MORALES MANUEL JR
Form 4
February 03, 2012

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
MORALES MANUEL JR

(Last) (First) (Middle)

P.O. BOX 9066590

(Street)

SAN JUAN, PR 00906-2708

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
POPULAR INC [BPOP]

3. Date of Earliest Transaction (Month/Day/Year)
02/02/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock Par Value $0.01 per share	02/02/2012	02/02/2012	J (1)		5,000	A	$ 0	169,240	D	
Common Stock Par Value $0.01 per share								386,365	I	By mother (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MORALES MANUEL JR P.O. BOX 9066590 SAN JUAN, PR 00906-2708	X			

Signatures

Marie Reyes Rodriguez, Attorney-in-fact	02/03/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Award of Restricted Stock pursuant to Popular, Inc.'s 2004 Omnibus Incentive Plan. The restriction of such restricted stock award lapses upon the retirement of the director.

(2) Mr. Manuel Morales, Jr. has voting power over BPOP common shares owned by his mother, as attorney in fact.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. nbsp;
COSTS AND EXPENSES:

Operating (excluding depreciation and amortization)
1,215 (24) 1,191 1,191
Selling, general and administrative
551 (7) 544 544

Depreciation and amortization
690 (5) 685 685
Asset impairment charges
99 (99)
Other operating expenses, net
10 10 10 2,565 (135) 2,430 2,430
Operating income from continuing operations
138 90 228 228
Interest expense, net
(488) 26 7 (10) (465) (7) (472)
Other income (expense), net
(19) 27 8 8 (507) 26 34 (10) (457) (7) (464)
Loss from continuing operations before income taxes
(369) 116 34 (10) (229) (7) (236)
INCOME TAX EXPENSE
(4) (4) (4)
Loss from continuing operations
$(373) $116 $34 $(10) $(233) $(7) $(240)

(a) Represents the elimination of operating results related to the disposition of certain cable systems in July 2006 and the announced disposition of certain cable systems scheduled to close in the third quarter of 2006 as discussed in assumption (7).

(b) Represents the adjustment to interest expense associated with the completion of the financing transactions discussed in assumptions (4)and (5) (in millions):

Reduction in interest expense on the April 2006 refinancing of Charter Operating credit facilities	$	(9)
Interest on $450 million principal amount of CCH II 10.250% senior notes issued in January 2006		2
Net decrease in interest expense	$	(7)

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

(c) Represents the adjustment to interest expense to reflect interest on the new CCH II notes associated with the Private Exchange Offers Pro Forma Adjustments.

(d) Represents the adjustment to interest expense to reflect interest on the new CCH II notes associated with the Exchange Offer Pro Forma Adjustments.

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CCH II, LLC
Unaudited Pro Forma Consolidated Statement of Operations
For the Year Ended December 31, 2005

	Historical	Acquisition/ Dispositions(a)	Prior Financing Transactions(b)	Private Exchange Offers(c)	As Adjusted	Exchange Offer(d)	Pro Forma
	(Dollars in millions)						
REVENUES							
Video	$ 3,248	$ (53)	$	$	$ 3,195	$	$ 3,195
High-speed Internet	875	(7)			868		868
Telephone	36	5			41		41
Advertising sales	284	(4)			280		280
Commercial	266	(6)			260		260
Other	324	(5)			319		319
	5,033	(70)			4,963		4,963
COSTS AND EXPENSES:							
Operating (excluding depreciation and amortization)	2,203	(31)			2,172		2,172
Selling, general and administrative	1,012	(9)			1,003		1,003
Depreciation and amortization	1,443	(11)			1,432		1,432
Asset impairment charges	39	(39)					
Other operating expenses, net	32				32		32
	4,729	(90)			4,639		4,639
Operating income from continuing operations	304	20			324		324
Interest expense, net	(858)	34	(3)	(20)	(847)	(15)	(862)
Other income, net	99		5		104		104
	(759)	34	2	(20)	(743)	(15)	(758)

Loss from continuing operations before income taxes	(455)	54	2	(20)	(419)	(15)	(434)
INCOME TAX EXPENSE	(9)				(9)		(9)
Loss from continuing operations	$ (464)	$ 54	$ 2	$ (20)	$ (428)	$ (15)	$ (443)

(a) Represents the elimination of operating results related to the disposition of certain cable systems in July 2005, July 2006 and the announced disposition of certain cable systems scheduled to close in the third quarter of 2006 and the inclusion of operating results related to the acquisition of certain cable systems in January 2006 as discussed in assumption (6) and (7).

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(b) Represents the adjustment to interest expense associated with the completion of the financing transactions discussed in as adjusted assumptions (1), (2), (4) and (5) (in millions):

Reduction in interest expense on the Charter Operating refinancing in April 2006		$ (26)
Interest on $450 million principal amount of CCH II 10.250% senior notes issued in January 2006	48	
Amortization of deferred financing costs	2	
Historical interest expense for Charter Operating s revolving credit facility	(32)	
		18
Interest on $300 million of CCO Holdings 8 3/4 % senior notes issued in August 2005	16	
Amortization of deferred financing costs	1	
		17
Historical interest expense on Charter Operating s revolving credit facility repaid with cash on hand in February 2005		(3)
Historical interest expense on CC V Holdings, LLC 8.75% senior discount notes repaid with cash on hand in March 2005		(3)
Net increase in interest expense		$ 3

Adjustment to other income, net represents the elimination of losses related to the redemption of CC V Holdings, LLC 11.875% notes due 2008.

(c) Represents the adjustment to interest expense associated with the Private Exchange Offers Pro Forma Adjustments (in millions):

Interest on new CCH II senior notes issued in August 2006	$ 21	
Amortization of deferred gain and deferred financing costs	(1)	
Net increase in interest expense		$ 20

(d) Represents the adjustment to interest expense associated with the Exchange Offer Pro Forma Adjustments (in millions):

Interest on new CCH II senior notes issued in August 2006	$ 14	
Amortization of deferred financing costs	1	
Net increase in interest expense		$ 15

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CCH II, LLC
Unaudited Pro Forma Consolidated Statement of Operations
For the Six Months Ended June 30, 2005

	Historical	Acquisition/ Dispositions(a)	Prior Financing Transactions(b)	Private Exchange Offers(c)	As Adjusted	Exchange Offer(d)	Pro Forma
			(Dollars in millions)				
REVENUES							
Video	$ 1,623	$ (27)	$	$	$ 1,596	$	$ 1,596
High-speed Internet	425	(3)			422		422
Telephone	14	3			17		17
Advertising sales	135	(2)			133		133
Commercial	128	(3)			125		125
Other	156	(3)			153		153
	2,481	(35)			2,446		2,446
COSTS AND EXPENSES:							
Operating (excluding depreciation and amortization)	1,081	(15)			1,066		1,066
Selling, general and administrative	483	(7)			476		476
Depreciation and amortization	730				730		730
Asset impairment charges	39	(39)					
Other operating expenses, net	6				6		6
	2,339	(61)			2,278		2,278
Operating income from continuing operations	142	26			168		168
Interest expense, net	(408)	11	(5)	(10)	(412)	(7)	(419)
Other income, net	35		5		40		40
	(373)	11		(10)	(372)	(7)	(379)
Loss from continuing	(231)	37		(10)	(204)	(7)	(211)

operations before income taxes						
INCOME TAX EXPENSE	(8)			(8)		(8)
Loss from continuing operations	(239)	37	(10)	(212)	(7)	(219)

(a) Represents the elimination of operating results related to the disposition of certain cable systems in July 2005, July 2006 and the announced disposition of certain cable systems scheduled to close in the third quarter of 2006 and the inclusion of operating results related to the acquisition of certain cable systems in January 2006 discussed in assumptions (6) and (7).

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(b) Represents the adjustment to interest expense associated with the completion of the financing transactions discussed in assumptions (1), (2), (4) and (5) (in millions):

Reduction in interest expense on the Charter Operating refinancing in April 2006		$ (13)
Interest on $450 million principal amount of CCH II 10.250% senior notes issued in January 2006	24	
Amortization of deferred financing costs	1	
Historical interest expense for Charter Operating s revolving credit facility	(14)	
		11
Interest on $300 million of CCO Holdings $8^3/4$ % senior notes issued in August 2005		13
Historical interest expense on Charter Operating s revolving credit facility repaid with cash on hand in February 2005		(3)
Historical interest expense on CC V Holdings, LLC 8.75% senior discount notes repaid with cash on hand in March 2005		(3)
Net increase in interest expense		$ 5

Adjustment to other income, net represents the elimination of losses related to the redemption of CC V Holdings, LLC 11.875% notes due 2008.

(c) Represents the adjustment to interest expense to reflect interest on the new CCH II notes associated with the Private Exchange Offers Pro Forma Adjustments.

(d) Represents the adjustment to interest expense to reflect interest on the new CCH II notes associated with the Exchange Offer Pro Forma Adjustments.

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CCH II, LLC
Unaudited Pro Forma Consolidated Balance Sheet
As of June 30, 2006

	Historical	Acquisition/ Dispositions(a)	Private Exchange Offers(b)	As Adjusted	Exchange Offer(c)	Pro Forma
			(Dollars in millions)			
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 44	$ 148	$ (24)	$ 168	$ (168)	$
Accounts receivable, net	178			178		178
Prepaid expenses and other current assets	20			20		20
Assets held for sale	768	(768)				
Total current assets	1,010	(620)	(24)	366	(168)	198
INVESTMENT IN CABLE PROPERTIES:						
Property, plant and equipment, net	5,354			5,354		5,354
Franchises, net	9,280			9,280		9,280
Total investment in cable properties, net	14,634			14,634		14,634
OTHER NONCURRENT ASSETS	217		2	219	5	224
Total assets	$ 15,861	$ (620)	$ (22)	$ 15,219	$ (163)	$ 15,056
LIABILITIES AND MEMBER S EQUITY						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	$ 917	$	$	$ 917	$	$ 917
Payables to related parties	106			106		106
Liabilities held for sale	20	(20)				
Total current liabilities	1,043	(20)		1,023		1,023
LONG-TERM DEBT	11,057	(800)	205	10,462	157	10,619
NOTE PAYABLE RELATED PARTY	109			109		109

DEFERRED MANAGEMENT FEES RELATED PARTY	14			14		14
OTHER LONG-TERM LIABILITIES	359			359		359
MINORITY INTEREST	631			631		631
MEMBER S EQUITY:						
Member s equity	2,646	200	(227)	2,619	(320)	2,299
Accumulated other comprehensive income	2			2		2
Total member s equity	2,648	200	(227)	2,621	(320)	2,301
Total liabilities and member s equity	$ 15,861	$ (620)	$ (22)	$ 15,219	$ (163)	$ 15,056

(a) Represents the elimination of assets and liabilities sold or to be sold in the completed and scheduled disposition of certain cable systems and the related use of the proceeds to reduce amounts outstanding under our revolving credit facility and for general corporate purposes. Adjustment to equity represents the expected gain on the sale of the assets.

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(b) Represents the exchange of CCH II notes for Charter Holdings notes and the payment of fees and accrued interest related to such exchange.

(c) Adjustment to cash represents use of cash to pay the cash portion of the consideration paid to repurchase the Charter convertible notes. Adjustment to other assets represents the payment of approximately $5 million of fees associated with the issuance of the CCH II notes. Adjustment to member s equity represents the consideration paid by CCH II in exchange for the Charter convertible notes. Adjustment to long-term debt is detailed below.

Fair value of CCH II notes issued	$ 142
Drawdown on credit facility for payment of transaction fees accrued interest and consideration on notes exchanged	15
Net increase in long-term debt	$ 157

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

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

CHARTER COMMUNICATIONS, INC.

	Year Ended December 31,					Six Months Ended June 30,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
	(Dollars in millions)						
Statement of Operations Data:							
Revenues	$ 3,648	$ 4,377	$ 4,616	$ 4,760	$ 5,033	$ 2,481	$ 2,703
Costs and Expenses:							
Operating (excluding depreciation and amortization)	1,430	1,736	1,873	1,994	2,203	1,081	1,215
Selling, general and administrative	789	932	909	965	1,012	483	551
Depreciation and amortization	2,638	1,364	1,396	1,433	1,443	730	690
Impairment of franchises		4,220		2,297			
Asset impairment charges					39	39	99
Other operating (income) expenses, net	28	39	(46)	13	32	6	10
	4,885	8,291	4,132	6,702	4,729	2,339	2,565
Operating income (loss) from continuing operations	(1,237)	(3,914)	484	(1,942)	304	142	138
Interest expense, net	(1,310)	(1,503)	(1,557)	(1,670)	(1,789)	(871)	(943)
Gain (loss) on extinguishment of debt and preferred stock			267	(31)	521	8	(27)
Other income (expense), net	(109)	(119)	49	49	72	47	18
Loss from continuing operations before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(5,536)	(757)	(3,594)	(892)	(674)	(814)
Minority interest	1,475	2,958	394	19	1	(6)	(1)

Loss from continuing operations before income taxes and cumulative effect of accounting change	(1,181)	(2,578)	(363)	(3,575)	(891)	(680)	(815)
Income tax benefit (expense)	12	474	122	134	(112)	(56)	(60)
Loss from continuing operations before cumulative effect of accounting change	(1,169)	(2,104)	(241)	(3,441)	(1,003)	(736)	(875)
Income (loss) from discontinued operations, net of tax	12	(204)	3	(135)	36	29	34
Loss before cumulative effect of accounting change	(1,157)	(2,308)	(238)	(3,576)	(967)	(707)	(841)
Cumulative effect of accounting change, net of tax	(10)	(206)		(765)			
Net loss	(1,167)	(2,514)	(238)	(4,341)	(967)	(707)	(841)
Dividends on preferred stock redeemable	(1)	(3)	(4)	(4)	(3)	(2)	
Net loss applicable to common stock	$ (1,168)	$ (2,517)	$ (242)	$ (4,345)	$ (970)	$ (709)	$ (841)

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	Year Ended December 31,					Six Months Ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
	(Dollars in millions)						
Loss per common share, basic and diluted:							
Loss from continuing operations before cumulative effect of accounting change	$ (4.34)	$ (7.16)	$ (0.83)	$ (11.47)	$ (3.24)	$ (2.43)	$ (2.76)
Net loss	$ (4.33)	$ (8.55)	$ (0.82)	$ (14.47)	$ (3.13)	$ (2.34)	$ (2.65)
Weighted-average common shares outstanding, basic and diluted	269,594,386	294,440,261	294,597,519	300,291,877	310,159,047	303,465,474	317,531,492
Other Data:							
Deficiencies of earnings to cover fixed charges(a)	$ 2,630	$ 5,994	$ 725	$ 3,698	$ 853	$ 655	$ 776
Balance Sheet Data (end of period):							
Cash and cash equivalents	$ 2	$ 321	$ 127	$ 650	$ 21	$ 40	$ 56
Total assets	26,463	22,384	21,364	17,673	16,431	16,779	16,145
Long-term debt	16,343	18,671	18,647	19,464	19,388	19,247	19,860
Note payable related party					49		53
Minority interest(b)	4,434	1,050	689	648	188	659	189
Shareholder s equity (deficit)	2,585	41	(175)	(4,406)	(4,920)	(5,102)	(5,762)

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

(b) Minority interest represents the percentage of Charter Holdco not owned by Charter, plus preferred membership interests in our indirect subsidiary, CC VIII, and since June 6, 2003, the pro rata share of the profits and losses of CC VIII. This preferred membership interest arises from approximately $630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000 and was the subject of a dispute between Charter and Mr. Allen, Charter s Chairman and controlling shareholder that was settled October 31, 2005. 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 2004, Charter began to absorb substantially all losses before income taxes that otherwise would have been allocated to minority interest, resulting in an approximate additional $454 million and $2.4 billion of net losses for the years ended December 31, 2005 and 2004, respectively. Under our existing capital structure, Charter will absorb all future losses. See Certain Relationships and Related Party Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen s Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

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CCH II, LLC

	Year Ended December 31,					Six Months Ended June 30,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
	(Dollars in millions)						
Statement of Operations Data:							
Revenues	$ 3,648	$ 4,377	$ 4,616	$ 4,760	$ 5,033	$ 2,481	$ 2,703
Costs and Expenses:							
Operating (excluding depreciation and amortization)	1,430	1,736	1,873	1,994	2,203	1,081	1,215
Selling, general and administrative	789	932	909	965	1,012	483	551
Depreciation and amortization	2,638	1,364	1,396	1,433	1,443	730	690
Impairment of franchises		4,220		2,297			
Asset impairment charges					39	39	99
Other operating (income) expenses, net	28	39	(46)	13	32	6	10
	4,885	8,291	4,132	6,702	4,729	2,339	2,565
Operating income (loss) from continuing operations	(1,237)	(3,914)	484	(1,942)	304	142	138
Interest expense, net	(525)	(512)	(545)	(726)	(858)	(408)	(488)
Loss on extinguishment of debt				(21)	(6)	(6)	(27)
Other income (expense), net	(118)	(128)	27	92	105	41	8
Loss from continuing operations before income taxes and cumulative effect of accounting change	(1,880)	(4,554)	(34)	(2,597)	(455)	(231)	(369)
Income tax benefit (expense)	27	216	(13)	35	(9)	(8)	(4)
Loss from continuing operations before cumulative effect of accounting change	(1,853)	(4,338)	(47)	(2,562)	(464)	(239)	(373)
Income (loss) from discontinued operations, net of tax	26	(408)	32	(104)	39	19	38
Loss before cumulative effect of accounting change	(1,827)	(4,746)	(15)	(2,666)	(425)	(220)	(335)
Cumulative effect of accounting change, net of tax	(24)	(540)		(840)			
Net loss	$ (1,851)	$ (5,286)	$ (15)	$ (3,506)	$ (425)	$ (220)	$ (335)

Other Data:							
Ratio of earnings to cover fixed charges	NA	NA	1.05	NA	NA	NA	NA
Deficiencies of earnings to cover fixed charges(a)	$ 1,838	$ 4,946	NA	$ 2,721	$ 449	$ 206	$ 321
Balance Sheet Data (end of period):							
Cash and cash equivalents	$	$ 310	$ 85	$ 546	$ 3	$ 22	$ 44
Total assets	26,091	21,984	21,009	16,979	16,101	16,356	15,861
Long-term debt	6,961	8,066	9,557	9,895	10,624	10,045	11,057
Loans payable related party	366	133	37	29	22	62	109
Minority interest(b)	680	693	719	656	622	662	631
Members equity	15,940	11,040	8,951	4,913	3,402	3,993	2,648

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

(b) Minority interest represents the preferred membership interests in our indirect subsidiary, CC VIII, and since June 6, 2003, the pro rata share of the profits and losses of CC VIII. This preferred membership interest arises from approximately $630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000 and was the subject of a dispute between Charter and Mr. Allen, Charter s Chairman and controlling shareholder that was settled October 31, 2005. See Certain Relationships and Related Party Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen s Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CHARTER

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

Reference is made to Risk Factors and Special Note Regarding Forward-Looking Statements, which describe important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following discussion should be read in conjunction with the audited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the years ended December 31, 2005, 2004 and 2003 and the unaudited consolidated financial statements of Charter Communications, Inc. and its subsidiaries as of and for the six months ended June 30, 2006.

Introduction

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

- the July 2006 sale of cable systems to Cebridge and New Wave for proceeds of approximately $896 million;
- the April 2006 refinancing of our existing credit facilities (See Liquidity and Capital Resources Recent Financing Transactions);
- the January 2006 sale by our subsidiaries, CCH II and CCH II Capital Corp., of an additional $450 million principal amount of their 10.250% senior notes due 2010;
- the October 2005 entry by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, into a $600 million senior bridge loan agreement with various lenders (which was reduced to $435 million as a result of the issuance of CCH II notes);
- the September 2005 exchange by Charter Holdings, CCH I and CIH of approximately $6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;
- the August 2005 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of $300 million of $8^3/4$ % senior notes due 2013;
- the March and June 2005 issuance of $333 million of Charter Operating notes in exchange for $346 million of Charter Holdings notes;
- the repurchase during 2005 of $136 million of Charter s 4.75% convertible senior notes due 2006 leaving $20 million in principal amount outstanding; and
- the March 2005 redemption of all of CC V Holdings, LLC s outstanding 11.875% senior discount notes due 2008 at a total cost of $122 million.

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

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

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

Sale of Assets

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

Overview of Operations

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

Our success in our efforts to grow revenues and improve margins will be impacted by our ability to compete against companies with easier access to financing, greater personnel resources, greater brand name recognition, long-established relationships with regulatory authorities and customers, and, often fewer

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

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

We have a history of net losses. Our net losses are principally attributable to insufficient revenue to cover the combination of operating costs and interest costs we incur because of our high level of debt and depreciation expenses that we incur resulting from the capital investments we have made and continue to make in our cable properties. We expect that these expenses will remain significant, and we therefore expect to continue to report net losses for the foreseeable future. We had net losses of $841 million and $707 million for the six months ended June 30, 2006 and 2005, respectively.

Critical Accounting Policies and Estimates

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

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

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Income taxes; and

Litigation.

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

Capitalization of labor and overhead costs. The cable industry is capital intensive, and a large portion of our resources are spent on capital activities associated with extending, rebuilding, and upgrading our cable network. As of June 30, 2006, December 31, 2005 and 2004, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately $5.4 billion (representing 33% of total assets), $5.8 billion (representing 36% of total assets) and $6.3 billion (representing 36% of total assets), respectively. Total capital expenditures for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003 were approximately $539 million, $1.1 billion, $924 million and $854 million, respectively.

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

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

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

Dispatching a truck roll to the customer s dwelling for service connection;

Verification of serviceability to the customer s dwelling (i.e., determining whether the customer s dwelling is capable of receiving service by our cable network and/or receiving advanced or Internet services);

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

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

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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 internal direct labor and overhead of $100 million, $185 million, $159 million and $166 million, respectively, for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003. Capitalized internal direct labor and overhead costs have increased in 2005 as a result of the use of more internal labor for capitalizable installations rather than third party contractors.

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

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

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

Impairment of property, plant and equipment, franchises and goodwill. As discussed above, the net carrying value of our property, plant and equipment is significant. We also have recorded a significant amount of cost related to franchises, pursuant to which we are granted the right to operate our cable distribution network throughout our service areas. The net carrying value of franchises as of June 30, 2006, December 31, 2005 and 2004 was approximately $9.3 billion (representing 57% of total assets), $9.8 billion (representing 60% of total assets) and $9.9 billion (representing 56% of total assets), respectively. Furthermore, our noncurrent assets include approximately $61 million of goodwill.

We adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet specified indefinite-life criteria no longer be amortized against earnings, but instead must be tested for impairment annually based on valuations, or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite-life, we considered the exclusivity of the franchise, the expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or

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not we are in compliance with any technology upgrading requirements. We have concluded that as of June 30, 2006, December 31, 2005, 2004 and 2003 more than 99% of our franchises qualify for indefinite-life treatment under SFAS No. 142, and that less than one percent of our franchises do not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. Costs of finite-lived franchises, along with costs associated with franchise renewals, are amortized on a straight-line basis over 10 years, which represents management s best estimate of the average remaining useful lives of such franchises. Franchise amortization expense was approximately $1 million, $4 million, $3 million and $7 million for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003, respectively. We expect that amortization expense on franchise assets will be approximately $2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors. Our goodwill is also deemed to have an indefinite life under SFAS No. 142.

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

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

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

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

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

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

In September 2004, EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill,* was issued, which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. We performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total franchise impairment of approximately $3.3 billion. We recorded a cumulative effect of accounting change of $765 million (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, respectively, for the year ended December 31, 2004. The remaining $2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation and was recorded as impairment of franchises in our consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by us and our industry peers in the third quarter of 2004 primarily as a result of increased competition from DBS providers and decreased growth rates in our and our industry peers high-speed Internet customers in the third quarter of 2004, in part as a result of increased competition from DSL providers, led us to lower our projected growth rates and accordingly revise our estimates of future cash flows from those used at October 1, 2003. See Business Competition.

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

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

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

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

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

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

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

As a result of the Special Loss Allocations and the Regulatory Allocations referred to above (and their interaction with the allocations related to assets contributed to Charter Holdco with differences between book and tax basis), the cumulative amount of losses of Charter Holdco allocated to Vulcan Cable III Inc. and CII is in excess of the amount that would have been allocated to such entities if the

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losses of Charter Holdco had been allocated among its members in proportion to their respective percentage ownership of Charter Holdco common membership units. The cumulative amount of such excess losses was approximately $977 million through December 31, 2005.

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

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

As of June 30, 2006 and December 31, 2005 and 2004, we have recorded net deferred income tax liabilities of $385, $325 million and $216 million, respectively. Additionally, as of June 30, 2006, December 31, 2005 and 2004, we have deferred tax assets of $4.5 billion, $4.2 billion and $3.8 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 $4.0 billion, $3.7 billion and $3.5 billion at June 30, 2006, December 31, 2005 and 2004, respectively.

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

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

RESULTS OF OPERATIONS

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

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

	Six Months Ended June 30,					
	2006			2005		
Revenues	$	2,703	100%	$	2,481	100%
Costs and expenses:						
Operating (excluding depreciation and amortization)		1,215	45%		1,081	44%
Selling, general and administrative		551	20%		483	19%
Depreciation and amortization		690	26%		730	29%
Asset impairment charges		99	4%		39	2%
Other operating expenses, net		10			6	
		2,565	95%		2,339	94%
Operating income from continuing operations		138	5%		142	6%
Interest expense, net		(943)			(871)	
Other income (expenses), net		(10)			49	
		(953)			(822)	
Loss before income taxes		(815)			(680)	
Income tax expense		(60)			(56)	
Loss from continuing operations		(875)			(736)	
Income from discontinued operations, net of tax		34			29	
Net loss		(841)			(707)	
Dividends on preferred stock redeemable					(2)	
Net loss applicable to common stock	$	(841)		$	(709)	
Loss per common share, basic and diluted:						
Loss from continuing operations	$	(2.76)		$	(2.43)	

Net loss	$ (2.65)	$ (2.34)
Weighted average common shares outstanding, basic and diluted	317,531,492	303,465,474

Revenues. The overall increase in revenues from continuing operations in 2006 compared to 2005 is principally the result of an increase from June 30, 2005 of 343,800 high-speed Internet customers, 194,300 digital video customers and 189,800 telephone customers, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 41,400 analog video customers. Our goal is

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to increase revenues by improving customer service, which we believe will stabilize our analog video customer base, implementing price increases on certain services and packages and increasing the number of customers who purchase high-speed Internet services, digital video and advanced products and services such as telephone, VOD, high definition television and digital video recorder service.

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

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

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

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

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

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

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

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

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

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

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

Programming costs consist primarily of costs paid to programmers for analog, premium, digital channels, VOD and pay-per-view programming. The increase in programming costs was primarily a result of rate increases and increases in digital video customers. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of $8 million and $17 million for the six months ended June 30, 2006 and 2005, respectively.

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

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

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

	Six Months Ended June 30,		
	2006	2005	2006 over 2005

	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	$ 471	17%	$ 418	17%	$ 53	13%
Marketing	80	3%	65	2%	15	23%
	$ 551	20%	$ 483	19%	$ 68	14%

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, customer care center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses resulted primarily from a rise in salaries and benefits of

$34 million, increases in billing costs of $7 million, computer maintenance of $5 million, bad debt expense of $5 million, telephone expense of $4 million, contractor labor of $3 million and property and casualty insurance of $2 million partially offset by decreases in consulting services of $8 million.

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

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

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

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

Interest expense, net. Net interest expense increased by $72 million, or 8%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The increase in net interest expense was a result of an increase in our average borrowing rate from 8.89% in the six months ended June 30, 2005 to 9.42% in the six months ended June 30, 2006 and an increase of $204 million in average debt outstanding from $19.4 billion for the six months ended June 30, 2005 compared to $19.6 billion for the six months ended June 30, 2006.

Other income (expenses), net. Other income decreased $59 million from other income of $49 million for the six months ended June 30, 2005 to other expense of $10 million for the six months ended June 30, 2006 primarily as a result of a $35 million decrease in the gain (loss) on extinguishment of debt from an $8 million gain for the six months ended June 30, 2005 to a loss of $27 million for the six months ended June 30, 2006. See Note 6 to the condensed consolidated financial statements included in this Exchange Offer Prospectus. Other income also decreased as a result of a $15 million decrease in net gains on derivative instruments and hedging activities as a result of decreases in gains on interest rate agreements that do not qualify for hedge accounting under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In addition, the six months ended June 30, 2005 included a $20 million gain on investments for the six months ended June 30, 2005 recognized as a result of a gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise. Other income also includes the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and the pro rata share of the profits and losses of CC VIII.

Income tax expense. Income tax expense was recognized through increases in deferred tax liabilities 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. Income tax expense was offset by deferred tax benefits of $21 million and $6 million related to asset impairment charges recorded in the six months ended June 30, 2006 and 2005, respectively.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax increased from $29 million for the six months ended June 30, 2005 to $34 million for the six months ended June 30, 2006 primarily due to a decrease in depreciation for the six months ended June 30, 2006 as we ceased recognizing depreciation on the West Virginia and Virginia cable systems when we classified them as assets held for sale in the first quarter of 2006.

Net loss. Net loss increased by $134 million, or 19%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 as a result of the factors described above.

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

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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 accrues the dividend on its Series A Convertible Redeemable Preferred Stock. In November 2005, we repurchased 508,546 shares of our Series A Convertible Redeemable Preferred Stock. Following the repurchase, 36,713 shares of preferred stock remain outstanding.

Loss per common share. Loss per common share increased by $0.31, or 13%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 as a result of the factors described above.

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Year Ended December 31, 2005, December 31, 2004 and December 31, 2003

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

	Year Ended December 31,							
	2005			2004			2003	
Revenues	$	5,033	100%	$	4,760	100%	$	4,616	100%
Costs and Expenses:									
Operating (excluding depreciation and amortization)		2,203	44%		1,994	42%		1,873	41%
Selling, general and administrative		1,012	20%		965	20%		909	20%
Depreciation and amortization		1,443	29%		1,433	30%		1,396	30%
Impairment of franchises					2,297	48%			
Asset impairment charges		39	1%						
Other operating (income) expenses, net		32			13			(46)	(1)%
		4,729	94%		6,702	140%		4,132	90%
Operating income (loss) from continuing operations		304	6%		(1,942)	(40)%		484	10%
Interest expense, net		(1,789)			(1,670)			(1,557)	
Gain (loss) on extinguishment of debt and preferred stock		521			(31)			267	
Other income, net		73			68			443	
Loss from continuing operations before income taxes and cumulative effect of accounting change		(891)			(3,575)			(363)	
Income tax benefit (expense)		(112)			134			122	
Loss from continuing operations before cumulative effect of accounting change		(1,003)			(3,441)			(241)	
Income (loss) from discontinued operations, net of tax		36			(135)			3	
Loss before cumulative effect of accounting change		(967)			(3,576)			(238)	
Cumulative effect of accounting change, net of tax					(765)				
Net loss		(967)			(4,341)			(238)	

Dividends on preferred stock redeemable		(3)		(4)		(4)
Net loss applicable to common stock	$	(970)	$	(4,345)	$	(242)
Loss per common share, basic and diluted:						
Loss from continuing operations	$	(3.24)	$	(11.47)	$	(0.83)
Net loss	$	(3.13)	$	(14.47)	$	(0.82)
Weighted average common shares outstanding		310,159,047		300,291,877		294,597,519

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

Revenues. The overall increase in revenues in 2005 compared to 2004 is principally the result of an increase from December 31, 2004 of 306,000 and 124,600 high-speed Internet customers and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 79,100 analog video customers and $12 million of credits issued to hurricane Katrina and Rita impacted customers related to service outages. We have restored service to our impacted customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed Internet customers are 26,800 analog video customers, 12,000 digital video customers and 600 high-speed Internet customers sold in the cable system sales in Texas and West Virginia, which closed in July 2005. The cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 and the cable system sales in Texas and West Virginia, which closed in July 2005 (collectively referred to in this section as the Systems Sales) reduced the increase in revenues by approximately $30 million.

Average monthly revenue per analog video customer increased from $67.37 for the year ended December 31, 2004 to $73.73 for the year ended December 31, 2005 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

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

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

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

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

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

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales revenues increased primarily as a result of an increase in local advertising sales and offset by a decline in national advertising sales. In addition, the increase was

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offset by a decrease of $1 million as a result of the System Sales. For the years ended December 31, 2005 and 2004, we received $15 million and $16 million, respectively, in advertising sales revenues from programmers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest expense, net. Net interest expense increased by $119 million, or 7%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. The increase in net interest expense was a result of an increase in our average borrowing rate from 8.66% in the year ended December 31, 2004 to 9.04% in the year ended December 31, 2005 and an increase of $612 million in average debt outstanding from $18.6 billion in 2004 to $19.2 billion in 2005 combined with approximately $11 million of liquidated damages on our 5.875% convertible senior notes. The increase was offset partially by $29 million in gains related to embedded derivatives in Charter s 5.875% convertible senior notes. See Note 16 to the accompanying consolidated financial statements included in this

Exchange Offer Prospectus.

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Gain (loss) on extinguishment of debt and preferred stock. Gain on extinguishment of debt and preferred stock for the year ended December 31, 2005 represents $490 million related to the exchange of approximately $6.8 billion total principal amount of outstanding debt securities of Charter Holdings for new CCH I and CIH debt securities, approximately $10 million related to the issuance of Charter Operating notes in exchange for Charter Holdings notes, approximately $3 million related to the repurchase of $136 million principal amount of our 4.75% convertible senior notes due 2006 and $23 million of gain realized on the repurchase of 508,546 shares of Series A convertible redeemable preferred stock. These gains were offset by approximately $5 million of losses related to the redemption of our subsidiary s CC V Holdings, LLC 11.875% notes due 2008. See Note 9 to the accompanying consolidated financial statements included in this Exchange Offer Prospectus. Loss on extinguishment of debt for the year ended December 31, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating refinancing in April 2004 and the redemption of our 5.75% convertible senior notes due 2005 in December 2004.

Other income, net. Other income increased $5 million primarily as a result of a gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise which did not occur in 2004 partially offset by a decrease in gains on derivative instruments and hedging activities as a result of decreases in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Other income in 2004 included a loss on debt to equity conversions which 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. Other income also includes the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and the pro rate share of the profits and losses of CC VIII.

Income tax benefit (expense). Income tax expense for the year ended December 31, 2005 was 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. Income tax benefit for the year ended December 31, 2004 was 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, attributable to the write-down of franchise assets for financial statement purposes and 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.

Income (loss) from discontinued operations, net of tax. Loss from discontinued operations, net of tax decreased from $135 million for the year ended December 31, 2004 to income from discontinued operations, net of tax of $36 million for the year ended December 31, 2005 primarily due to the impairment of franchises recognized in 2004 described above.

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

Net loss. Net loss decreased by $3.4 billion in 2005 compared to 2004 as a result of the factors described above. The impact to net loss in 2005 of the asset impairment charges, extinguishment of debt and preferred stock was to decrease net loss by approximately $482 million. 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.

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 accrued the dividend on its Series A Convertible Redeemable

Preferred Stock. In November 2005, we repurchased 508,546 shares of our Series A Convertible Redeemable Preferred Stock. Following the repurchase, 36,713 shares or preferred stock remain outstanding. In addition, the Certificate of Designation governing the Series A Convertible Redeemable Preferred Stock was amended to (i) delete the dividend rights of the remaining shares outstanding and (ii) increase the liquidation preference and redemption price from $100 to $105.4063 per share, which amount shall further increase at the rate of 7.75% per annum, compounded quarterly, from September 30, 2005.

Loss per common share. The loss per common share decreased by $11.34, or 78%, as a result of the factors described above.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels and pay-per-view programming. The increase in programming costs was a result of price increases, particularly in sports programming, an increased number of channels carried on our systems, and an increase in digital video customers, partially offset by a decrease in analog video customers. Additionally, the increase in programming costs was reduced by $42 million as a result of the Systems Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of $59 million and $63 million for the year ended December 31, 2004 and 2003, respectively. Programming costs for the year ended December 31, 2004 also include a $5 million reduction related to the settlement of a dispute with TechTV, Inc., a related party. See Note 25 to the accompanying consolidated financial statements included in this Exchange Offer Prospectus.

Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider fees, maintenance and pole rental expense. The increase in service costs resulted primarily from additional activity associated with ongoing infrastructure maintenance. The increase in service costs was reduced by $15 million as a result of the System Sales. Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased primarily as a result of increased

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salary, benefit and commission costs. The increase in advertising sales expenses was reduced by $2 million as a result of the System Sales.

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

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

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses resulted primarily from increases in costs associated with our commercial business of $21 million, third party call center costs resulting from increased emphasis on customer service of $10 million, bad debt expense of $9 million and costs associated with salaries and benefits of $11 million offset by decreases in and rent expense of $3 million.

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

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

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

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

Interest expense, net. Net interest expense increased by $113 million, or 7%, for the year ended December 31, 2004 compared to the year ended December 31, 2003. The increase in net interest expense was a result of an increase in our average borrowing rate from 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 extinguishment of debt. Loss on extinguishment of debt for the year ended December 31, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating refinancing in April 2004 and the redemption of our 5.75% convertible senior notes due 2005 in December 2004. Gain on extinguishment of debt 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

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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 income, net. Other income decreased $358 million primarily as a result of a decrease in minority interest. 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. This was coupled with an increase in net gains on derivative instruments and hedging activities as a result of increases in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Other income in 2004 included a loss on debt to equity conversions which 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. Other income also includes the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and the pro rata share of the profits and losses of CC VIII.

Income tax benefit. Income tax benefits were realized for the years ended December 31, 2004 and 2003 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 because the deferred tax liabilities decreased as a result of the write-down of franchise assets for financial statement purposes and 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 CII 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.

Income (loss) from discontinued operations, net of tax. Income from discontinued operations, net of tax decreased from $3 million for the year ended December 31, 2003 to loss from discontinued operations, net of tax of $135 million for the year ended December 31, 2005 primarily due to the impairment of franchises recognized in 2004 described above.

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

Net loss. Net loss increased by $4.1 billion in 2004 compared to 2003 as a result of the factors described above. The impact to net loss in 2004 of the impairment of franchises, 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 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 a quarterly cumulative cash dividend at an annual rate of 5.75% on a liquidation preference of $100 per share.

Loss per common share. The loss per common share increased by $13.65 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.

Recent Financing Transactions

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

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

We have a significant level of debt. Our long-term financing as of June 30, 2006 consists of $5.8 billion of credit facility debt, $13.2 billion accreted value of high-yield notes and $848 million accreted value of convertible senior notes. For the remainder of 2006, none of the Company s debt matures, and in 2007 and 2008, $130 million and $50 million mature, respectively. In 2009 and beyond, significant additional amounts will become due under our remaining long-term debt obligations.

Our business requires significant cash to fund debt service costs, capital expenditures and ongoing operations. We have historically funded these requirements through cash flows from operating activities, borrowings under our credit facilities, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the six months ended June 30, 2006, we generated $205 million of net cash flows from operating activities after paying cash interest of $791 million. In addition, we used approximately $539 million for purchases of property, plant and equipment. Finally, we had net cash flows from financing activities of $383 million. We expect that our mix of sources of funds will continue to change in the future based on overall needs relative to our cash flow and on the availability of funds under our credit facilities, our access to the debt and equity markets, the timing of possible asset sales and our ability to generate cash flows from operating activities. We continue to explore asset dispositions as one of several possible actions that we could take in the future to improve our liquidity, but we do not presently believe unannounced future asset sales to be a significant source of liquidity.

We expect that cash on hand, cash flows from operating activities, proceeds from sale of assets and the amounts available under our credit facilities will be adequate to meet our cash needs through 2007. We believe that cash flows from operating activities and amounts available under our credit facilities may

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not be sufficient to fund our operations and satisfy our interest and principal repayment obligations in 2008 and will not be sufficient to fund such needs in 2009 and beyond. See Risk Factors Risks Related to Our and Our Subsidiaries Significant Indebtedness We may not generate (or, in general, have available to the applicable obligor) sufficient cash flow or access to additional external liquidity sources to fund our capital expenditures, ongoing operations and debt obligations, including our payment obligations under the Convertible Notes and the CCH II Notes, which could have a material adverse effect on you as holders of the Convertible Notes and the CCH II Notes. We continue to work with our financial advisors in our approach to addressing liquidity, debt maturities and our overall balance sheet leverage.

Debt Covenants

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

Specific Limitations

Our ability to make interest payments on our convertible senior notes, and, in 2009, to repay the outstanding principal of our convertible senior notes of $863 million will depend on our ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of June 30, 2006, Charter Holdco was owed $3 million in intercompany loans from its subsidiaries, which were available to pay interest and principal on our convertible senior notes. In addition, Charter has $74 million of U.S. government securities pledged as security for the next three scheduled semi-annual interest payments on Charter s 5.875% convertible senior notes.

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

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the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of such distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in the credit facilities.

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

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 June 30, 2006, there was no default under Charter Holdings indentures and Charter Holdings met its leverage ratio test based on June 30, 2006 financial results. Such distributions would be restricted, however, if Charter Holdings fails to meet these tests at such time. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of such distribution. During periods in which distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that are not restricted payments) in Charter Holdco or Charter up to an amount determined by a formula, as long as there is no default under the indentures.

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

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

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

Sale of Assets

In July 2006, we closed the Cebridge Transaction and New Wave Transaction for net proceeds of approximately $896 million. We used the net proceeds from the asset sales to repay (but not reduce permanently) amounts outstanding under our revolving credit facility. The Orange Transaction is scheduled to close in the third quarter of 2006.

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

Acquisition

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

Summary of Outstanding Contractual Obligations

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

		Payments by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Contractual Obligations					
Long-Term Debt Principal Payments(1)	$ 19,336	$ 50	$ 1,129	$ 5,781	$ 12,376
Long-Term Debt Interest Payments(2)	11,426	1,469	3,224	3,066	3,667
Payments on Interest Rate Instruments(3)	18	8	10		
Capital and Operating Lease Obligations(1)	94	20	27	23	24
Programming Minimum Commitments(4)	1,253	342	678	233	
Other(5)	301	146	70	42	43
Total	$ 32,428	$ 2,035	$ 5,138	$ 9,145	$ 16,110

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

(2) Interest payments on variable debt are estimated using amounts outstanding at December 31, 2005 and the average implied forward London Interbank Offering Rate (LIBOR) rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2005. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.

(3) Represents amounts we will be required to pay under our interest rate hedge agreements estimated using the average implied forward LIBOR applicable rates for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2005.

(4) We pay programming fees under multi-year contracts ranging from three to ten years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Programming costs included in the accompanying statement of operations were $1.4 billion, $1.3 billion and $1.2 billion for the years ended December 31, 2005, 2004 and 2003, respectively. Certain of our programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the aggregate guaranteed

minimum commitments under our programming contracts.

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

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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 related to continuing operations for the years ended December 31, 2005, 2004 and 2003, was $44 million, $42 million and $38 million, respectively.

We pay franchise fees under multi-year franchise agreements based on a percentage of revenues earned from video service per year. We also pay other franchise related costs, such as public education grants under multi-year agreements. Franchise fees and other franchise-related costs related to continuing operations included in the accompanying statement of operations were $165 million, $159 million and $157 million for the years ended December 31, 2005, 2004 and 2003, respectively.

We also have $165 million in letters of credit, primarily to our various worker s compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount we may borrow under our credit facilities.

Historical Operating, Financing and Investing Activities

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

We held $56 million in cash and cash equivalents as of June 30, 2006 compared to $21 million as of December 31, 2005. For the six months ended June 30, 2006, we generated $205 million of net cash flows from operating activities after paying cash interest of $791 million. In addition, we used approximately $539 million for purchases of property, plant and equipment. Finally, we had net cash flows from financing activities of $383 million.

Operating Activities. Net cash provided by operating activities increased $24 million, or 13%, from $181 million for the six months ended June 30, 2005 to $205 million for the six months ended June 30, 2006. For the six months ended June 30, 2006, net cash provided by operating activities increased primarily as a result of changes in operating assets and liabilities that provided $107 million more cash during the six months ended June 30, 2006 than the corresponding period in 2005 coupled with an increase in revenue over cash costs offset by an increase in cash interest expense of $99 million over the corresponding prior period.

Net cash provided by operating activities decreased $212 million, or 45%, from $472 million for the year ended December 31, 2004 to $260 million for the year ended December 31, 2005. For the year ended December 31, 2005, net cash provided by operating activities decreased primarily as a result of an increase in cash interest expense of $189 million over the corresponding prior period and changes in operating assets and liabilities that used $45 million more cash during the year ended December 31, 2005 than the corresponding period in 2004. The change in operating assets and liabilities is primarily the result of the finalization of the class action settlement in the third quarter of 2005.

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 an increase in cash interest expense of $203 million over the corresponding prior period and 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. The change in operating assets and liabilities is primarily the result of the benefit in the year ended December 31, 2003 from collection of receivables from programmers related to network launches, while accounts receivable remained essentially flat in the year ended December 31, 2004.

Investing Activities. Net cash used by investing activities for the six months ended June 30, 2006 and 2005 was $553 million and $477 million, respectively. Investing activities used $76 million more cash during the six months ended June 30, 2006 than the corresponding period in 2005 primarily as a result of increased cash used for the purchase of cable systems discussed above coupled with a decrease in our liabilities related to capital expenditures. Net cash used in investing activities for the years ended December 31, 2005 and 2004 was $1.0 billion and $243 million, respectively. Investing activities used $782 million more cash during the year ended December 31, 2005 than the corresponding period in 2004 primarily as a result of cash provided by proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC in 2004 which did not recur in 2005 combined with increased cash used for capital expenditures.

Net cash used in investing activities for the years ended December 31, 2004 and 2003 was $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 proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC offset by increased cash used for capital expenditures.

Financing Activities. Net cash provided by financing activities was $383 million for the six months ended June 30, 2006 and net cash used in financing activities was $314 million for the six months ended June 30, 2005. The increase in cash provided during the six months ended June 30, 2006 as compared to the corresponding period in 2005, was primarily the result of proceeds from the issuance of debt.

Net cash provided by financing activities was $136 million and $294 million for the years ended December 31, 2005 and 2004, respectively. The decrease in cash provided during the year ended December 31, 2005, as compared to the corresponding period in 2004, was primarily the result of an decrease in borrowings of long-term debt and proceeds from issuance of debt offset by a decrease in repayments 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.

Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were $539 million, $542 million, $1.1 billion, $924 million and $854 million for the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, respectively. Capital expenditures decreased as a result of decreases in expenditures related to line extensions and support capital partially offset by increased spending on customer premise equipment as a result of increases in digital video, high-speed Internet and telephone customers. See the table below for more details.

Our capital expenditures are funded primarily from cash flows from operating activities, the issuance of debt and borrowings under credit facilities. In addition, during the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, our liabilities related to capital expenditures decreased $9 million and increased $45 million and $8 million and decreased $43 million and $33 million, respectively.

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

We have adopted capital expenditure disclosure guidance, which was developed by eleven publicly traded cable system operators, including Charter, with the support of the National Cable &

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Telecommunications Association (NCTA). The disclosure is intended to provide more consistency in the reporting of operating statistics in capital expenditures and customers among peer companies in the cable industry. These disclosure guidelines are not required disclosure under Generally Accepted Accounting Principles (GAAP), nor do they impact our accounting for capital expenditures under GAAP.

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

	Six Months Ended June 30,		Year Ended December 31,		
	2006	**2005**	**2005**	**2004**	**2003**
Customer premise equipment(a)	$ 258	$ 228	$ 434	$ 451	$ 380
Scalable infrastructure(b)	97	89	174	108	67
Line extensions(c)	59	77	134	131	131
Upgrade/ Rebuild(d)	23	22	49	49	132
Support capital(e)	102	126	297	185	144
Total capital expenditures	$ 539	$ 542	$ 1,088	$ 924	$ 854

(a) Customer premise equipment includes costs incurred at the customer residence to secure new customers, revenue units and additional bandwidth revenues. It also includes customer installation costs in accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies,* and customer premise equipment (e.g., set-top 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).

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 June 30, 2006 and December 31, 2005, our long-term debt totaled approximately $19.9 billion and $19.4 billion, respectively. This debt was comprised of approximately $5.8 billion and $5.7 billion of credit facilities debt, $13.2 billion and $12.8 billion accreted amount of high-yield notes and $848 million and $863 million accreted amount of convertible senior notes, respectively.

As of June 30, 2006 and December 31, 2005, the weighted average interest rate on the credit facility debt was approximately 8.0% and 7.8%, the weighted average interest rate on the high-yield notes was approximately 10.3% and 10.2%, and the weighted average interest rate on the convertible senior notes was approximately 6.4% and 6.3%, respectively, resulting in a blended weighted average interest rate of 9.5% and 9.3%, respectively. The interest rate on approximately 77% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements as of June 30, 2006 and December 31, 2005. The fair value of our high-yield notes was $11.0 billion and $10.4 billion at June 30, 2006 and December 31, 2005, respectively. The fair value of our convertible senior notes was $628 million and $647 million at June 30, 2006 and December 31, 2005, respectively. The fair value of our credit facilities is $5.8 billion and $5.7 billion at June 30, 2006 and December 31, 2005, respectively. The fair value of high-yield 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. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, other income includes gains of $2 million, $1 million, $3 million, $4 million and $8 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss and minority interest. For the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, a gain of $0 and $9 million, $16 million, $42 million and $48 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

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

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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 June 30, 2006 (dollars in millions):

	2006	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value at June 30, 2006
Debt:									
Fixed Rate	$	$ 105	$	$ 1,547	$ 2,143	$ 771	$ 8,842	$ 13,408	$ 11,058
Average Interest Rate		8.25%		7.48%	10.28%	11.01%	10.38%	10.06%	
Variable Rate	$	$ 25	$ 50	$ 50	$ 600	$ 850	$ 4,775	$ 6,350	$ 6,359
Average Interest Rate		8.21%	8.14%	8.22%	9.64%	8.66%	8.39%	8.75%	
Interest Rate Instruments:									
Variable to Fixed Swaps	$ 898	$ 875	$	$	$	$	$	$ 1,773	$ 6
Average Pay Rate	7.70%	7.58%						7.64%	
Average Receive Rate	8.33%	8.31%						8.32%	

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

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

Recently Issued Accounting Standards

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

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

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations.* This interpretation clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This pronouncement

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is effective for fiscal years ending after December 15, 2005. The adoption of this interpretation did not have a material impact on our financial statements.

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CCH II, LLC

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

Reference is made to Risk Factors and Special Note Regarding Forward-Looking Statements, which describe important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following discussion should be read in conjunction with the audited consolidated financial statements of CCH II, LLC and its subsidiaries as of and for the years ended December 31, 2005, 2004 and 2003 and the unaudited consolidated financial statements of CCH II, LLC and its subsidiaries as of and for the six months ended June 30, 2006.

For a chart showing our ownership structure, see page 3. The data included in this Management s Discussion and Analysis of Financial Condition and Results of Operations of CCH II, LLC takes into account the effect of the sale of various geographically non-strategic assets to Cebridge Connections, Inc., which are reflected as discontinued operations in all periods presented. See Summary Recent Events Assets Sales.

CCH II, LLC is a holding company whose primary assets are equity interests in our cable operating subsidiaries. CCH II, LLC was formed in March 2003 and is a direct subsidiary of CCH I, which is an indirect subsidiary of Charter Holdings. Charter Holdings is an indirect subsidiary of Charter. See Summary Organizational Structure. Our parent companies are CCH I, CIH, Charter Holdings, CCHC, Charter Holdco and Charter.

CCH II, LLC is the sole owner of CCO Holdings, which in turn is the sole owner of Charter Operating. In June and July 2003, Charter Holdings entered into a series of transactions and contributions which had the effect of (i) creating CCH II, LLC, CCH II Capital Corp., CCH I, our direct parent, and our subsidiary, CCO Holdings and (ii) combining and contributing all of Charter Holdings interest in cable operations not previously owned by Charter Operating to Charter Operating. This transaction was accounted for as a reorganization of entities under common control. Accordingly, the historical financial condition and results of operations of CCH II, LLC combine the historical financial condition and results of operations of Charter Operating, and the operations of subsidiaries contributed by Charter Holdings, for all periods presented.

Introduction

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

- the July 2006 sale of cable systems to Cebridge and New Wave for proceeds of approximately $896 million;
- the April 2006 refinancing of our existing credit facilities (see Liquidity and Capital Resources Recent Refinancing Transactions);
- the January 2006 sale by us of an additional $450 million principal amount of our 10.250% senior notes due 2010;
- the September 2005 exchange by our direct and indirect parent companies, Charter Holdings, CCH I and CIH, of approximately $6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;
- the August 2005 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of $300 million of $8^3/4$ % senior notes due 2013;

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

the repurchase during 2005 of $136 million of Charter s 4.75% convertible senior notes due 2006 leaving $20 million in principal amount outstanding; and

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

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

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

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

Sale of Assets

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

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Overview of Operations

Approximately 86% of our revenues for the six months ended June 30, 2006 and year ended December 31, 2005 are attributable to monthly subscription fees charged to customers for our video, high-speed Internet, telephone and commercial services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 14% of revenue for the six months ended June 30, 2006 and year ended December 31, 2005 is derived primarily from advertising revenues, franchise fee revenues, which are collected by us but then paid to local franchising authorities, pay-per-view and VOD programming where users are charged a fee for individual programs viewed, installation or reconnection fees charged to customers to commence or reinstate service, and commissions related to the sale of merchandise by home shopping services. We have increased revenues during the past three years, primarily through the sale of digital video and high-speed Internet services to new and existing customers and price increases on video services offset in part by dispositions of systems. Going forward, our goal is to increase revenues by offsetting video customer losses with price increases, sales of incremental advanced services such as telephone, high-speed Internet, video on demand, digital video recorders and high definition television. See Business Sales and Marketing 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 easier access to financing, greater personnel resources, greater brand name recognition, long-established relationships with regulatory authorities and customers, and, often fewer regulatory burdens. Additionally, controlling our cost of operations is critical, particularly cable programming costs, which have historically increased at rates in excess of inflation and are expected to continue to increase. See Business Programming 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 workforce to control cost increases and improve productivity, and leveraging our size in purchasing activities.

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

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We have a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the combination of operating costs and interest costs we incur because of our debt and the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties. We expect that these expenses will remain significant, and we therefore expect to continue to report net losses for the foreseeable future. We had net losses of $335 million and $220 million for the six months ended June 30, 2006 and 2005, respectively.

Critical Accounting Policies and Estimates

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

Capitalization of labor and overhead costs;

Useful lives of property, plant and equipment;

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

Income taxes; and

Litigation.

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

Capitalization of labor and overhead costs

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

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

We make judgments regarding the installation and construction activities to be capitalized. We capitalize direct labor and overhead using standards developed from actual costs and applicable operational data. We calculate standards for items such as the labor rates, overhead rates and the actual amount of

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time required to perform a capitalizable activity. For example, the standard amounts of time required to perform capitalizable activities are based on studies of the time required to perform such activities. Overhead rates are established based on an analysis of the nature of costs incurred in support of capitalizable activities and a determination of the portion of costs that is directly attributable to capitalizable activities. The impact of changes that resulted from these studies were not significant in the periods presented.

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

- Dispatching a truck roll to the customer s dwelling for service connection;
- Verification of serviceability to the customer s dwelling (i.e., determining whether the customer s dwelling is capable of receiving service by our cable network and/or receiving advanced or Internet services);
- Customer premise activities performed by in-house field technicians and third-party contractors in connection with customer installations, installation of network equipment in connection with the installation of expanded services and equipment replacement and betterment; and
- Verifying the integrity of the customer s network connection by initiating test signals downstream from the headend to the customer s digital set-top 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 internal direct labor and overhead of $100 million, $185 million, $159 million and $166 million, respectively, for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003. Capitalized internal direct labor and overhead costs have increased in 2005 as a result of the use of more internal labor for capitalizable installations rather than third party contractors.

Useful lives of property, plant and equipment

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

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

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

Impairment of property, plant and equipment, franchises and goodwill

As discussed above, the net carrying value of our property, plant and equipment is significant. We also have recorded a significant amount of cost related to franchises, pursuant to which we are granted the right to operate our cable distribution network throughout our service areas. The net carrying value of franchises as of June 30, 2006, December 31, 2005 and 2004 was approximately $9.3 billion (representing 59% of total assets), $9.8 billion (representing 61% of total assets) and $9.9 billion (representing 58% of total assets), respectively. Furthermore, our noncurrent assets include approximately $61 million of goodwill.

We adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet specified indefinite-life criteria no longer be amortized against earnings, but instead must be tested for impairment annually based on valuations, or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite-life, we considered the exclusivity of the franchise, the expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not we are in compliance with any technology upgrading requirements. We have concluded that as of June 30, 2006, December 31, 2005, 2004 and 2003 more than 99% of our franchises qualify for indefinite-life treatment under SFAS No. 142, and that less than one percent of our franchises do not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. Costs of finite-lived franchises, along with costs associated with franchise renewals, are amortized on a straight-line basis over 10 years, which represents management s best estimate of the average remaining useful lives of such franchises. Franchise amortization expense was approximately $1 million, $4 million, $3 million and $7 million for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003, respectively. We expect that amortization expense on franchise assets will be approximately $2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors. Our goodwill is also deemed to have an indefinite life under SFAS No. 142.

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

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franchises, as well as goodwill, as of January 1, 2002 upon adoption of SFAS No. 142, and on an annual basis or more frequently as deemed necessary.

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

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

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

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

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

In September 2004, EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill,* was issued, which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. We performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total franchise impairment of approximately $3.3 billion. We recorded a cumulative effect of accounting change of $840 million (approximately $875 million before tax effects of $16 million and minority interest effects of $19 million) for the year ended December 31, 2004 representing the portion of our total franchise impairment attributable to no longer including goodwill with franchise assets. The remaining $2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised

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estimates of future cash flows in our valuation and was recorded as impairment of franchises in our consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by us and our industry peers in the third quarter of 2004 primarily as a result of increased competition from DBS providers and decreased growth rates in our and our industry peers high speed Internet customers in the third quarter of 2004, in part as a result of increased competition from DSL providers, led us to lower our projected growth rates and accordingly revise our estimates of future cash flows from those used at October 1, 2003. See Business Competition.

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

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

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

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

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

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

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

Income Taxes

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

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

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ownership of outstanding common membership units will instead generally be allocated to Vulcan Cable III Inc. and CII (the Special Profit Allocations). The Special Profit Allocations to Vulcan Cable III Inc. and CII will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The amount and timing of the Special Profit Allocations are subject to the potential application of, and interaction with, the Curative Allocation Provisions described in the following paragraph. The LLC Agreement generally provides that any additional net tax profits are to be allocated among the members of Charter Holdco based generally on their respective percentage ownership of Charter Holdco common membership units.

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

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

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

In addition, under their exchange agreement with Charter, Vulcan Cable III Inc. and CII may exchange some or all of their membership units in Charter Holdco for Charter s Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange

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were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable III Inc. and CII could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable III Inc. and CII immediately prior to the consummation of the exchange. In the event Vulcan Cable III Inc. and CII choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. Mr. Allen has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter. The ability of Charter to utilize net operating loss carryforwards is potentially subject to certain limitations (see Risk Factors Risks Related to 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. Charter s ability to make such income tax payments, if any, will depend on its liquidity or its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries, including us.

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

We are currently under examination by the Internal Revenue Service for the tax years ending December 31, 2002 and 2003. Our results (excluding 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 and if any of these matters are resolved unfavorably resulting in payment obligations in excess of management s best estimate of the outcome, such resolution could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity.

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Results of Operations

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

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

	Six Months Ended June 30,			
	2006		2005	
Revenues	$ 2,703	100%	$ 2,481	100%
Costs and expenses:				
Operating (excluding depreciation and amortization)	1,215	45%	1,081	44%
Selling, general and administrative	551	20%	483	19%
Depreciation and amortization	690	26%	730	29%
Asset impairment charges	99	4%	39	2%
Other operating expenses, net	10		6	
	2,565	95%	2,339	94%
Operating income from continuing operations	138	5%	142	6%
Interest expense, net	(488)		(408)	
Other income (expense), net	(19)		35	
	(507)		(373)	
Loss before income taxes	(369)		(231)	
Income tax expense	(4)		(8)	
Loss from continuing operations	(373)		(239)	
Income from discontinued operations, net of tax	38		19	
Net loss	$ (335)		$ (220)	

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

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

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

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

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

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

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

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

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

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

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

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

Programming costs consist primarily of costs paid to programmers for analog, premium, digital channels, VOD and pay-per-view programming. The increase in programming costs was primarily a result of rate increases and increases in digital video customers. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of $8 million and $17 million for the six months ended June 30, 2006 and 2005, respectively.

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

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

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

	Six Months Ended June 30,					
	2006		2005		2006 over 2005	
		% of		% of		%

	Expenses	Revenues	Expenses	Revenues	Change	Change
General and administrative	$ 471	17%	$ 418	17%	$ 53	13%
Marketing	80	3%	65	2%	15	23%
	$ 551	20%	$ 483	19%	$ 68	14%

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, customer care center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses resulted primarily from a rise in salaries and benefits of

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$34 million, increases in billing costs of $7 million, computer maintenance of $5 million, bad debt expense of $5 million, telephone expense of $4 million, contractor labor of $3 million and property and casualty insurance of $2 million partially offset by decreases in consulting services of $8 million.

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

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

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

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

Interest expense, net. Net interest expense increased by $80 million, or 20%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The increase in net interest expense was a result of an increase in our average borrowing rate from 7.85% in the six months ended June 30, 2005 to 8.54% in the six months ended June 30, 2006 and an increase of $815 million in average debt outstanding from $10.0 billion for the six months ended June 30, 2005 compared to $10.8 billion for the six months ended June 30, 2006.

Other income (expense), net. Other income decreased $54 million from other income of $35 million for the six months ended June 30, 2005 to other expense of $19 million for the six months ended June 30, 2006 primarily as a result of a $21 million increase in the loss on extinguishment of debt from $6 million for the six months ended June 30, 2005 to $27 million for the six months ended June 30, 2006. See Note 6 to the condensed consolidated financial statements included in this Exchange Offer Prospectus. Other income also decreased as a result of a $15 million decrease in net gains on derivative instruments and hedging activities as a result of decreases in gains on interest rate agreements that do not qualify for hedge accounting under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities.* In addition, the six months ended June 30, 2005 included a $20 million gain on investments for the six months ended June 30, 2005 recognized as a result of a gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise. Other income also includes the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and the pro rata share of the profits and losses of CC VIII.

Income tax expense. Income tax expense was recognized through increases in deferred tax liabilities 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. Income tax expense was offset by deferred tax benefits of $21 million and $6 million related to asset impairment charges recorded in the six months ended June 30, 2006 and 2005, respectively.

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

Net loss. Net loss increased by $115 million, or 52%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 as a result of the factors described above.

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Year Ended December 31, 2005, December 31, 2004 and December 31, 2003

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):

	Year Ended December 31,					
	2005		2004		2003	
Revenues	$ 5,033	100%	$ 4,760	100%	$ 4,616	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization)	2,203	44%	1,994	42%	1,873	41%
Selling, general and administrative	1,012	20%	965	20%	909	20%
Depreciation and amortization	1,443	29%	1,433	30%	1,396	30%
Impairment of franchises			2,297	48%		
Asset impairment charges	39	1%				
Other operating (income) expenses, net	32		13		(46)	(1)%
	4,729	94%	6,702	140%	4,132	90%
Operating income (loss) from continuing operations	304	6%	(1,942)	(40)%	484	10%
Interest expense, net	(858)		(726)		(545)	
Other income, net	99		71		27	
Loss from continuing operations before income taxes and cumulative effect of accounting change	(455)		(2,597)		(34)	
Income tax benefit (expen						