	\$	65,000	26,859	26,859

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Selling Securityholder	Convertible Senior Notes		Shares of Class A Common Stock	
	Amount of Notes Owned Before Offering	Principal Amount of Notes That May Be Sold	Shares of Class A Common Stock Owned Before Offering	Shares That May Be Sold
Saranac Capital Management L.P. on behalf of Citigroup Alternative Investments QIP Multi Strategy Arbitrage Portfolio	\$ 1,692,000	\$ 1,692,000	699,173	699,173
Saranac Capital Management L.P. on behalf of Saranac Erisa Arbitrage LTD	\$ 698,000	\$ 698,000	288,429	288,429
Saranac Capital Management L.P. on behalf of Saranac Erisa Arbitrage LP	\$ 48,000	\$ 48,000	19,834	19,834
Saranac Capital Management L.P. on behalf of Saranac Arbitrage LTD	\$ 40,000	\$ 40,000	16,528	16,528
Satellite Asset Management, L.P.	\$ 12,300,000	\$ 12,300,000	5,082,644	5,082,644
Sphinx Convertible Arbitrage Fund SPC	\$ 350,000	\$ 350,000	144,628	144,628
Sphinx Fund c/o TQA Investors, LLC	\$ 496,000	\$ 496,000	204,958	204,958
St. Albans Partners Ltd.	\$ 1,000,000	\$ 1,000,000	413,223	413,223
St. Thomas Trading, Ltd.	\$ 1,000,000	\$ 1,000,000	413,223	413,223
Sturgeon Limited	\$ 71,000	\$ 71,000	29,338	29,338
Susquehanna Capital Group	\$ 6,980,000	\$ 6,980,000	2,884,297	2,884,297
SuttonBrook Capital Portfolio LP	\$ 12,500,000	\$ 12,500,000	5,165,288	5,165,288
Tamarack International, Ltd.	\$ 2,500,000	\$ 2,500,000	1,033,057	1,033,057
Tempo Master Fund, LP	\$ 2,000,000	\$ 2,000,000	826,446	826,446
Tenor Opportunity Master Fund Ltd.	\$ 4,200,000	\$ 4,200,000	1,735,537	1,735,537
The High-Yield Bond Portfolio	\$ 5,000	\$ 5,000	2,066	2,066
TQA Master Fund, Ltd.	\$ 2,836,000	\$ 2,836,000	1,171,900	1,171,900
TQA Master Plus Fund, Ltd.	\$ 4,551,000	\$ 4,551,000	1,880,578	1,880,578
UBS AG London Branch	\$ 45,500,000	\$ 45,500,000	18,801,651	18,801,651
UBS AG London F/ B/ O HFS	\$ 5,000,000	\$ 5,000,000	2,066,115	2,066,115
UBS O Connor LLC F/B/O O Connor Global Convertible Arbitrage Master Limited	\$ 6,000,000	\$ 6,000,000	2,479,338	2,479,338
Univest Convertible Arbitrage Fund II Ltd. (Norshield)	\$ 100,000	\$ 100,000	41,322	41,322
Van Kampen Harbor Fund	\$ 1,200,000	\$ 1,200,000	495,867	495,867



Whitebox Convertible Arbitrage Partners, L.P.	\$ 3,000,000	\$ 3,000,000	1,239,669	1,239,669
Whitebox Hedged High Yield Partners, L.P.	\$ 1,000,000	\$ 1,000,000	413,223	413,223
White River Securities LLC	\$ 1,000,000	\$ 1,000,000	413,223	413,223
Wolverine Convertible Arbitrage Fund Limited	\$ 250,000	\$ 250,000	103,305	103,305
World Income Fund, Inc.	\$ 800,000	\$ 800,000	330,578	330,578
Yield Strategies Fund I, L.P.	\$ 500,000	\$ 500,000	206,611	206,611
Yield Strategies Fund II, L.P.	\$ 500,000	\$ 500,000	206,611	206,611
Zurich Institutional Benchmarks Master Fund Ltd. c/o TQA Investors, LLC	\$ 696,000	\$ 696,000	287,603	287,603

(1) These entities and/or their affiliates have provided, and may from time to time provide, investment banking services to Charter Communications, Inc. and its subsidiaries, including, among other things, acting as lead and/or co-manager with respect to offerings of debt and equity securities.

If, after the date of this prospectus, a securityholder notifies us pursuant to the registration rights agreement of its intent to dispose of convertible senior notes pursuant to the registration statement, we may supplement this prospectus to include that information.

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**PLAN OF DISTRIBUTION**

We are registering the convertible senior notes and the shares of our Class A common stock issuable upon conversion of the convertible senior notes to permit public secondary trading of these securities by the holders from time to time after the date of this prospectus. We have agreed, among other things, to bear all expenses, other than underwriting discounts and selling commissions, in connection with the registration and sale of the convertible senior notes and the shares of our Class A common stock covered by this prospectus.

We will not receive any of the proceeds from the offering or sale by the selling securityholders of the convertible senior notes or the shares of our Class A common stock covered by this prospectus. The convertible senior notes and shares of Class A common stock may be sold from time to time directly by any selling securityholder or, alternatively, through underwriters, broker-dealers or agents. If convertible senior notes or shares of Class A common stock are sold through underwriters or broker-dealers, the selling securityholder will be responsible for underwriting discounts or commissions or agents' commissions.

The convertible senior notes or shares of Class A common stock may be sold:

in one or more transactions at fixed prices,

at prevailing market prices at the time of sale,

at varying prices determined at the time of sale, or

at negotiated prices.

These sales may be effected in transactions, which may involve block trades or transactions in which the broker acts as agent for the seller and the buyer:

on any national securities exchange or quotation service on which the convertible senior notes or shares of Class A common stock may be listed or quoted at the time of sale,

in the over-the-counter market,

in transactions otherwise than on a national securities exchange or quotation service or in the over-the-counter market or

through the writing of options.

In connection with sales of the convertible senior notes or shares of Class A common stock, any selling securityholder may loan or pledge convertible senior notes or shares of our Class A common stock to broker-dealers that in turn may sell the securities.

The outstanding Class A common stock is publicly traded on the Nasdaq National Market. The initial purchasers of the convertible senior notes have advised us that certain of the initial purchasers are making and currently intend to continue making a market in the convertible senior notes. However, they are not obligated to do so and any market-making of this type may be discontinued at any time without notice, in the sole discretion of the initial purchasers. We do not intend to apply for listing of the convertible senior notes on the Nasdaq National Market or any securities exchange. Accordingly, we cannot assure that any trading market will develop or have any liquidity.

The selling securityholders and any broker-dealers, agents or underwriters that participate with the selling securityholders in the distribution of the convertible senior notes or the shares of Class A common stock to be offered by selling securityholders may be deemed to be underwriters within the meaning of the Securities Act, in which event any commissions received by these broker-dealers, agents or underwriters and any profits realized by the selling securityholders on the resales of the convertible senior notes or the shares may be deemed to be underwriting commissions or discounts under the Securities Act.

In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144, Rule 144A or any other available exemption from registration under the Securities Act may be sold under Rule 144, Rule 144A or

any of the other available exemptions rather than pursuant to this prospectus.

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There is no assurance that any selling securityholder will sell any or all of the convertible senior notes or shares of Class A common stock to be offered by selling securityholders as described in this prospectus, and any selling securityholders may transfer, devise or gift the securities by other means not described in this prospectus.

We originally sold the convertible senior notes to the initial purchasers in November 2004 in a private placement. We agreed to indemnify and hold the initial purchasers of the convertible senior notes harmless against certain liabilities under the Securities Act that could arise in connection with the sale of the convertible senior notes by the initial purchasers. The registration rights agreement we entered into in connection with the sale of the convertible senior notes provides for us and those selling securityholders listed on the Selling Securityholders Table as holders of convertible senior notes to indemnify each other against certain liabilities arising under the Securities Act.

Pursuant to the registration rights agreement we entered into in connection with the sale of the convertible senior notes, we agreed to use reasonable efforts to cause the registration statement to which this prospectus relates to become effective within 150 days after the date the convertible senior notes were originally issued and to keep the registration statement effective until the earlier of (1) the date as of which all the notes or the Class A common stock issuable upon conversion of the notes have been sold either under Rule 144 under the Securities Act (or any similar provision then in force) or pursuant to the shelf registration statement; (2) the date as of which all the notes or the Class A common stock issuable upon conversion of the notes held by non-affiliates are eligible to be sold to the public pursuant to Rule 144(k) under the Securities Act or any successor provision; and (3) the date on which there are no outstanding registrable securities.

The registration rights agreement we entered into in connection with the sale of the convertible senior notes provides that, under certain circumstances, we may suspend the use of this prospectus in connection with sales of convertible senior notes and shares of Class A common stock for a period not to exceed an aggregate of 45 days in any 90-day period or 90 days in any 12-month period. We will bear the expenses of preparing and filing the registration statement and all post-effective amendments.

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**LEGAL MATTERS**

The validity of the securities offered by this prospectus has been passed upon for Charter Communications, Inc. by Irell & Manella, LLP.

**EXPERTS**

The consolidated financial statements of Charter Communications, Inc. and subsidiaries as of December 31, 2004 and 2003 and for the three year periods ended December 31, 2004, which are included in this prospectus, have been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report included in this prospectus, which includes explanatory paragraphs regarding the adoption, effective January 1, 2002, of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective September 30, 2004 of EITF Topic D-108, Use of the Residual Method to Value Acquired Assets Other than Goodwill, and, effective January 1, 2003, of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment to FASB Statement No. 123. The consolidated financial statements referred to above have been included in this prospectus in reliance upon the authority of KPMG LLP as experts in giving said report.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions, except share data)

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>(Unaudited)</b>		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 32	\$ 650
Accounts receivable, less allowance for doubtful accounts of \$12 and \$15, respectively	139	190
Prepaid expenses and other current assets	85	82
Total current assets	256	922
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net of accumulated depreciation of \$5,689 and \$5,311, respectively	6,120	6,289
Franchises	9,846	9,878
Total investment in cable properties, net	15,966	16,167
<b>OTHER NONCURRENT ASSETS</b>	<b>572</b>	<b>584</b>
Total assets	\$ 16,794	\$ 17,673
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,256	\$ 1,217
Total current liabilities	1,256	1,217
<b>LONG-TERM DEBT</b>	<b>18,929</b>	<b>19,464</b>
<b>DEFERRED MANAGEMENT FEES RELATED PARTY</b>	<b>14</b>	<b>14</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>635</b>	<b>681</b>
<b>MINORITY INTEREST</b>	<b>656</b>	<b>648</b>
<b>PREFERRED STOCK REDEEMABLE; \$.001 par value; 1 million shares authorized; 545,259 shares issued and outstanding</b>	<b>55</b>	<b>55</b>
<b>SHAREHOLDERS DEFICIT:</b>		
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 304,763,192 and 305,203,770 shares issued and		

outstanding, respectively		
Class B Common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding		
Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding		
Additional paid-in capital	4,798	4,794
Accumulated deficit	(9,549)	(9,196)
Accumulated other comprehensive loss		(4)
<b>Total shareholders deficit</b>	<b>(4,751)</b>	<b>(4,406)</b>
<b>Total liabilities and shareholders deficit</b>	<b>\$ 16,794</b>	<b>\$ 17,673</b>

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



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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
REVENUES	\$ 1,271	\$ 1,214
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization)	559	512
Selling, general and administrative	237	239
Depreciation and amortization	381	370
Asset impairment charges	31	
(Gain) loss on sale of fixed assets, net	4	(106)
Option compensation expense, net	4	14
Special charges, net	4	10
	1,220	1,039
Income from operations	51	175
OTHER INCOME AND EXPENSES:		
Interest expense, net	(420)	(393)
Gain (loss) on derivative instruments and hedging activities, net	27	(7)
Loss on debt to equity conversions		(8)
Gain on extinguishment of debt	7	
Other, net	1	(2)
	(385)	(410)
Loss before minority interest and income taxes	(334)	(235)
MINORITY INTEREST	(3)	(4)
Loss before income taxes	(337)	(239)
INCOME TAX EXPENSE	(15)	(54)
Net loss	(352)	(293)
Dividends on preferred stock - redeemable	(1)	(1)
Net loss applicable to common stock	\$ (353)	\$ (294)
LOSS PER COMMON SHARE, basic and diluted	\$ (1.16)	\$ (1.00)
Weighted average common shares outstanding, basic and diluted	303,308,880	295,106,077

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (352)	\$ (293)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Minority interest	3	4
Depreciation and amortization	381	370
Asset impairment charges	31	
Option compensation expense, net	4	10
Noncash interest expense	49	93
(Gain) loss on derivative instruments and hedging activities, net	(27)	7
(Gain) loss on sale of assets, net	4	(106)
Loss on debt to equity conversions		8
Gain on extinguishment of debt	(11)	
Deferred income taxes	13	53
Other, net	(1)	2
Changes in operating assets and liabilities, net of effects from dispositions:		
Accounts receivable	45	22
Prepaid expenses and other assets	(4)	(7)
Accounts payable, accrued expenses and other	18	(48)
Net cash flows from operating activities	153	115
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(211)	(190)
Change in accrued expenses related to capital expenditures	14	(6)
Proceeds from sale of assets	6	725
Purchases of investments	(2)	(3)
Net cash flows from investing activities	(193)	526
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings of long-term debt	200	165
Repayments of long-term debt	(775)	(779)
Payments for debt issuance costs	(3)	(1)
Net cash flows from financing activities	(578)	(615)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(618)</b>	<b>26</b>
CASH AND CASH EQUIVALENTS, beginning of period	650	127

CASH AND CASH EQUIVALENTS, end of period	\$ 32	\$ 153
CASH PAID FOR INTEREST	\$ 249	\$ 229
NONCASH TRANSACTIONS:		
Issuance of debt by Charter Communications Operating, LLC	\$ 271	\$
Retirement of Charter Communications Holdings, LLC debt	\$ (284)	\$
Debt exchanged for Charter Class A common stock	\$	\$ 10

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

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in millions, except per share amounts and where indicated)  
(Unaudited)

**1. Organization and Basis of Presentation**

Charter Communications, Inc. ( Charter ) is a holding company whose principal assets at March 31, 2005 are the 47% controlling common equity interest in Charter Communications Holding Company, LLC ( Charter Holdco ) and mirror notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter s convertible senior notes. Charter Holdco is the sole owner of Charter Communications Holdings, LLC ( Charter Holdings ). The condensed consolidated financial statements include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly owned subsidiaries where the underlying operations reside, collectively referred to herein as the Company. Charter consolidates Charter Holdco on the basis of voting control. Charter Holdco s limited liability company agreement provides that so long as Charter s Class B common stock retains its special voting rights, Charter will maintain a 100% voting interest in Charter Holdco. Voting control gives Charter full authority and control over the operations of Charter Holdco. All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed data services and, in some areas, advanced broadband services such as high definition television, video on demand and telephony. The Company sells its cable video programming, high-speed data and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, certain information and footnote disclosures typically included in Charter s Annual Report on Form 10-K have been condensed or omitted for this quarterly report. The accompanying condensed consolidated financial statements are unaudited and are subject to review by regulatory authorities. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include capitalization of labor and overhead costs; depreciation and amortization costs; impairments of property, plant and equipment, franchises and goodwill, income taxes and contingencies. Actual results could differ from those estimates.

**Reclassifications**

Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

**2. Liquidity and Capital Resources**

The Company incurred net loss applicable to common stock of \$353 million and \$294 million for the three months ended March 31, 2005 and 2004, respectively. The Company s net cash flows from operating activities were \$153 million and \$115 million for the three months ended March 31, 2005 and 2004, respectively.

The Company has a significant level of debt. The Company s long-term financing as of March 31, 2005 consists of \$5.1 billion of credit facility debt, \$12.9 billion accreted value of high-yield notes and \$957 million

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Dollars in millions, except per share amounts and where indicated)**  
**(Unaudited)**

accreted value of convertible senior notes. For the remainder of 2005, \$23 million of the Company's debt matures, and in 2006, an additional \$152 million of the Company's debt matures. In 2007 and beyond, significant additional amounts will become due under the Company's remaining long-term debt obligations.

The Company has historically required significant cash to fund debt service costs, capital expenditures and ongoing operations. Historically, the Company has funded these requirements through cash flows from operating activities, borrowings under its credit facilities, sales of assets, issuances of debt and equity securities and from cash on hand. However, the mix of funding sources changes from period to period. For the three months ended March 31, 2005, the Company generated \$153 million of net cash flows from operating activities, after paying cash interest of \$249 million. In addition, the Company used approximately \$211 million for purchases of property, plant and equipment. Finally, the Company had net cash flows used in financing activities of \$578 million, which included, among other things, approximately \$628 million in repayment of borrowings under the Company's revolving credit facility through a series of transactions in February 2005. This repayment was the primary reason cash on hand decreased by \$618 million to \$32 million at March 31, 2005.

The Company expects that cash on hand, cash flows from operating activities and the amounts available under its credit facilities will be adequate to meet its cash needs in 2005. Cash flows from operating activities and amounts available under the Company's credit facilities may not be sufficient to fund the Company's operations and satisfy its principal repayment obligations that come due in 2006 and, the Company believes, will not be sufficient to fund its operations and satisfy such repayment obligations thereafter.

It is likely that the Company will require additional funding to repay debt maturing after 2006. The Company is working with its financial advisors to address such funding requirements. However, there can be no assurance that such funding will be available to the Company. Although Mr. Allen and his affiliates have purchased equity from the Company in the past, Mr. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to the Company in the future.

***Credit Facilities and Covenants***

The Company's ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Communications Operating, LLC ( Charter Operating ) credit facilities. These credit facilities, along with the Company's indentures, contain certain restrictive covenants, some of which require the Company to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from the Company's independent auditors. As of March 31, 2005, the Company was in compliance with the covenants under its indentures and credit facilities and the Company expects to remain in compliance with those covenants for the next twelve months. As of March 31, 2005, the Company had borrowing availability under the credit facilities of \$1.2 billion, none of which was restricted due to covenants. Continued access to the Company's credit facilities is subject to the Company remaining in compliance with the covenants of these credit facilities, including covenants tied to the Company's operating performance. If the Company's operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities or indentures governing the Company's debt occurs, funding under the credit facilities may not be available and defaults on some or potentially all of the Company's debt obligations could occur. An event of default under the covenants governing any of the Company's debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company's consolidated financial condition or results of operations.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Dollars in millions, except per share amounts and where indicated)**  
**(Unaudited)**

The Charter Operating credit facilities required the Company to redeem the CC V Holdings, LLC notes as a result of the Charter Holdings leverage ratio becoming less than 8.75 to 1.0. In satisfaction of this requirement, in March 2005, CC V Holdings, LLC redeemed all of its outstanding notes, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of the redemption including accrued and unpaid interest was approximately \$122 million. The Company funded the redemption with borrowings under the Charter Operating credit facilities.

***Specific Limitations***

Charter's ability to make interest payments on its convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of its convertible senior notes of \$122 million and \$863 million, respectively, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including CCH II, LLC ( CCH II ), CCO Holdings, LLC ( CCO Holdings ) and Charter Operating. During the three months ended March 31, 2005, Charter Holdings distributed \$60 million to Charter Holdco. As of March 31, 2005, Charter Holdco was owed \$161 million in intercompany loans from its subsidiaries, which amount was available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$145 million of governmental securities pledged as security for the first six interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter and Charter Holdco) for payment of principal on Charter's convertible senior notes, however, are restricted by the indentures governing the CCH II notes, CCO Holdings notes, and Charter Operating notes, unless under their respective indentures there is no default and a specified leverage ratio test is met at the time of such event.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended March 31, 2005, there was no default under Charter Holdings' indentures and other specified tests were met. However, Charter Holdings did not meet the leverage ratio of 8.75 to 1.0 based on March 31, 2005 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco are currently restricted and will continue to be restricted until that test is met. During this restriction period, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

The Company was required to register for resale by April 21, 2005 its 5.875% convertible senior notes due 2009, issued in November 2004. Since these convertible notes were not registered by that date, the Company is incurring liquidated damages, at a rate from 0.25% per annum of the accreted principal amount of the convertible notes. The rate will increase to 0.50% from and after July 20, 2005 if the notes have not been registered by that date. The liquidated damages will be payable by Charter in cash so long as the convertible notes remain unregistered, but not to exceed a maximum period of two years from the original issuance date. In addition, Charter was required to register by April 1, 2005 150 million shares of its Class A common stock that Charter expects to lend to Citigroup Global Markets Limited pursuant to a share lending agreement. Because this registration statement was not declared effective by such date, the Company is incurring liquidated damages from April 2, 2005 until the effective date of the registration statement. These liquidated damages can be paid in cash or additional principal on a monthly basis. These liquidated damages accrue as incurred at a rate of 0.25% per month of the accreted principal amount of the convertible notes for the first 60 days of the default and 0.50% per month of the accreted principal amount of the convertible notes thereafter (or 0.375% and 0.75% per month respectively, if in lieu of





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paying such liquidated damages in cash, the Company elects to pay such damages by adding to the outstanding principal amount of the notes). In April 2005, the first liquidated damage payment was made in cash. Such amounts will accrue so long as the convertible notes remain unregistered, but not to exceed a maximum period of two years from the original issuance date.

**3. Sale of Assets**

As of March 31, 2005, the Company has concluded that two pending cable asset sales, representing approximately 28,000 customers, are probable of closing within the next twelve months thus meeting the criteria for assets held for sale under Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges in the first quarter of 2005 of approximately \$31 million. At March 31, 2005 assets held for sale included in investment in cable properties are approximately \$33 million.

In March 2004, the Company closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. The Company closed the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. These transactions resulted in a \$104 million pretax gain recorded as a gain on sale of assets in the Company's consolidated statements of operations. Subject to post-closing contractual adjustments, the total net proceeds from the sale of all of these systems were approximately \$733 million. The proceeds were used to repay a portion of amounts outstanding under the Company's credit facilities.

**4. Franchises and Goodwill**

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by SFAS No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually based on valuations, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of the Company's cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

The Company's valuations, which are based on the present value of projected after tax cash flows, result in a value of property, plant and equipment, franchises, customer relationships and its total entity value. The value of goodwill is the difference between the total entity value and amounts assigned to the other assets.

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

The Company follows the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, in valuing customer relationships. Customer

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relationships, for valuation purposes, represent the value of the business relationship with existing customers and are calculated by projecting future after-tax cash flows from these customers including the right to deploy and market additional services such as interactivity and telephony to these customers. The present value of these after-tax cash flows yield the fair value of the customer relationships. Substantially all acquisitions occurred prior to January 1, 2002. The Company did not record any value associated with the customer relationship intangibles related to those acquisitions. For acquisitions subsequent to January 1, 2002 the Company did assign a value to the customer relationship intangible, which is amortized over its estimated useful life.

As of March 31, 2005 and December 31, 2004, indefinite-lived and finite-lived intangible assets are presented in the following table:

	March 31, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Indefinite-lived intangible assets:</b>						
Franchises with indefinite lives	\$ 9,814	\$	\$ 9,814	\$ 9,845	\$	\$ 9,845
Goodwill	52		52	52		52
	\$ 9,866	\$	\$ 9,866	\$ 9,897	\$	\$ 9,897
<b>Finite-lived intangible assets:</b>						
Franchises with finite lives	\$ 37	\$ 5	\$ 32	\$ 37	\$ 4	\$ 33

Franchises with indefinite lives decreased \$31 million as a result of the asset impairment charges recorded related to two pending cable asset sales (see Note 3). Franchise amortization expense for each of the three months ended March 31, 2005 and 2004 was \$1 million, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. The Company expects 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.

#### 5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of March 31, 2005 and December 31, 2004:

	March 31, 2005	December 31, 2004
Accounts payable trade	\$ 74	\$ 148
Accrued capital expenditures	80	65
Accrued expenses:		

Interest	450	324
Programming costs	284	278
Franchise-related fees	42	67
State sales tax	43	47
Other	283	288
	\$ 1,256	\$ 1,217

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**6. Long-Term Debt**

Long-term debt consists of the following as of March 31, 2005 and December 31, 2004:

	March 31, 2005		December 31, 2004	
	Face Value	Accreted Value	Face Value	Accreted Value
<b>Long-Term Debt</b>				
Charter Communications, Inc.:				
4.75% convertible senior notes due 2006	\$ 122	\$ 122	\$ 156	\$ 156
5.875% convertible senior notes due 2009	863	835	863	834
Charter Holdings:				
8.250% senior notes due 2007	167	167	451	451
8.625% senior notes due 2009	1,244	1,243	1,244	1,243
9.920% senior discount notes due 2011	1,108	1,108	1,108	1,108
10.000% senior notes due 2009	640	640	640	640
10.250% senior notes due 2010	318	318	318	318
11.750% senior discount notes due 2010	450	450	450	448
10.750% senior notes due 2009	874	874	874	874
11.125% senior notes due 2011	500	500	500	500
13.500% senior discount notes due 2011	675	608	675	589
9.625% senior notes due 2009	640	638	640	638
10.000% senior notes due 2011	710	708	710	708
11.750% senior discount notes due 2011	939	825	939	803
12.125% senior discount notes due 2012	330	267	330	259
CCH II, LLC:				
10.250% senior notes due 2010	1,601	1,601	1,601	1,601
CCO Holdings, LLC:				
8 <sup>3</sup> / <sub>4</sub> % senior notes due 2013	500	500	500	500
Senior floating rate notes due 2010	550	550	550	550
Charter Operating:				
8% senior second lien notes due 2012	1,100	1,100	1,100	1,100
8 <sup>3</sup> / <sub>8</sub> % senior second lien notes due 2014	671	671	400	400
Renaissance Media Group LLC:				
10.000% senior discount notes due 2008	114	116	114	116
CC V Holdings:				
11.875% senior discount notes due 2008			113	113
<b>Credit Facilities</b>				
Charter Operating	5,088	5,088	5,515	5,515
	\$ 19,204	\$ 18,929	\$ 19,791	\$ 19,464

The accreted values presented above represent the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.

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***Gain on Extinguishment of Debt***

In March 2005, the Company's subsidiary, Charter Operating, consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in a private placement, approximately \$271 million principal amount of new notes with terms identical to Charter Operating's 8.375% senior second lien notes due 2014 in exchange for approximately \$284 million of the Charter Holdings 8.25% senior notes due 2007. The exchanges resulted in a net gain on extinguishment of debt of approximately \$11 million.

In March 2005, the Company repurchased from a single holder \$34 million principal amount of its 4.75% convertible senior notes due 2006 for a price equal to 98% of the principal amount plus accrued and unpaid interest. This transaction resulted in a net gain on extinguishment of debt of approximately \$1 million.

In March 2005, the Company's subsidiary, CC V Holdings, LLC, redeemed all of its 11.875% notes due 2008, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of redemption was approximately \$122 million and was funded through borrowings under the Charter Operating credit facilities. The redemption resulted in a loss on extinguishment of debt of approximately \$5 million. Following such redemption, CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) guaranteed the Charter Operating credit facilities and granted a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

***Loss on Debt to Equity Conversions***

The Company recognized a loss of approximately \$8 million recorded as loss on debt to equity conversion on the accompanying consolidated statement of operations for the three months ended March 31, 2004 from a privately negotiated exchange of \$10 million principal amount of Charter's 5.75% convertible senior notes for shares of Charter Class A common stock. The exchanges resulted in the issuance of more shares in the exchange transaction than would have been issuable under the original terms of the convertible senior notes.

**7. Minority Interest and Equity Interest of Charter Holdco**

Charter is a holding company whose primary asset is a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems, and \$957 million and \$990 million at March 31, 2005 and December 31, 2004, respectively, of mirror notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Minority interest on the Company's consolidated balance sheets represents the ownership percentage of Charter Holdco not owned by Charter, or approximately 53% of total members equity of Charter Holdco, plus \$659 million and \$656 million of preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, as of March 31, 2005 and December 31, 2004, respectively. As more fully described in Note 17, this preferred interest arises from the approximately \$630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000 and continues to be the subject of a dispute between Charter and Mr. Allen. Generally, operating earnings or losses are allocated to the minority owners based on their ownership percentage, thereby increasing or decreasing the Company's net loss, respectively. To the extent they relate to CC VIII, the allocations of earnings or losses are subject to adjustment based on the ultimate resolution of this disputed ownership. Due to the uncertainties related to the ultimate resolution, effective January 1, 2005, the Company ceased recognizing minority interest in earnings or losses of CC VIII for financial reporting purposes until such time as the resolution of the

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matter is determinable or other events occur. For the three months ended March 31, 2005, Charter's results included \$9 million attributable to CC VIII.

Members' deficit of Charter Holdco was \$4.7 billion and \$4.4 billion as of March 31, 2005 and December 31, 2004, respectively. Gains and losses arising from the issuance by Charter Holdco of its membership units are recorded as capital transactions, thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the accompanying consolidated balance sheets. Minority interest was approximately 53% as of March 31, 2005 and December 31, 2004. Minority interest includes the proportionate share of changes in fair value of interest rate derivative agreements. Such amounts are temporary as they are contractually scheduled to reverse over the life of the underlying instrument. Additionally, reported losses allocated to minority interest on the consolidated 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.

Changes to minority interest consist of the following:

	<b>Minority Interest</b>
Balance, December 31, 2004	\$ 648
CC VIII 2% Priority Return (see Note 17)	3
Changes in fair value of interest rate agreements	5
Balance, March 31, 2005	\$ 656

**8. Comprehensive Loss**

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying consolidated balance sheets. Additionally, the Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive loss, after giving effect to the minority interest share of such gains and losses. Comprehensive loss for the three months ended March 31, 2005 and 2004 was \$349 million and \$293 million, respectively.

**9. Accounting for Derivative Instruments and Hedging Activities**

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) to manage its interest costs. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company has agreed to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

The Company does not hold or issue derivative instruments for trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments





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into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended March 31, 2005 and 2004, net gain (loss) on derivative instruments and hedging activities includes gains of \$1 million and losses of \$1 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended March 31, 2005 and 2004, a gain of \$9 million and \$2 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as gain (loss) on derivative instruments and hedging activities in the Company's condensed consolidated statements of operations. For the three months ended March 31, 2005 and 2004, net gain (loss) on derivative instruments and hedging activities includes gains of \$26 million and losses of \$6 million, respectively, for interest rate derivative instruments not designated as hedges.

As of March 31, 2005 and December 31, 2004, the Company had outstanding \$2.2 billion and \$2.7 billion and \$20 million and \$20 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

Certain provisions of the Company's 5.875% convertible senior notes issued in November 2004 were considered embedded derivatives for accounting purposes and were required to be accounted for separately from the convertible senior notes. In accordance with SFAS No. 133, these derivatives are marked to market with gains or losses recorded in interest expense on the Company's consolidated statement of operations. For the three months ended March 31, 2005, the Company recognized \$19 million in gains related to these derivatives. At March 31, 2005 and December 31, 2004, \$4 million and \$10 million, respectively, is recorded in accounts payable and accrued expenses relating to the short-term portion of these derivatives and \$8 million and \$21 million, respectively, is recorded in other long-term liabilities related to the long-term portion.

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**10. Revenues**

Revenues consist of the following for the three months ended March 31, 2005 and 2004:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Video	\$ 842	\$ 849
High-speed data	215	168
Advertising sales	64	59
Commercial	65	56
Other	85	82
	\$ 1,271	\$ 1,214

**11. Operating Expenses**

Operating expenses consist of the following for the three months ended March 31, 2005 and 2004:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Programming	\$ 358	\$ 334
Advertising sales	25	23
Service	176	155
	\$ 559	\$ 512

**12. Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist of the following for the three months ended March 31, 2005 and 2004:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
General and administrative	\$ 202	\$ 208
Marketing	35	31

\$ 237 \$ 239

Components of selling expense are included in general and administrative and marketing expense.

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**13. Special Charges**

The Company has recorded special charges as a result of reducing its workforce, consolidating administrative offices and management realignment in 2004 and 2005. The activity associated with this initiative is summarized in the table below.

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Balance at January 1,	\$ 6	\$ 14
Special Charges	4	1
Payments	(4)	(8)
Balance at March 31,	\$ 6	\$ 7

For the three months ended March 31, 2004, special charges also include approximately \$9 million, which represents litigation costs related to the tentative settlement of a national class action suit, subject to final documentation and court approval (see Note 15).

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

As of March 31, 2005 and December 31, 2004, the Company had net deferred income tax liabilities of approximately \$230 million and \$216 million, respectively. Approximately \$213 million of the deferred tax liabilities recorded in the condensed consolidated financial statements at March 31, 2005 and December 31, 2004, relate to certain indirect subsidiaries of Charter Holdco, which file separate income tax returns.

During the three months ended March 31, 2005 and 2004 the Company recorded \$15 million and \$54 million of income tax expense, respectively. The sale of systems to Atlantic Broadband, LLC on March 1, 2004 resulted in income tax expense of \$14 million for the three months ended March 31, 2004.

Income tax expense is recognized through increases in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as current federal and state income tax expense and increases to the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries. The Company recorded an additional deferred tax asset of approximately \$135 million during the three months ended March 31, 2005, relating to net operating loss carryforwards, but recorded a valuation allowance with respect to these amounts because of the uncertainty of the ability to realize a benefit from these carryforwards in the future.

The Company has deferred tax assets of approximately \$3.7 billion and \$3.5 billion as of March 31, 2005 and December 31, 2004, respectively, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. The deferred tax assets also include approximately \$2.2 billion and \$2.1 billion of tax net operating loss

carryforwards as of March 31, 2005 and December 31, 2004,

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respectively (generally expiring in years 2005 through 2025), of Charter and its indirect corporate subsidiaries. Valuation allowances of \$3.3 billion and \$3.2 billion as of March 31, 2005 and December 31, 2004 exist with respect to these deferred tax assets, respectively.

Realization of any benefit from the Company's tax net operating losses is dependent on: (1) Charter and its indirect corporate subsidiaries' ability to generate future taxable income and (2) the absence of certain future ownership changes of Charter's common stock. An ownership change as defined in the applicable federal income tax rules, would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate the Company's ability to use a substantial portion of its net operating losses to offset any future taxable income. Future transactions and the timing of such transactions could cause an ownership change. Such transactions include additional issuances of common stock by the Company (including but not limited to the anticipated issuance of 150 million shares of common stock under the share lending agreement, the issuance of shares of common stock upon future conversion of Charter's convertible senior notes and the issuance of common stock as contemplated in the class action settlement discussed in Note 15, reacquisition of the borrowed shares by Charter, or acquisitions or sales of shares by certain holders of Charter's shares, including persons who have held, currently hold, or accumulate in the future five percent or more of Charter's outstanding stock (including upon an exchange by Paul Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco into CCI common stock)). Many of the foregoing transactions are beyond management's control.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset certain deferred tax liabilities.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999, 2000, 2002 and 2003. The results of the Company (excluding Charter and the indirect corporate subsidiaries) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on the Company's financial condition or results of operations.

**15. Contingencies**

Fourteen putative federal class action lawsuits (the Federal Class Actions) were filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages were sought by the plaintiffs. In general, the lawsuits alleged that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects. The Federal Class Actions were specifically and individually identified in public filings made by Charter prior to the date of this quarterly report.

In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the Panel) to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel's transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of

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the Panel's transfer order. StoneRidge subsequently filed a Consolidated Amended Complaint. The Court subsequently consolidated the Federal Class Actions into a single action (the Consolidated Federal Class Action) for pretrial purposes. On June 19, 2003, following a status and scheduling conference with the parties, the Court issued a Case Management Order setting forth a schedule for the pretrial phase of the Consolidated Federal Class Action. Motions to dismiss the Consolidated Amended Complaint were filed. On February 10, 2004, in response to a joint motion made by StoneRidge and defendants Charter, Vogel and Allen, the court entered an order providing, among other things, that: (1) the parties who filed such motion engage in a mediation within ninety (90) days; and (2) all proceedings in the Consolidated Federal Class Actions were stayed until May 10, 2004. On May 11, 2004, the Court extended the stay in the Consolidated Federal Class Action for an additional sixty (60) days. On July 12, 2004, the parties submitted a joint motion to again extend the stay, this time until September 10, 2004. The Court granted that extension on July 20, 2004. On August 5, 2004, Stoneridge, Charter and the individual defendants who were the subject of the suit entered into a Memorandum of Understanding setting forth agreements in principle to settle the Consolidated Federal Class Action. These parties subsequently entered into Stipulations of Settlement dated as of January 24, 2005 (described more fully below) which incorporate the terms of the August 5, 2004 Memorandum of Understanding.

On September 12, 2002, a shareholders derivative suit (the State Derivative Action) was filed in the Circuit Court of the City of St. Louis, State of Missouri (the Missouri State Court) against Charter and its then current directors, as well as its former auditors. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter's behalf, were sought by the plaintiffs.

On March 12, 2004, an action substantively identical to the State Derivative Action was filed in the Missouri State Court, against Charter and certain of its current and former directors, as well as its former auditors. The plaintiffs in that case alleged that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter's behalf, were sought by plaintiffs. On July 14, 2004, the Court consolidated this case with the State Derivative Action.

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

As noted above, Charter and the individual defendants entered into a Memorandum of Understanding on August 5, 2004 setting forth agreements in principle regarding settlement of the Consolidated Federal Class Action, the State Derivative Action(s) and the Federal Derivative Action (the Actions). Charter and various other defendants in those actions subsequently entered into Stipulations of Settlement dated as of January 24, 2005, setting forth a settlement of the Actions in a manner consistent with the terms of the Memorandum of Understanding. The Stipulations of Settlement, along with various supporting documentation, were filed with the Court on February 2, 2005. The Stipulations of Settlement provide that, in exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter would pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which would include the fees and expenses of plaintiffs' counsel. Of this amount, \$64 million would be paid in cash (by Charter's insurance carriers) and the balance would be paid in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million, with such values in each case being determined pursuant to formulas set forth in the

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Stipulations of Settlement. The warrants would have an exercise price equal to 150% of the fair market value (as defined) of Charter Class A common stock as of the date of the entry of the order of final judgment approving the settlement. In addition, Charter would issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million. Under this formula, the Company expects (based on recent trading prices of Charter's Class A common stock) that the number of shares issued will be determined based on a per share value equal to the average closing price over the thirty calendar day period immediately preceding the final valuation date (which is the later of the date on which a final judgment is entered or the date of entry of an order approving the award of fees and costs to the class action plaintiffs' counsel). Warrants are expected to become exercisable approximately one year from the date of the final judgment and will have an exercise price equal to 150% of the volume weighted average price of Charter's Class A common stock over the thirty day period immediately preceding the final valuation date. The warrants will be valued based on a Black Scholes valuation method. Accordingly, any further declines in Charter's stock price prior to the final valuation date could result in more shares and warrants being issued to the plaintiffs in the settlement. In the event that the valuation formula in the Stipulations provides for a per share value of less than \$2.25, Charter may elect to terminate the settlement. As a result, in the second quarter of 2004, the Company recorded a \$149 million litigation liability within other long-term liabilities and a \$64 million insurance receivable as part of other non-current assets on its consolidated balance sheet and an \$85 million special charge on its consolidated statement of operations. Additionally, as part of the settlements, Charter will also commit to a variety of corporate governance changes, internal practices and public disclosures, some of which have already been undertaken and none of which are inconsistent with measures Charter is taking in connection with the recent conclusion of the SEC investigation described below. Documents related to the settlement of the Actions have now been executed and filed. On February 15, 2005, the United States District Court for the Eastern District of Missouri gave preliminary approval to the settlement of the Actions. The settlement of each of the lawsuits remains conditioned upon, among other things, final judicial approval of the settlements following notice to the class, and dismissal, with prejudice, of the consolidated derivative actions now pending in Missouri State Court, which are related to the Federal Derivative Actions. The hearing to consider final approval of the settlement is scheduled for May 23, 2005.

In August 2002, Charter became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, and its reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office has publicly stated that Charter is not a target of the investigation. Charter was also advised by the U.S. Attorney's Office that no current officer or member of its board of directors is a target of the investigation. On July 24, 2003, a federal grand jury charged four former officers of Charter with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. Each of the indicted former officers pled guilty to single conspiracy counts related to the original mail and wire fraud charges and were sentenced on April 22, 2005. Charter fully cooperated with the investigation, and following the sentencings, the U.S. Attorney's Office for the Eastern District of Missouri announced that its investigation was concluded and that no further indictments would issue.

On November 4, 2002, Charter received an informal, non-public inquiry from the staff of the SEC. The SEC issued a formal order of investigation dated January 23, 2003, and subsequently served document and testimony subpoenas on Charter and a number of its former employees. The investigation and subpoenas generally concerned Charter's prior reports with respect to its determination of the number of customers, and various of its accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers.



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On July 27, 2004, the SEC and Charter reached a final agreement to settle the investigation. In the Settlement Agreement and Cease and Desist Order, Charter agreed to entry of an administrative order prohibiting any future violations of United States securities laws and requiring certain other remedial internal practices and public disclosures. Charter neither admitted nor denied any wrongdoing, and the SEC assessed no fine against Charter.

Charter is generally required to indemnify each of the named individual defendants in connection with the matters described above pursuant to the terms of its bylaws and (where applicable) such individual defendants' employment agreements. In accordance with these documents, in connection with the pending grand jury investigation, the now-settled SEC investigation and the above-described lawsuits, some of Charter's current and former directors and current and former officers have been advanced certain costs and expenses incurred in connection with their defense. On February 22, 2005, Charter filed suit against four of its former officers who were indicted in the course of the grand jury investigation. These suits seek to recover the legal fees and other related expenses advanced to these individuals by Charter for the grand jury investigation, SEC investigation and class action and related lawsuits.

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

In January 2003, the Court of Common Pleas granted the plaintiffs' motion for class certification. In October and November 2003, Charter Holdco filed motions (a) asking that court to set aside the default judgment, and (b) seeking dismissal of plaintiffs' suit for failure to state a claim. In January 2004, the Court of Common Pleas granted in part and denied in part Charter Holdco's motion to dismiss for failure to state a claim. It also took under advisement Charter Holdco's motion to set aside the default judgment. In April 2004, the parties to both the Georgia and South Carolina Class Actions participated in a mediation. The mediator made a proposal to the parties to settle the lawsuits. In May 2004, the parties accepted the mediator's proposal and reached a tentative settlement, subject to final documentation and court approval. As a result of the tentative settlement, the Company recorded a special charge of \$9 million in its consolidated statement of operations in the first quarter of 2004 (see Note 13). On July 8, 2004, the Superior Court of Athens - Clarke County, Georgia granted a motion to amend the Tobar complaint to add Nicholls, Barber and April Jones as plaintiffs in the Georgia Class Action and to add any potential class members in South Carolina. The court also granted preliminary approval of the proposed settlement on that date. On August 2, 2004, the parties submitted a joint request to the South Carolina Court of Common Pleas to stay the South Carolina Class Action pending final approval of the settlement and on August 17, 2004, that court granted the parties' request. On November 10, 2004, the court granted

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final approval of the settlement, rejecting positions advanced by two objectors to the settlement. On December 13, 2004 the court entered a written order formally approving that settlement. On January 11, 2005, certain class members appealed the order entered by the Georgia court. Those objectors voluntarily dismissed their appeal with prejudice on February 8, 2005. On February 9, 2005, the South Carolina Court of Common Pleas entered a court order of dismissal for the South Carolina Class Action. Additionally, one of the objectors to this settlement recently filed a similar, but not identical, lawsuit.

In addition to the matters set forth above, Charter is also party to other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or its liquidity.

**16. Stock Compensation Plans**

Prior to January 1, 2003, the Company accounted for stock-based compensation in accordance with Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method, under which the Company recognizes compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in Financial Accounting Standards Board Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions resulted in utilizing a preferable accounting method as the condensed consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, the fair value method is being applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. The ongoing effect on consolidated results of operations or financial condition will depend on future stock-based compensation awards granted by the Company.

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SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net loss and loss per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS No. 123 for the periods presented:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net loss applicable to common stock	\$ (353)	\$ (294)
Add back stock-based compensation expense related to stock options included in reported net loss	4	14
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards	(4)	(12)
Effects of unvested options in stock option exchange		48
<b>Pro forma</b>	<b>\$ (353)</b>	<b>\$ (244)</b>
Loss per common shares, basic and diluted As reported	\$ (1.16)	\$ (1.00)
Add back stock-based compensation expense related to stock options included in reported net loss	0.01	0.05
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards	(0.01)	(0.04)
Effects of unvested options in stock option exchange		0.16
<b>Pro forma</b>	<b>\$ (1.16)</b>	<b>\$ (0.83)</b>

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

In the closing of the exchange offer on February 20, 2004, the Company accepted for cancellation eligible options to purchase approximately 18,137,664 shares of Charter Class A common stock. In exchange, the Company granted 1,966,686 shares of restricted stock, including 460,777 performance shares to eligible employees of the rank of senior

vice president and above, and paid a total cash amount of approximately \$4 million (which amount includes applicable withholding taxes) to those employees who received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options exchangeable under the program.

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

In January 2004, the Compensation Committee of the board of directors of Charter approved Charter's Long-Term Incentive Program (LTIP), which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options, and more senior level employees are eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance units vest on the third anniversary of the grant date and shares of Charter Class A common stock are issued, conditional upon Charter's performance against financial performance targets established by Charter's management and approved by its board of directors. Charter granted 6.9 million shares in January 2004 under this program and recognized expense of \$3 million in the first quarter of 2004. However, in the fourth quarter of 2004, the Company reversed the \$8 million of expense recorded in the first three quarters of 2004 based on the Company's assessment of the probability of achieving the financial performance measures established by Charter and required to be met for the performance shares to vest. In March 2005, Charter granted 2.5 million performance shares and 5.3 million options under the LTIP. The impact of such grants were de minimis to the Company's results of operations for the three months ended March 31, 2005.

**17. Related Party Transactions**

The following sets forth certain transactions in which the Company and the directors, executive officers and affiliates of the Company are involved. Unless otherwise disclosed, management believes that each of the transactions described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

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

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profits or losses (as computed for capital account purposes) after June 6, 2003). The limited liability company agreement of CC VIII does not provide for a mandatory redemption of the CC VIII interest.

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

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

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

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

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legal and equitable relief. The ultimate resolution and financial impact of the dispute are not determinable at this time.

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

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter s interactive television platforms through December 31, 2006 (exclusive for the first year). For each of the three months ended March 31, 2005 and 2004, the Company recognized approximately \$0.3 million, of the Vulcan Programming payment as an offset to programming expense and paid approximately \$0.5 million and \$0.2 million, respectively, to Tech TV under the affiliation agreement.

The Company believes that Vulcan Programming, which is 100% owned by Mr. Allen, owned an approximate 98% equity interest in TechTV at the time Vulcan Programming sold TechTV to an unrelated third party in May 2004. Until September 2003, Mr. Savoy, a former Charter director, was the president and director of Vulcan Programming and was a director of TechTV. Mr. Wangberg, one of Charter s directors, was the chairman, chief executive officer and a director of TechTV. Mr. Wangberg resigned as the chief executive officer of TechTV in July 2002. He remained a director of TechTV along with Mr. Allen until Vulcan Programming sold TechTV.

*Digeo, Inc.* In March 2001, a subsidiary of Charter, Charter Communication Ventures, LLC ( Charter Ventures ), and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo, Inc. ( Digeo ), an entity controlled by Paul Allen. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures Incorporated. The equity interest is subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures behalf. After Vulcan Ventures recovers its amount contributed and any cumulative loss allocations, Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls, and may require Vulcan Ventures, through January 24, 2004, to make certain additional contributions through DBroadband Holdings, LLC to acquire additional equity in Digeo as necessary to maintain Charter Ventures pro rata interest in Digeo in the event of certain future Digeo equity financings by the founders of Digeo. These additional equity interests are also subject to a priority return of capital to Vulcan Ventures up to amounts contributed by Vulcan Ventures on Charter Ventures behalf. DBroadband Holdings, LLC is therefore not included in the Company s consolidated financial statements. Pursuant to

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an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf.

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

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

On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment superseded the amendment of September 27, 2001. It provided for the development by Digeo Interactive of future features to be included in the Basic i-TV service to be provided by Digeo and for Digeo's development of an interactive toolkit to enable Charter to develop interactive local content. Furthermore, Charter could request that Digeo Interactive manage local content for a fee. The amendment provided for Charter to pay for development of the Basic i-TV service as well as license fees for customers who would receive the service, and for Charter and Digeo to split certain revenues earned from the service. The Company paid Digeo Interactive approximately \$2 million and \$0.7 million for customized development of the i-channels and the local content tool kit for the three months ended March 31, 2005 and 2004, respectively. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

On June 30, 2003, Charter Holdco entered into an agreement with Motorola, Inc. for the purchase of 100,000 digital video recorder (DVR) units. The software for these DVR units is being supplied by Digeo Interactive, LLC under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deployed from a maximum of 10 headends through year-end 2004. This maximum number of headends was increased from 10 to 15 pursuant to a letter agreement executed on June 11, 2004 and the date for entering into license agreements for units deployed was extended to June 30, 2005. The number of headends was increased from 15 to 20 pursuant to a letter agreement dated August 4, 2004, from 20 to 30 pursuant to a letter agreement dated September 28, 2004 and from 30 to 50 headends by a letter agreement in February 2005. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement provides that Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. Charter paid approximately \$0.9 million in license and maintenance fees for the three months ended March 31, 2005.



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**(Unaudited)**

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

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Product development and testing are continuing. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$41 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances.

The Company believes that Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 51% equity interest in Digeo, Inc., on a fully-converted basis. Mr. Allen is a director of Digeo, and Mr. Vogel was a director of Digeo in 2004. During 2004, Mr. Vogel held options to purchase 10,000 shares of Digeo common stock.

*Oxygen Media LLC.* Oxygen Media LLC (Oxygen) provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen, whereby the Company agreed to carry programming content from Oxygen. Under the carriage agreement, the Company currently makes Oxygen programming available to approximately 5 million of its video customers. The term of the carriage agreement was retroactive to February 1, 2000, the date of launch of Oxygen programming by the Company, and runs for a period of five years from that date. For the three months ended March 31, 2005 and 2004, the Company paid Oxygen approximately \$3 million and \$4 million, respectively, for programming content. In addition, Oxygen pays the Company marketing support fees for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. The Company recorded approximately \$0.1 million and \$0.4 million related to these launch incentives as a reduction of programming expense for each of the three months ended March 31, 2005 and 2004, respectively.

Concurrently with the execution of the carriage agreement, Charter Holdco entered into an equity issuance agreement pursuant to which Oxygen's parent company, Oxygen Media Corporation (Oxygen Media), granted a subsidiary of Charter Holdco a warrant to purchase 2.4 million shares of Oxygen Media common stock for an exercise price of \$22.00 per share. In February 2005, this warrant expired unexercised. Charter Holdco was also to receive unregistered shares of Oxygen Media common stock with a guaranteed fair market value on the date of issuance of \$34 million, on or prior to February 2, 2005, with the exact date to be determined by Oxygen Media, but this commitment was later revised as discussed below.

The Company recognized the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the three months ended March 31, 2005 and 2004, the Company recorded approximately \$1 million and \$4 million, respectively, as a reduction of programming expense. The carrying value of the Company's investment in Oxygen was approximately \$33 million and \$32 million as of March 31, 2005 and December 31, 2004, respectively.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Dollars in millions, except per share amounts and where indicated)**  
**(Unaudited)**

In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revises the number of the Company's customers to which Oxygen programming must be carried and for which the Company must pay, (b) releases Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) requires Oxygen to make payment on outstanding receivables for marketing support fees due to the Company under the carriage agreement; and (d) requires that Oxygen provide its programming content to the Company on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than the Company. The renewal of the carriage agreement (a) extends the period that the Company will carry Oxygen programming to the Company's customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks.

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

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Charter Communications, Inc.:

We have audited the accompanying consolidated balance sheets of Charter Communications, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charter Communications, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

As discussed in note 7 to the consolidated financial statements, effective September 30, 2004, the Company adopted EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*.

As discussed in note 19 to the consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123*.

/s/ KPMG LLP

St. Louis, Missouri

March 1, 2005

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions, except share data)

	December 31,	
	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 650	\$ 127
Accounts receivable, less allowance for doubtful accounts of \$15 and \$17, respectively	190	189
Prepaid expenses and other current assets	82	34
Total current assets	922	350
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net of accumulated depreciation of \$5,311 and \$3,950, respectively	6,289	7,014
Franchises	9,878	13,680
Total investment in cable properties, net	16,167	20,694
<b>OTHER NONCURRENT ASSETS</b>	584	320
Total assets	\$ 17,673	\$ 21,364
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,217	\$ 1,286
Total current liabilities	1,217	1,286
<b>LONG-TERM DEBT</b>	19,464	18,647
<b>DEFERRED MANAGEMENT FEES RELATED PARTY</b>	14	14
<b>OTHER LONG-TERM LIABILITIES</b>	681	848
<b>MINORITY INTEREST</b>	648	689
<b>PREFERRED STOCK REDEEMABLE; \$.001 par value; 1 million shares authorized; 545,259 shares issued and outstanding</b>	55	55
<b>SHAREHOLDERS DEFICIT:</b>		
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 305,203,770 and 295,038,606 shares issued and outstanding, respectively		

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

Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding		
Additional paid-in capital	4,794	4,700
Accumulated deficit	(9,196)	(4,851)
Accumulated other comprehensive loss	(4)	(24)
<b>Total shareholders deficit</b>	<b>(4,406)</b>	<b>(175)</b>
<b>Total liabilities and shareholders deficit</b>	<b>\$ 17,673</b>	<b>\$ 21,364</b>

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

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

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>REVENUES</b>	\$ 4,977	\$ 4,819	\$ 4,566
<b>COSTS AND EXPENSES:</b>			
Operating (excluding depreciation and amortization)	2,080	1,952	1,807
Selling, general and administrative	971	940	963
Depreciation and amortization	1,495	1,453	1,436
Impairment of franchises	2,433		4,638
(Gain) loss on sale of fixed assets	(86)	5	3
Option compensation expense, net	31	4	5
Special charges, net	104	21	36
Unfavorable contracts and other settlements	(5)	(72)	
	7,023	4,303	8,888
Income (loss) from operations	(2,046)	516	(4,322)
<b>OTHER INCOME AND EXPENSES:</b>			
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)
	(1,652)	(1,241)	(1,622)
Loss before minority interest, income taxes and cumulative effect of accounting change	(3,698)	(725)	(5,944)
<b>MINORITY INTEREST</b>	19	377	3,176
Loss before income taxes and cumulative effect of accounting change	(3,679)	(348)	(2,768)
<b>INCOME TAX BENEFIT</b>	103	110	460
Loss before cumulative effect of accounting change	(3,576)	(238)	(2,308)
<b>CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX</b>	(765)		(206)

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)
<b>LOSS PER COMMON SHARE, basic and diluted</b>	\$	(14.47)	\$	(0.82)	\$	(8.55)
Weighted average common shares outstanding, basic and diluted		300,291,877		294,597,519		294,440,261

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

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

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity (Deficit)
BALANCE, December 31, 2001	\$	\$	\$ 4,694	\$ (2,092)	\$ (17)	\$ 2,585
Issuance of common stock related to acquisitions			2			2
Changes in fair value of interest rate agreements					(30)	(30)
Option compensation expense, net			2			2
Loss on issuance of equity by subsidiary			(1)			(1)
Dividends on preferred stock redeemable				(3)		(3)
Net loss				(2,514)		(2,514)
BALANCE, December 31, 2002			4,697	(4,609)	(47)	41
Changes in fair value of interest rate agreements					23	23
Option compensation expense, net			2			2
Issuance of common stock related to acquisitions			2			2
Loss on issuance of equity by subsidiary			(1)			(1)
Dividends on preferred stock redeemable				(4)		(4)
Net loss				(238)		(238)
BALANCE, December 31, 2003			4,700	(4,851)	(24)	(175)
Changes in fair value of interest rate agreements					20	20
Option compensation expense, net			27			27
Issuance of common stock in exchange for convertible notes			67			67
				(4)		(4)



Dividends on preferred stock redeemable						
Net loss			(4,341)			(4,341)
BALANCE, December 31, 2004	\$	\$	\$ 4,794	\$ (9,196)	\$ (4)	\$ (4,406)

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

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

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (4,341)	\$ (238)	\$ (2,514)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(19)	(377)	(3,176)
Depreciation and amortization	1,495	1,453	1,436
Impairment of franchises	2,433		4,638
Option compensation expense, net	27	4	5
Special charges, net	85		
Noncash interest expense	324	414	395
Gain on derivative instruments and hedging activities, net	(69)	(65)	115
(Gain) loss on sale of assets	(86)	5	3
Loss on debt to equity conversions	23		3
(Gain) loss on extinguishment of debt	20	(267)	
Deferred income taxes	(109)	(110)	(460)
Cumulative effect of accounting change, net	765		206
Unfavorable contracts and other settlements	(5)	(72)	
Other, net	(3)	3	
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(7)	70	27
Prepaid expenses and other assets	(2)	5	26
Accounts payable, accrued expenses and other	(59)	(69)	47
Receivables from and payables to related party, including deferred management fees		9	(3)
Net cash flows from operating activities	472	765	748
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(924)	(854)	(2,167)
Change in accrued expenses related to capital expenditures	(43)	(33)	(55)
Proceeds from sale of systems	744	91	
Payments for acquisitions, net of cash acquired			(139)
Purchases of investments	(17)	(11)	(12)
Other, net	(3)	(10)	10
Net cash flows from investing activities	(243)	(817)	(2,363)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock			2
Borrowings of long-term debt	3,148	738	4,106

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Repayments of long-term debt	(5,448)	(1,368)	(2,134)
Proceeds from issuance of long-term debt	2,882	529	
Payments for debt issuance costs	(145)	(41)	(40)
Purchase of pledge securities	(143)		
Net cash flows from financing activities	294	(142)	1,934
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	523	(194)	319
CASH AND CASH EQUIVALENTS, beginning of period	127	321	2
CASH AND CASH EQUIVALENTS, end of period	\$ 650	\$ 127	\$ 321
CASH PAID FOR INTEREST	\$ 1,302	\$ 1,111	\$ 1,103
NONCASH TRANSACTIONS:			
Debt exchanged for Charter Class A common stock	\$ 30	\$	\$
Issuance of debt by CCH II, LLC		1,572	
Retirement of debt		1,866	
Issuances of preferred stock redeemable, as payment for acquisitions		4	
Issuance of equity as partial payments for acquisitions		2	

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

**Table of Contents****CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002****(Dollars in millions, except where indicated)****1. Organization and Basis of Presentation**

Charter Communications, Inc. ( Charter ) is a holding company whose principal assets at December 31, 2004 are the 47% controlling common equity interest in Charter Communications Holding Company, LLC ( Charter Holdco ) and mirror notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Charter Holdco is the sole owner of Charter Communications Holdings, LLC ( Charter Holdings ). The consolidated financial statements include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly owned subsidiaries where the underlying operations reside, collectively referred to herein as the Company. Charter consolidates Charter Holdco on the basis of voting control. Charter Holdco's limited liability company agreement provides that so long as Charter's Class B common stock retains its special voting rights, Charter will maintain a 100% voting interest in Charter Holdco. Voting control gives Charter full authority and control over the operations of Charter Holdco. All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed data services and, in some areas, advanced broadband services such as high definition television, video on demand and telephony. The Company sells its cable video programming, high-speed data and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include capitalization of labor and overhead costs; depreciation and amortization costs; impairments of property, plant and equipment, franchises and goodwill; income taxes; and contingencies. Actual results could differ from those estimates.

*Reclassifications.* Certain prior year amounts have been reclassified to conform with the 2004 presentation.

**2. Liquidity and Capital Resources**

The Company incurred net loss applicable to common stock of \$4.3 billion, \$242 million and \$2.5 billion in 2004, 2003 and 2002, respectively. The Company's net cash flows from operating activities were \$472 million, \$765 million and \$748 million for the years ending December 31, 2004, 2003 and 2002, respectively.

The Company has a significant level of debt. The Company's long-term financing as of December 31, 2004 consists of \$5.5 billion of credit facility debt, \$13.3 billion principal amount of high-yield notes and \$1.0 billion principal amount of convertible senior notes. In 2005, \$30 million of the Company's debt will mature and in 2006, an additional \$186 million of the Company's debt will mature. In 2007 and beyond, significant additional amounts will become due under the Company's remaining long-term debt obligations.

The Company has historically required significant cash to fund capital expenditures and debt service costs. Historically, the Company has funded these requirements through cash flows from operating activities, borrowings under its credit facilities, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the year ended December 31, 2004, the Company, generated \$472 million of net cash flows from operating activities, after paying cash interest of \$1.3 billion. In addition, the Company generated approximately \$744 million from the sale of assets, substantially all of which was used to fund operations, including capital expenditures.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**December 31, 2004, 2003 and 2002**

**(Dollars in millions, except where indicated)**

Finally, the Company had net cash flows from financing activities of \$294 million, which included, among other things, the proceeds from the issuance in December of \$550 million of CCO Holdings, LLC ( CCO Holdings ) Notes. This debt issuance was the primary reason cash on hand increased by \$523 million to \$650 million at December 31, 2004. Approximately \$622 million was used to repay outstanding borrowings under the Company s revolving credit facility, through a series of transactions executed in February 2005.

The Company expects that cash on hand, cash flows from operating activities and the amounts available under its credit facilities will be adequate to meet its cash needs in 2005. Cash flows from operating activities and amounts available under the Company s credit facilities may not be sufficient to fund the Company s operations and satisfy its principal repayment obligations that come due in 2006 and, the Company believes, will not be sufficient to fund its operations and satisfy such repayment obligations thereafter.

It is likely that the Company will require additional funding to repay debt maturing after 2006. The Company is working with its financial advisors to address such funding requirements. However, there can be no assurance that such funding will be available to the Company. Although Mr. Allen and his affiliates have purchased equity from the Company in the past, Mr. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to the Company in the future.

***Credit Facilities and Covenants***

The Company s ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Communications Operating, LLC ( Charter Operating ) credit facilities. These credit facilities, along with the Company s indentures, are subject to certain restrictive covenants, some of which require the Company to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from the Company s independent auditors. As of December 31, 2004, the Company was in compliance with the covenants under the Company s indentures and under its credit facilities and the Company expects to remain in compliance with those covenants for the next twelve months. As of December 31, 2004, the Company had borrowing availability under the credit facilities of \$804 million, none of which was restricted due to covenants. Continued access to the Company s credit facilities is subject to the Company remaining in compliance with the applicable covenants of these credit facilities, including covenants tied to the Company s operating performance. If the Company s operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities or indentures governing the Company s debt occurs, funding under the credit facilities may not be available and defaults on some or potentially all of the Company s debt obligations could occur. An event of default under the covenants governing any of the Company s debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company s consolidated financial condition or results of operations.

The Charter Operating credit facilities require the Company to redeem the CC V Holdings notes within 45 days after the first date that the Charter Holdings leverage ratio is less than 8.75 to 1.0. In satisfaction of this requirement, CC V Holdings, LLC has called for redemption all of its outstanding notes, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption, which is expected to be March 14, 2005. The total cost of the redemption including accrued and unpaid interest is expected to be \$122 million. The Company intends to fund the redemption with borrowings under its credit facilities.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**December 31, 2004, 2003 and 2002**  
**(Dollars in millions, except where indicated)**

***Specific Limitations***

Charter's ability to make interest payments on its convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of its convertible senior notes, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including CCH II, LLC ( CCH II ), CCO Holdings, LLC ( CCO Holdings ) and Charter Operating. The indentures governing the CCH II notes, CCO Holdings notes, and Charter Operating notes, however, restrict these entities and their subsidiaries from making distributions to their parent companies (including Charter and Charter Holdco) for payment of principal on Charter's convertible senior notes, in each case unless there is no default under the applicable indenture and a specified leverage ratio test is met at the time of such event. CCH II, CCO Holdings and Charter Operating meet the applicable leverage ratio test under each of their respective indentures, and as a result are not prohibited from making any such distributions to their respective direct parent.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended December 31, 2004, there was no default under Charter Holdings' indentures and other specified tests were met. In addition, Charter Holdings met the leverage ratio of 8.75 to 1.0 based on December 31, 2004 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco are not currently restricted. Such distributions will again be restricted, however, if Charter Holdings fails to meet its leverage ratio test. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test and there can be no assurance that Charter Holdings will satisfy this test in the future.

During periods when such distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures. As of December 31, 2004, Charter Holdco had \$106 million in cash on hand and was owed \$29 million in intercompany loans from its subsidiaries, which were available to pay interest on Charter's 4.75% convertible senior notes, which is expected to be approximately \$7 million in 2005. In addition, Charter has \$144 million of governmental securities pledged as security for the six interest payments on Charter's 5.875% convertible senior notes.

***Sale of Assets***

In March 2004, the Company closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. The Company closed the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. These transactions resulted in a \$104 million pretax gain recorded as a gain on sale of assets in the Company's consolidated statements of operations. Subject to post-closing contractual adjustments, the total net proceeds from the sale of all of these systems were approximately \$733 million. The proceeds were used to repay a portion of amounts outstanding under the Company's credit facilities.

**3. Summary of Significant Accounting Policies*****Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**December 31, 2004, 2003 and 2002**  
**(Dollars in millions, except where indicated)**

***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost, including all material, labor and certain indirect costs associated with the construction of cable transmission and distribution facilities. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor, and certain indirect costs. Indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service and consist of compensation and indirect costs associated with these support functions. Indirect costs primarily include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while plant and equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

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

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

***Franchises***

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. All franchises that qualify for indefinite-life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually as of October 1, or more frequently as warranted by events or changes in circumstances (see Note 7). The Company concluded that 99% of its franchises qualify for indefinite-life treatment; however, certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs are amortized on a straight-line basis over 10 years. Costs incurred in renewing cable franchises are deferred and amortized over 10 years.

***Other Noncurrent Assets***

Other noncurrent assets primarily include goodwill, deferred financing costs, governmental securities and investments in equity securities. Costs related to borrowings are deferred and amortized to interest expense over the terms of the related borrowings.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Charter recognizes losses for any decline in value considered to be other than temporary. Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income or loss.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**December 31, 2004, 2003 and 2002**

**(Dollars in millions, except where indicated)**

The following summarizes investment information as of and for the years ended December 31, 2004 and 2003:

	<b>Carrying Value at December 31,</b>		<b>Gain (loss) for the Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Equity investments, under the cost method	\$ 39	\$ 30	\$ (3)	\$ (2)	\$
Equity investments, under the equity method	25	11	7	(1)	(5)
Marketable securities, at market value					2