CHARTER COMMUNICATIONS INC /MO/
Form 10-Q
October 31, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

or

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

For the transition period from ________ to _________

Commission file number: 000-27927

Charter Communications, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**43-1857213**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

12405 Powerscourt Drive
St. Louis, Missouri 63131
(Address of principal executive offices including zip code)

(314) 965-0555
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes oNo þ

Number of shares of Class A common stock outstanding as of September 30, 2006: 426,699,355
Number of shares of Class B common stock outstanding as of September 30, 2006: 50,000

Charter Communications, Inc.
Quarterly Report on Form 10-Q for the Period ended September 30, 2006

Table of Contents

This quarterly report on Form 10-Q is for the three and nine months ended September 30, 2006. The Securities and Exchange Commission ("SEC") allows us to "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this quarterly report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this quarterly report. In this quarterly report, "we," "us" and "our" refer to Charter Communications, Inc., Charter Communications Holding Company, LLC and their subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS:

This quarterly report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding, among other things, our plans, strategies and prospects, both business and financial including, without limitation, the forward-looking statements set forth in the "Results of Operations" and "Liquidity and Capital Resources" sections under Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this quarterly report. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions including, without limitation, the factors described under "Risk Factors" under Part II, Item 1A. Many of the forward-looking statements contained in this quarterly report may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "will," "may," "intend," "estimated," "aim," "on track," "target," "opportunity" and "potential" among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this quarterly report are set forth in this quarterly report and in other reports or documents that we file from time to time with the SEC, and include, but are not limited to:

- the availability, in general, of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash flows from operating activities, further borrowings or other sources and, in particular, our ability to be able to provide under the applicable debt instruments such funds (by dividend, investment or otherwise) to the applicable obligor of such debt;
- our ability to comply with all covenants in our indentures and credit facilities, any violation of which would result in a violation of the applicable facility or indenture and could trigger a default of other obligations under cross-default provisions;
- our ability to pay or refinance debt prior to or when it becomes due and/or to take advantage of market opportunities and market windows to refinance that debt through new issuances, exchange offers or otherwise, including restructuring our balance sheet and leverage position;
- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services and to maintain and grow a stable customer base, particularly in the face of increasingly aggressive competition from other service providers;
- our ability to obtain programming at reasonable prices or to pass programming cost increases on to our customers;
- general business conditions, economic uncertainty or slowdown; and
- the effects of governmental regulation, including but not limited to local franchise authorities, on our business.

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by this cautionary statement. We are under no duty or obligation to update any of the forward-looking statements after the date of this quarterly report.

PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Charter Communications, Inc.:

We have reviewed the condensed consolidated balance sheet of Charter Communications, Inc. and subsidiaries (the Company) as of September 30, 2006; the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2006 and 2005; and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2005, and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 27, 2006, except as to Note 4, which is as of August 8, 2006, which includes explanatory paragraphs regarding the adoption, effective September 30, 2004, of EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill,* and effective January 1, 2003, of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123,* we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

St. Louis, Missouri
October 30, 2006

4

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 85	$ 21
Accounts receivable, less allowance for doubtful accounts of $17 and $17, respectively	186	214
Prepaid expenses and other current assets	90	92
Total current assets	361	327
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation of $7,326 and $6,749, respectively	5,263	5,840
Franchises, net	9,221	9,826
Total investment in cable properties, net	14,484	15,666
OTHER NONCURRENT ASSETS	353	438
Total assets	$ 15,198	$ 16,431
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,360	$ 1,191
Total current liabilities	1,360	1,191
LONG-TERM DEBT	18,799	19,388
NOTE PAYABLE - RELATED PARTY	55	49
DEFERRED MANAGEMENT FEES - RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	602	517
MINORITY INTEREST	191	188
PREFERRED STOCK - REDEEMABLE; $.001 par value; 1 million shares authorized; 36,713 shares issued and outstanding	4	4
SHAREHOLDERS' DEFICIT:		
Class A Common stock; $.001 par value; 1.75 billion shares authorized; 426,699,355 and 416,204,671 shares issued and outstanding, respectively	--	--
Class B Common stock; $.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding	--	--
Preferred stock; $.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding	--	--
Additional paid-in capital	5,309	5,241
Accumulated deficit	(11,140)	(10,166)
Accumulated other comprehensive income	4	5

Total shareholders' deficit		(5,827)		(4,920)
Total liabilities and shareholders' deficit	$	15,198	$	16,431

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)
Unaudited

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
REVENUES	$ 1,388	$ 1,265	$ 4,091	$ 3,746
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	615	564	1,830	1,645
Selling, general and administrative	309	263	860	746
Depreciation and amortization	334	362	1,024	1,092
Asset impairment charges	60	--	159	39
Other operating expenses, net	4	22	14	28
	1,322	1,211	3,887	3,550
Operating income from continuing operations	66	54	204	196
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(466)	(462)	(1,409)	(1,333)
Other income, net	131	504	121	553
	(335)	42	(1,288)	(780)
Income (loss) from continuing operations before income taxes	(269)	96	(1,084)	(584)
INCOME TAX EXPENSE	(64)	(24)	(124)	(80)
Income (loss) from continuing operations	(333)	72	(1,208)	(664)
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	200	4	234	33
Net income (loss)	(133)	76	(974)	(631)
Dividends on preferred stock - redeemable	--	(1)	--	(3)
Net income (loss) applicable to common stock	$ (133)	$ 75	$ (974)	$ (634)

EARNINGS (LOSS) PER COMMON SHARE:								
Income (loss) from continuing operations, basic	$	(1.02)	$	0.23	$	(3.77)	$	(2.16)
Income (loss) from continuing operations, diluted	$	(1.02)	$	0.08	$	(3.77)	$	(2.16)
Net income (loss), basic	$	(0.41)	$	0.24	$	(3.04)	$	(2.06)
Net income (loss), diluted	$	(0.41)	$	0.09	$	(3.04)	$	(2.06)
Weighted average common shares outstanding, basic		326,910,632		316,214,740		320,680,698		307,761,930
Weighted average common shares outstanding, diluted		326,910,632		1,012,591,842		320,680,698		307,761,930

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)
Unaudited

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (974)	$ (631)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	1,032	1,134
Asset impairment charges	159	39
Noncash interest expense	108	188
Deferred income taxes	123	71
(Gain) loss on sale of assets, net	(198)	5
Option compensation expense, net	10	11
Gain on derivative instruments and hedging activities, net	(8)	(43)
Gain on extinguishment of debt	(101)	(504)
Other, net	(12)	7
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	46	(3)
Prepaid expenses and other assets	23	85
Accounts payable, accrued expenses and other	140	(241)
Net cash flows from operating activities	348	118
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(795)	(815)
Change in accrued expenses related to capital expenditures	4	36
Proceeds from sales of assets, including cable systems	988	38
Purchase of cable system	(42)	--
Purchase of investments	--	(3)
Proceeds from investments	42	17
Other, net	(1)	(2)
Net cash flows from investing activities	196	(729)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	5,970	897
Repayments of long-term debt	(6,846)	(1,141)
Proceeds from issuance of debt	440	294
Payments for debt and equity issuance costs	(44)	(67)
Net cash flows from financing activities	(480)	(17)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64	(628)

CASH AND CASH EQUIVALENTS, beginning of period		21		650
CASH AND CASH EQUIVALENTS, end of period	$	85	$	22
CASH PAID FOR INTEREST	$	1,121	$	1,170
NONCASH TRANSACTIONS:				
Issuance of debt by CCH I Holdings, LLC	$	--	$	2,423
Issuance of debt by CCH I, LLC	$	419	$	3,686
Issuance of debt by CCH II, LLC	$	410	$	--
Issuance of debt by Charter Communications Operating, LLC	$	37	$	333
Retirement of Charter Communications Holdings, LLC debt	$	(796)	$	(7,000)
Retirement of Renaissance Media Group LLC debt	$	(37)	$	--
Issuance of Class A common stock	$	68	$	--
Retirement of convertible notes	$	(255)	$	--

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

1. Organization and Basis of Presentation

Charter Communications, Inc. ("Charter") is a holding company whose principal assets at September 30, 2006 are the 52% controlling common equity interest in Charter Communications Holding Company, LLC ("Charter Holdco") and "mirror" notes that are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Charter Holdco is the sole owner of CCHC, LLC ("CCHC"), which is the sole owner of Charter Communications Holdings, LLC ("Charter Holdings"). The condensed consolidated financial statements include the accounts of Charter, Charter Holdco, CCHC, Charter Holdings and all of their subsidiaries where the underlying operations reside, which are collectively referred to herein as the "Company." Charter has 100% voting control over Charter Holdco and had historically consolidated on that basis. Charter continues to consolidate Charter Holdco as a variable interest entity under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46(R) *Consolidation of Variable Interest Entities*. Charter Holdco's limited liability company agreement provides that so long as Charter's Class B common stock retains its special voting rights, Charter will maintain a 100% voting interest in Charter Holdco. Voting control gives Charter full authority and control over the operations of Charter Holdco. All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed Internet services and, in some areas, advanced broadband services such as high definition television, video on demand, and telephone. The Company sells its cable video programming, high-speed Internet, telephone and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures typically included in Charter's Annual Report on Form 10-K have been condensed or omitted for this quarterly report. The accompanying condensed consolidated financial statements are unaudited and are subject to review by regulatory authorities. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include capitalization of labor and overhead costs; depreciation and amortization costs; impairments of property, plant and equipment, franchises and goodwill; income taxes; and contingencies. Actual results could differ from those estimates.

Reclassifications

Certain 2005 amounts have been reclassified to conform with the 2006 presentation, including discontinued operations as discussed in Note 3.

2. Liquidity and Capital Resources

The Company incurred net loss applicable to common stock of $133 million for the three months ended September 30, 2006, and $974 million and $634 million for the nine months ended September 30, 2006 and 2005, respectively. The Company had net income applicable to common stock of $75 million for the three months ended September 30, 2005. The Company’s net cash flows from operating activities were $348 million and $118 million for the nine months ended September 30, 2006 and 2005, respectively.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

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 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.

In September 2006, Charter Holdings and its wholly owned subsidiaries, CCH I, LLC (“CCH I”) and CCH II, completed the exchange of approximately $797 million in total principal amount of outstanding debt securities of Charter Holdings. Holders of Charter Holdings notes due in 2009-2010 tendered $308 million principal amount of notes for $250 million principal amount of new 10.25% CCH II notes due 2013 and $37 million principal amount of 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011-2012 tendered $490 million principal amount of notes for $425 million principal amount of 11% CCH I notes due 2015. The Charter Holdings notes received in the exchanges were thereafter distributed to Charter Holdings and retired. Also in September 2006, CCHC and CCH II completed the exchange of $450 million principal amount of Charter’s outstanding 5.875% senior convertible notes due 2009 for $188 million in cash, 45 million shares of Charter’s Class A Common Stock and $146 million principal amount of 10.25% CCH II notes due 2010. The convertible notes received in the exchange are held by CCHC.

The Company has a significant level of debt. The Company's long-term financing as of September 30, 2006 consists of $5.1 billion of credit facility debt, $13.3 billion accreted value of high-yield notes and $407 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 the Company’s remaining long-term debt obligations.

The Company requires significant cash to fund debt service costs, capital expenditures and ongoing operations. The Company has historically funded these requirements through cash flows from operating activities, borrowings under its credit facilities, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the nine months ended September 30, 2006, the Company generated $348 million of net cash flows from operating activities, after paying cash interest of $1.1 billion. In addition, the Company received proceeds from the sale of assets of approximately $988 million and used approximately $795 million for purchases of property, plant and equipment. Finally, the Company had net cash flows used in financing activities of $480 million.

The Company expects that cash on hand, cash flows from operating activities, proceeds from sales of assets, and the amounts available under its credit facilities will be adequate to meet its cash needs through 2007. The Company believes that cash flows from operating activities and amounts available under the Company’s credit facilities may not be sufficient to fund the Company’s operations and satisfy its interest and principal repayment obligations in 2008, and will not be sufficient to fund such needs in 2009 and beyond. The Company continues to work with its financial advisors in its approach to addressing liquidity, debt maturities and its overall balance sheet leverage.

Debt Covenants

The Company's ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Operating credit facilities. The Charter Operating credit facilities, along with the Company's indentures, contain certain restrictive covenants, some of which require the Company to maintain specified financial ratios, and meet financial tests and to provide annual audited financial statements with an unqualified opinion from the

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

Company’s independent auditors. As of September 30, 2006, the Company is in compliance with the covenants under its indentures and credit facilities, and the Company expects to remain in compliance with those covenants for the next twelve months. As of September 30, 2006, the Company’s potential availability under its credit facilities totaled approximately $1.6 billion, although the actual availability at that time was only $673 million because of limits imposed by covenant restrictions. Continued access to the Company’s credit facilities is subject to the Company remaining in compliance with these covenants, including covenants tied to the Company’s 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 the Company’s debt obligations could occur. An event of default under any of the Company’s debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company’s consolidated financial condition and results of operations.

Specific Limitations

Charter’s ability to make interest payments on its convertible senior notes, and, in 2009, to repay the outstanding principal of its convertible senior notes of $413 million, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of September 30, 2006, Charter Holdco was owed $3 million in intercompany loans from its subsidiaries and had $7 million in cash, which were available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has $75 million of U.S. government securities pledged as security for the semi-annual interest payments on Charter’s convertible senior notes scheduled in November 2006 and in 2007. CCHC also holds $450 million of Charter’s convertible senior notes. As a result, if CCHC continues to hold those notes, CCHC will receive interest payments on the convertible senior notes from the pledged government securities. The cumulative amount of interest payments expected to be received by CCHC may be available to be distributed to pay interest on the outstanding $413 million of the convertible senior notes due in 2008 and May 2009, although CCHC may use those amounts for other purposes.

Distributions by Charter’s subsidiaries to a parent company (including Charter, Charter Holdco and CCHC) 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 and each applicable subsidiary’s leverage ratio test is met at the time of such distribution. For the quarter ended September 30, 2006, there was no default under any of these indentures. However, certain of the Company’s subsidiaries did not meet their applicable leverage ratio tests based on September 30, 2006 financial results. As a result, distributions from certain of the Company’s subsidiaries to their parent companies would have been restricted at such time and will continue to be restricted unless those tests are met. 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.

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 September 30, 2006, there was no default under Charter Holdings’ indentures and the other specified tests were met. However, Charter Holdings did not meet the leverage ratio test of 8.75 to 1.0 based on September 30, 2006 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco would have been restricted at such time and will continue to be restricted unless that test is met. 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.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

3. Sale of Assets

In 2006, the Company sold 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 sales price of approximately $971 million. The Company used the net proceeds from the asset sales to reduce borrowings, but not commitments, under the revolving portion of the Company's credit facilities. 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 nine months ended September 30, 2006 of approximately $99 million related to the New Wave Transaction and the Orange Transaction. Also in the third quarter of 2006, the Company recorded asset impairment charges of $60 million related to other cable systems meeting the criteria of assets held for sale.

During the second quarter of 2006, the Company determined, based on changes in the Company's organizational and cost structure, that its asset groupings for long lived asset accounting purposes are at the level of their individual market areas, which are at a level below the Company's geographic clustering. As a result, the Company has 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, including a gain of $200 million on the closing of the transaction, have been presented as discontinued operations, net of tax for the three and nine months ended September 30, 2006 and all prior periods presented herein have been reclassified to conform to the current presentation.

Summarized consolidated financial information for the three and nine months ended September 30, 2006 and 2005 for the West Virginia and Virginia cable systems is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues	$ --	$ 53	$ 109	$ 166
Income before income taxes	$ 200	$ 9	$ 238	$ 28
Income tax benefit (expense)	$ --	$ (5)	$ (4)	$ 5
Net income	$ 200	$ 4	$ 234	$ 33
Earnings per common share, basic	$ 0.61	$ 0.01	$ 0.73	$ 0.11
Earnings per common share, diluted	$ 0.61	$ --	$ 0.73	$ 0.11

In 2005, the Company closed the sale of certain cable systems in Texas, West Virginia and Nebraska representing a total of approximately 33,000 analog video customers. During the nine months ended September 30, 2005, certain of those 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 nine months ended September 30, 2005 of approximately $39 million.

4. Franchises and Goodwill

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographical clustering of the

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

Company's cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

As of September 30, 2006 and December 31, 2005, indefinite-lived and finite-lived intangible assets are presented in the following table:

	September 30, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises with indefinite lives	$ 9,204	$ --	$ 9,204	$ 9,806	$ --	$ 9,806
Goodwill	61	--	61	52	--	52
	$ 9,265	$ --	$ 9,265	$ 9,858	$ --	$ 9,858
Finite-lived intangible assets:						
Franchises with finite lives	$ 23	$ 6	$ 17	$ 27	$ 7	$ 20

For the nine months ended September 30, 2006, the net carrying amount of indefinite-lived and finite-lived franchises was reduced by $455 million and $2 million, respectively, related to cable asset sales completed in the first and third quarter of 2006 and $147 million as a result of the asset impairment charges recorded related to these cable asset sales (see Note 3). Franchise amortization expense represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. Franchise amortization expense for the three and nine months ended September 30, 2006 was approximately $0 and $1 million, respectively, and for the three and nine months ended September 30, 2005 was approximately $1 million and $3 million, respectively. The Company expects 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.

For the nine months ended September 30, 2006, the net carrying amount of goodwill increased $9 million as a result of the Company's purchase of certain cable systems in Minnesota from Seren Innovations, Inc. in January 2006.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Accounts payable - trade	$ 85	$ 114
Accrued capital expenditures	77	73
Accrued expenses:		

Interest		513		333
Programming costs		273		269
Franchise-related fees		58		67
Compensation		105		90
Other		249		245
	$	1,360	$	1,191

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

6. Long-Term Debt

Long-term debt consists of the following as of September 30, 2006 and December 31, 2005:

	September 30, 2006		December 31, 2005	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
Long-Term Debt				
Charter Communications, Inc.:				
4.750% convertible senior notes due 2006	$ --	$ --	$ 20	$ 20
5.875% convertible senior notes due 2009	413	407	863	843
Charter Communications Holdings, LLC:				
8.250% senior notes due 2007	105	105	105	105
8.625% senior notes due 2009	187	187	292	292
9.920% senior discount notes due 2011	63	63	198	198
10.000% senior notes due 2009	105	105	154	154
10.250% senior notes due 2010	32	32	49	49
11.750% senior discount notes due 2010	21	21	43	43
10.750% senior notes due 2009	71	71	131	131
11.125% senior notes due 2011	52	52	217	217
13.500% senior discount notes due 2011	62	62	94	94
9.625% senior notes due 2009	52	52	107	107
10.000% senior notes due 2011	71	71	137	136
11.750% senior discount notes due 2011	55	55	125	120
12.125% senior discount notes due 2012	91	88	113	100
CCH I Holdings, LLC:				
11.125% senior notes due 2014	151	151	151	151
9.920% senior discount notes due 2014	471	471	471	471
10.000% senior notes due 2014	299	299	299	299
11.750% senior discount notes due 2014	815	815	815	781
13.500% senior discount notes due 2014	581	581	581	578
12.125% senior discount notes due 2015	217	210	217	192
CCH I, LLC:				

11.000% senior notes due 2015	3,987	4,094	3,525	3,683
CCH II, LLC:				
10.250% senior notes due 2010	2,198	2,190	1,601	1,601
10.250% senior notes due 2013	250	262	--	--
CCO Holdings, LLC:				
8¾% senior notes due 2013	800	795	800	794
Senior floating notes due 2010	550	550	550	550
Charter Communications Operating, LLC:				
8.000% senior second lien notes due 2012	1,100	1,100	1,100	1,100
8 3/8% senior second lien notes due 2014	770	770	733	733
Renaissance Media Group LLC:				
10.000% senior discount notes due 2008	--	--	114	115
Credit Facilities				
Charter Operating	5,140	5,140	5,731	5,731
	$ 18,709	$ 18,799	$ 19,336	$ 19,388

The accreted values presented above generally represent the principal amount of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date except as follows. Certain of the CIH notes,

13

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

CCH I notes and CCH II notes issued in exchange for Charter Holdings notes and Charter convertible notes in 2005 and 2006 are recorded for financial reporting purposes at values different from the current accreted value for legal purposes and notes indenture purposes (the amount that is currently payable if the debt becomes immediately due). As of September 30, 2006, the accreted value of the Company's debt for legal purposes and notes indenture purposes is approximately $18.5 billion.

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

In March 2006, the Company exchanged $37 million of Renaissance Media Group LLC 10% senior discount notes due 2008 for $37 million principal amount of new Charter Operating 8 3/8% senior second-lien notes due 2014 issued in a private transaction. The terms and conditions of the new Charter Operating 8 3/8% senior second-lien notes due 2014 are identical to Charter Operating's currently outstanding 8 3/8% senior second-lien notes due 2014. In June 2006, the Company retired the remaining $77 million principal amount of Renaissance Media Group LLC's 10% senior discount notes due 2008.

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 bridge loan was terminated.

In June 2006, the Company retired the remaining $20 million principal amount of Charter's 4.75% convertible senior notes due 2006.

In September 2006, Charter Holdings, CCH I and CCH II, completed the exchange of approximately $797 million in total principal amount of outstanding debt securities of Charter Holdings for $250 million principal amount of new 10.25% CCH II notes due 2013 and $462 million principal amount of 11% CCH I notes due 2015. The Charter Holdings notes received in the exchange were thereafter distributed to Charter Holdings and cancelled.

Also in September 2006, CCHC and CCH II completed the exchange of $450 million principal amount of Charter's outstanding 5.875% senior convertible notes due 2009 for $188 million in cash, 45 million shares of Charter's Class A common stock valued at $68 million and $146 million principal amount of 10.25% CCH II notes due 2010. The convertible notes received in the exchange are held by CCHC.

7. Minority Interest and Equity Interest of Charter Holdco

Charter is a holding company whose primary assets are a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems, and $863 million at September 30, 2006 and December 31, 2005 of mirror notes that are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Minority interest on the Company's consolidated balance sheets as of September 30, 2006 and December 31, 2005 primarily represents preferred membership interests in CC VIII, LLC ("CC VIII"), an indirect subsidiary of Charter Holdco, of $191 million and $188 million, respectively. As more fully described in Note

20, this preferred interest is held by Mr. Allen, Charter's Chairman and controlling shareholder, and CCH I. Approximately 5.6% of CC VIII's income is allocated to minority interest.

8. Share Lending Agreement

Charter issued 94.9 million and 22.0 million shares of Class A common stock during 2005 and the nine months ended September 30, 2006, respectively, in public offerings. The shares were issued pursuant to the share lending agreement, pursuant to which Charter had previously agreed to loan up to 150 million shares to Citigroup Global

Markets Limited ("CGML"). Because less than the full 150 million shares covered by the share lending agreement were sold in offerings through September 30, 2006, Charter is obligated until November 2006 to issue, at CGML's request, up to an additional 33.1 million loaned shares in subsequent registered public offerings pursuant to the share lending agreement.

These offerings of Charter's Class A common stock were conducted to facilitate transactions by which investors in Charter's 5.875% convertible senior notes due 2009, issued on November 22, 2004, hedged their investments in the convertible senior notes. Charter did not receive any of the proceeds from the sale of this Class A common stock. However, under the share lending agreement, Charter received a loan fee of $.001 for each share that it lends to CGML. As of September 30, 2006, 57.4 million shares had been returned under the share lending agreement.

The issuance of up to a total of 150 million shares of common stock (of which 116.9 million were issued in 2005 and 2006) pursuant to this share lending agreement is essentially analogous to a sale of shares coupled with a forward contract for the reacquisition of the shares at a future date. An instrument that requires physical settlement by repurchase of a fixed number of shares in exchange for cash is considered a forward purchase instrument. While the share lending agreement does not require a cash payment upon return of the shares, physical settlement is required (i.e., the shares borrowed must be returned at the end of the arrangement). The fair value of the 59.5 million loaned shares outstanding is approximately $90 million as of September 30, 2006. However, the net effect on shareholders' deficit of the shares lent pursuant to the share lending agreement, which includes Charter's requirement to lend the shares and the counterparties' requirement to return the shares, is de minimis and represents the cash received upon lending of the shares and is equal to the par value of the common stock to be issued.

The 59.5 million shares issued through September 30, 2006 and still outstanding pursuant to the share lending agreement are required to be returned, in accordance with the contractual arrangement, and are treated in basic and diluted earnings per share as if they were already returned and retired. Consequently, there is no impact of the shares of common stock lent under the share lending agreement in the earnings per share calculation.

9. Comprehensive Loss

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying condensed consolidated balance sheets. Additionally, the Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive loss, after giving effect to the minority interest share of such gains and losses. Comprehensive loss for the three months ended September 30, 2006 was $134 million and was $975 million and $627 million for the nine months ended September 30, 2006 and 2005, respectively. Comprehensive income for the three months ended September 30, 2005 was $77 million.

10. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) to manage its interest costs. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company has agreed to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

The Company does not hold or issue derivative instruments for trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the

15

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended September 30, 2006 and 2005, other income, net includes gains of $0 and $1 million, respectively, and for each of the nine months ended September 30, 2006 and 2005, other income, net includes gains of $2 million which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended September 30, 2006 and 2005, a loss of $1 million and a gain of $5 million, respectively, and for the nine months ended September 30, 2006 and 2005, a loss of $1 million and a gain of $14 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as other income in the Company’s condensed consolidated statements of operations. For the three months ended September 30, 2006 and 2005, other income, net includes losses of $3 million and gains of $16 million, respectively, and for the nine months ended September 30, 2006 and 2005, other income, net includes gains of $6 million and $41 million, respectively, for interest rate derivative instruments not designated as hedges.

As of September 30, 2006 and December 31, 2005, the Company had outstanding $1.7 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.

Certain provisions of the Company’s 5.875% convertible senior notes due 2009 are considered embedded derivatives for accounting purposes and are required to be accounted for separately from the convertible senior notes. In accordance with SFAS No. 133, these derivatives are marked to market with gains or losses recorded in interest expense on the Company’s condensed consolidated statement of operations. For the three months ended September 30, 2006 and 2005, the Company recognized $0 and a loss of $1 million, respectively, and for the nine months ended September 30, 2006 and 2005, the Company recognized gains of $2 million and $26 million, respectively. The gains resulted in a decrease in interest expense related to these derivatives and losses resulted in an increase in interest expense. At September 30, 2006 and December 31, 2005, $1 million and $1 million, respectively, is recorded in accounts payable and accrued expenses relating to the short-term portion of these derivatives and $0 and $1 million, respectively, is recorded in other long-term liabilities related to the long-term portion.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

11. Revenues

Revenues consist of the following for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Video	$ 836	$ 811	$ 2,520	$ 2,434
High-speed Internet	267	222	773	647
Telephone	37	9	86	23
Advertising sales	81	72	228	207
Commercial	78	68	227	196
Other	89	83	257	239
	$ 1,388	$ 1,265	$ 4,091	$ 3,746

12. Operating Expenses

Operating expenses consist of the following for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Programming	$ 371	$ 343	$ 1,126	$ 1,021
Service	216	196	624	552
Advertising sales	28	25	80	72
	$ 615	$ 564	$ 1,830	$ 1,645

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
General and administrative	$ 253	$ 226	$ 724	$ 644
Marketing	56	37	136	102
	$ 309	$ 263	$ 860	$ 746

Components of selling expense are included in general and administrative and marketing expense.

17

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

14. Other Operating Expenses, Net

Other operating expenses, net consist of the following for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Loss on sale of assets, net	$ 2	$ 1	$ 2	$ 5
Hurricane asset retirement loss	--	19	--	19
Special charges, net	2	2	12	4
	$ 4	$ 22	$ 14	$ 28

Special charges, net for the three and nine months ended September 30, 2006 primarily represent severance associated with the closing of call centers and divisional restructuring. Special charges, net for the three and nine months ended September 30, 2005 primarily represent severance costs as a result of reducing workforce, consolidating administrative offices and executive severance.

For the three and nine months ended September 30, 2005, hurricane asset retirement loss represents the write off of $19 million of the Company’s plants’ net book value as a result of significant plant damage suffered by certain of the Company’s cable systems in Louisiana as a result of hurricanes Katrina and Rita.

For the nine months ended September 30, 2005, special charges, net were offset by approximately $2 million related to an agreed upon discount in respect of the portion of settlement consideration payable under the settlement terms of class action lawsuits.

15. Other Income, Net

Other income, net consists of the following for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Gain (loss) on derivative instruments and hedging activities, net	$ (3)	$ 17	$ 8	$ 43
Gain on extinguishment of debt	128	490	101	498
Minority interest	(2)	(3)	(3)	(9)
Gain on investments	8	--	12	21
Other, net	--	--	3	--
	$ 131	$ 504	$ 121	$ 553

Gain on extinguishment of debt

The exchange in September 2006 between Charter Holdings and CCH I and CCH II resulted in a gain on extinguishment of debt for the three and nine months ended September 30, 2006 of approximately $108 million. The exchange in September 2006 between Charter and CCHC and CCH II resulted in a gain on extinguishment of debt for the three and nine months ended September 30, 2006 of approximately $20 million. See Note 6.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

The Charter Operating refinancing in April 2006 resulted in a loss on extinguishment of debt for the three and nine months ended September 30, 2006 of approximately $27 million. See Note 6.

In September 2005, Charter Holdings and its wholly owned subsidiaries, CCH I and CIH, completed the exchange of approximately $6.8 billion total principal amount of outstanding debt securities of Charter Holdings for $3.5 billion principal amount of new 11% CCH I senior secured notes due 2015. Holders of Charter Holdings notes due 2011 and 2012 exchanged $845 million principal amount of notes for $662 million and $2.5 billion principal amount of various series of new CIH notes. The exchanges resulted in a net gain on extinguishment of debt for the three and nine months ended September 30, 2005 of approximately $490 million.

In March and June 2005, Charter Operating consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placements, approximately $333 million principal amount of new notes with terms identical to Charter Operating's 8.375% senior second lien notes due 2014 in exchange for approximately $346 million of the Charter Holdings 8.25% senior notes due 2007. The exchanges resulted in a gain on extinguishment of debt of approximately $10 million for the nine months ended September 30, 2005.

During the nine months ended September 30, 2005, the Company repurchased in private transactions from a small number of institutional holders, a total of $131 million principal amount of its 4.75% convertible senior notes due 2006. These transactions resulted in a net gain on extinguishment of debt of approximately $4 million for the nine months ended September 30, 2005.

In March 2005, Charter's subsidiary, CC V Holdings, LLC, redeemed all of its 11.875% notes due 2008, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of redemption was approximately $122 million and was funded through borrowings under the Charter Operating credit facilities. The redemption resulted in a loss on extinguishment of debt for the nine months ended September 30, 2005 of approximately $5 million.

Gain on investments

Gain on investments for the three and nine months ended September 30, 2006 represents gains realized on the sale of investments. Gain on investments for the nine months ended September 30, 2005 primarily represents a gain realized on an exchange of the Company's interest in an equity investee for an investment in a larger enterprise.

16. Income Taxes

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

As of September 30, 2006 and December 31, 2005, the Company had net deferred income tax liabilities of approximately $435 million and $325 million, respectively. Approximately $199 million and $212 million of the deferred tax liabilities recorded in the condensed consolidated financial statements at September 30, 2006 and December 31, 2005, respectively, relate to certain indirect subsidiaries of Charter Holdco, which file separate income tax returns.

During the three and nine months ended September 30, 2006, the Company recorded $64 million and $128 million of income tax expense, respectively. Income tax expense of $0 and $4 million was associated with discontinued operations for the same periods. During the three and nine months ended September 30, 2005, the Company

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

recorded $29 million and $75 million of income tax expense, respectively. Income tax expense of $5 million and income tax benefit of $5 million was associated with discontinued operations for the same periods. Income tax expense is recognized through increases in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as current federal and state income tax expense and increases to the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries.

Increases in the deferred tax liabilities related to Charter's investment in Charter Holdco occurred as a result of cable asset sales. Income tax expense was offset by deferred tax benefits of $9 million and $30 million related to asset impairment charges recorded in the three and nine months ended September 30, 2006, respectively. Additionally, income tax expense was offset by deferred tax benefits of $6 million related to asset impairment charges recorded in the nine months ended September 30, 2005.

The Company recorded an additional deferred tax asset of approximately $25 million and $337 million during the three and nine months ended September 30, 2006, respectively, relating to net operating loss carryforwards, but recorded a valuation allowance with respect to this amount because of the uncertainty of the ability to realize a benefit from the Company's carryforwards in the future. The Company has deferred tax assets of approximately $4.5 billion and $4.2 billion as of September 30, 2006 and December 31, 2005, respectively, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. The deferred tax assets include approximately $2.6 billion and $2.4 billion of tax net operating loss carryforwards as of September 30, 2006 and December 31, 2005, respectively (generally expiring in years 2007 through 2026), of Charter and its indirect corporate subsidiaries. Valuation allowances of $4.0 billion and $3.7 billion as of September 30, 2006 and December 31, 2005, respectively, exist with respect to these deferred tax assets.

Realization of any benefit from the Company's tax net operating losses is dependent on: (1) Charter and its indirect corporate subsidiaries' ability to generate future taxable income and (2) the absence of certain future deemed "ownership changes" of Charter's common stock. An "ownership change" as defined in the applicable federal income tax rules, would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate the Company's ability to use a substantial portion of its net operating losses to offset any future taxable income. Future transactions and the timing of such transactions could cause an ownership change. Such transactions include additional issuances of common stock by the Company (including but not limited to the issuance of up to a total of 150 million shares of common stock (of which 116.9 million were issued September 30, 2006) under the share lending agreement), the issuance of shares of common stock upon future conversion of Charter's convertible senior notes, reacquisition of the borrowed shares by Charter (of which 57.4 million were returned through September 30, 2006), or acquisitions or sales of shares by certain holders of Charter's shares, including persons who have held, currently hold, or accumulate in the future five percent or more of Charter's outstanding stock (including upon an exchange by Mr. Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco into CCI common stock). Many of the foregoing transactions are beyond management's control.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset certain deferred tax liabilities.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 2003 and 2002. In addition, one of the Company's indirect corporate subsidiaries is under examination by the Internal Revenue Service for the tax year ended December 31, 2004. The Company's results (excluding Charter and the indirect corporate subsidiaries, with the exception of the indirect corporate subsidiary under examination) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on the Company's condensed consolidated financial condition or results of operations.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

17. Contingencies

The Company is a defendant or co-defendant in several unrelated lawsuits claiming infringement of various patents relating to various aspects of its businesses. Other industry participants are also defendants in certain of these cases, and, in many cases, the Company expects that any potential liability would be the responsibility of its equipment vendors pursuant to applicable contractual indemnification provisions. In the event that a court ultimately determines that the Company infringes on any intellectual property rights, it may be subject to substantial damages and/or an injunction that could require the Company or its vendors to modify certain products and services the Company offers to its subscribers. While the Company believes the lawsuits are without merit and intends to defend the actions vigorously, the lawsuits could be material to the Company's consolidated results of operations of any one period, and no assurance can be given that any adverse outcome would not be material to the Company's consolidated financial condition, results of operations or liquidity.

Charter is a party to other lawsuits and claims that arise in the ordinary course of conducting its business. The ultimate outcome of these other legal matters pending against the Company or its subsidiaries cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity, such lawsuits could have, in the aggregate, a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

18. Earnings (Loss) Per Share

Basic earnings (loss) per share is based on the average number of shares of common stock outstanding during the period. Diluted earnings per share is based on the average number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of stock options, restricted stock, convertible debt, convertible redeemable preferred stock and exchangeable membership units. Basic loss per share equals diluted loss per share for the three months ended September 30, 2006 and the nine months ended September 30, 2006 and 2005.

	Three Months Ended September 30, 2005				
	Earnings	Earnings from Continuing Operations	Shares	Earnings Per Share	Earnings Per Share from Continuing Operations
Basic earnings per share	$ 75	$ 71	316,214,740	$ 0.24	$ 0.23
Effect of restricted stock	--	--	840,112	--	--
Effect of Charter Investment Class B Common Stock	--	--	222,818,858	(0.10)	(0.10)
Effect of Vulcan Cable III Inc. Class B Common Stock	--	--	116,313,173	(0.02)	(0.02)
Effect of 5.875% convertible senior notes due 2009	13	13	356,404,959	(0.03)	(0.03)
Diluted earnings per share	$ 88	$ 84	1,012,591,842	$ 0.09	$ 0.08

The effect of restricted stock represents the shares resulting from the vesting of nonvested restricted stock, calculated using the treasury stock method. Charter Investment Class B common stock and Vulcan Cable III Inc. Class B common stock represent membership units in Charter Holdco, held by entities controlled by Mr. Allen, that are exchangeable at any time on a one-for-one basis for shares of Charter Class B common stock, which are in turn convertible on a one-for-one basis into shares of Charter Class A common stock. The 5.875% convertible senior notes due 2009 represent the shares resulting from the assumed conversion of the notes into shares of Charter's Class A common stock.

All options to purchase common stock, which were outstanding during the three months ended September 30, 2005, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares or they were otherwise antidilutive. Charter's 4.75% convertible senior notes, Charter's series A convertible redeemable preferred stock and all of the outstanding exchangeable membership units in Charter's indirect subsidiary, CC VIII, LLC, also were not included in the computation of diluted earnings per share because the effect of the conversions would have been antidilutive.

The 27.2 million shares issued as of September 30, 2005 pursuant to the share lending agreement are required to be returned, in accordance with the contractual arrangement, and are treated in basic and diluted earnings per share as if they were already returned and retired. Consequently, there is no impact of the shares of common stock lent under the share lending agreement in the earnings per share calculation.

19. Stock Compensation Plans

The Company has stock option plans (the "Plans") which provide for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 20,000,000 shares of Charter Class A common stock), as each term is defined in the Plans. Employees, officers, consultants and directors of the Company and its subsidiaries and affiliates are eligible to receive grants under the Plans. Options granted generally vest over four to five years from the grant date, with 25% generally vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date. The Plans allow for the issuance of up to a total of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the three months ended September 30, 2006 and 2005, respectively: risk-free interest rates of 4.9% and 4.2%; expected volatility of 72.9% and 68.5%; and expected lives of 6.25 years and 4.5 years, respectively. The following weighted average assumptions were used for grants during the nine months ended September 30, 2006 and 2005, respectively: risk-free interest rates of 4.7% and 4.0%; expected volatility of 86.3% and 69.9%; and expected lives of 6.25 years and 4.5 years, respectively. The valuations assume no dividends are paid. During the three and nine months ended September 30, 2006, the Company granted 0.6 million and 5.5 million stock options, respectively, with a weighted average exercise price of $1.18 and $1.08, respectively. As of September 30, 2006, the Company had 27.5 million and 11.6 million options outstanding and exercisable, respectively, with weighted average exercise prices of $3.81 and $6.44, respectively, and weighted average remaining contractual lives of 8 years and 6 years, respectively.

On January 1, 2006, the Company adopted 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. Because the Company adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, the revised standard did not have a material impact on its financial statements. The Company recorded $3 million and $3 million of option compensation expense which is included in general and administrative expense for the three months ended September 30, 2006 and 2005, respectively, and $10 million and $11 million for the nine months ended September 30, 2006 and 2005, respectively.

In February 2006, the Compensation and Benefits Committee of Charter's Board of Directors approved a modification to the financial performance measures under Charter's Long-Term Incentive Program ("LTIP") required to be met for the performance shares to vest. After the modification, management believes that approximately 2.5 million of the performance shares are likely to vest. As such, expense of approximately $3 million will be amortized over the remaining two year service period. During the nine months ended September 30, 2006, Charter granted an additional 8.7 million performance shares under the LTIP. The impact of such grant and the modification of the 2005 awards was

$3 million for the nine months ended September 30, 2006.

20. Related Party Transactions

The following sets forth certain transactions in which the Company and the directors, executive officers and affiliates of the Company are involved. Unless otherwise disclosed, management believes that each of the transactions

22

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

CC VIII, LLC

As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, Charter's indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the "CC VIII interest") with an initial value and an initial capital account of approximately $630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the "Comcast sellers"). Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately $630 million plus 4.5% interest annually from February 2000 (the "Comcast put right"). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen became the holder of the CC VIII interest, indirectly through an affiliate. In the event of a liquidation of CC VIII, the owners of the CC VIII interest would be entitled to a priority distribution with respect to a 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC ("CC V") and the owners of the CC VIII interest in proportion to their capital accounts (which would have equaled the initial capital account of the Comcast sellers of approximately $630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003).

An issue arose as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Thereafter, the board of directors of Charter formed a Special Committee of independent directors to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a "scrivener's error" had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek the reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units.

As of October 31, 2005, Mr. Allen, the Special Committee, Charter, Charter Holdco and certain of their affiliates, agreed to settle the dispute, and execute certain permanent and irrevocable releases pursuant to the Settlement Agreement and Mutual Release agreement dated October 31, 2005 (the "Settlement"). Pursuant to the Settlement, CII has retained 30% of its CC VIII interest (the "Remaining Interests"). The Remaining Interests are subject to certain transfer restrictions, including requirements that the Remaining Interests participate in a sale with other holders or that allow other holders to participate in a sale of the Remaining Interests, as detailed in the revised CC VIII Limited Liability Company Agreement. CII transferred the other 70% of the CC VIII interest directly and indirectly, through Charter Holdco, to a newly formed entity, CCHC (a direct subsidiary of Charter Holdco and the direct parent of Charter Holdings). Of the 70% of the CC VIII interest, 7.4% has been transferred by CII to CCHC for a subordinated exchangeable note with an initial accreted value of $48 million, accreting at 14% per annum, compounded quarterly, with a 15-year maturity (the "Note"). The remaining 62.6% has been transferred by CII to Charter Holdco, in accordance with the terms of the settlement for no additional monetary consideration. Charter Holdco contributed the 62.6% interest to CCHC.

As part of the Settlement, CC VIII issued approximately 49 million additional Class B units to CC V in consideration for prior capital contributions to CC VIII by CC V, with respect to transactions that were unrelated to the dispute in connection with CII's membership units in CC VIII. As a result, Mr. Allen's pro rata share of the profits and losses of

CC VIII attributable to the Remaining Interests is approximately 5.6%.

The Note is exchangeable, at CII's option, at any time, for Charter Holdco Class A Common units at a rate equal to the then accreted value, divided by $2.00 (the "Exchange Rate"). Customary anti-dilution protections have been provided that could cause future changes to the Exchange Rate. Additionally, the Charter Holdco Class A Common units received will be exchangeable by the holder into Charter common stock in accordance with existing agreements between CII, Charter and certain other parties signatory thereto. Beginning February 28, 2009, if the closing price of Charter common stock is at or above the Exchange Rate for a certain period of time as specified in the Exchange Agreement, Charter Holdco may require the exchange of the Note for Charter Holdco Class A Common units at the Exchange Rate.

CCHC has the right to redeem the Note under certain circumstances, for cash in an amount equal to the then accreted value. Such amount, if redeemed prior to February 28, 2009, would also include a make whole provision up to the accreted value through February 28, 2009. CCHC must redeem the Note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity.

As part of the debt exchange in September 2006 described in Note 6, CCHC contributed the CC VIII interest in the Class A preferred equity interests of CC VIII to CCH I. The CC VIII interest was pledged as security for all CCH I notes. The CC VIII preferred interests are entitled to a 2% accreting priority return on the priority capital.

21. Recently Issued Accounting Standards

In June 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. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the Company will adopt FIN 48 effective January 1, 2007. The Company is currently assessing the impact of FIN 48 on its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Charter Communications, Inc. ("Charter") is a holding company whose principal assets as of September 30, 2006 are a 52% controlling common equity interest in Charter Communications Holding Company, LLC ("Charter Holdco") and "mirror" notes that are payable by Charter Holdco to Charter and have the same principal amount and terms as Charter's convertible senior notes. "We," "us" and "our" refer to Charter and its subsidiaries.

We are a broadband communications company operating in the United States. We offer our customers traditional cable video programming (analog and digital video) as well as high-speed Internet services and, in some areas, advanced broadband services such as high definition television, video on demand, telephone and interactive television. We sell our cable video programming, high-speed Internet, telephone and advanced broadband services on a subscription basis.

The following table summarizes our customer statistics for analog and digital video, residential high-speed Internet and residential telephone as of September 30, 2006 and 2005:

	Approximate as of	
	September 30, 2006 (a)	September 30, 2005 (a)
Video Cable Services:		
Analog Video:		
Residential (non-bulk) analog video customers (b)	5,216,900	5,636,100
Multi-dwelling (bulk) and commercial unit customers (c)	259,700	270,200
Total analog video customers (b)(c)	5,476,600	5,906,300
Digital Video:		
Digital video customers (d)	2,767,900	2,749,400
Non-Video Cable Services:		
Residential high-speed Internet customers (e)	2,343,200	2,120,000
Residential telephone customers (f)	339,600	89,900

After giving effect to the acquisition of cable systems in January 2006 and the sales of certain non-strategic cable systems in the third quarter of 2006, September 30, 2005 analog video customers, digital video customers, high-speed Internet customers and telephone customers would have been 5,523,500, 2,588,700, 2,023,900 and 104,700, respectively.

(a) "Customers" include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts (such as our employees). At September 30, 2006 and 2005, "customers" include approximately 51,200 and 49,300 persons whose accounts were over 60 days past due in payment, approximately 11,300 and 9,900 persons whose accounts were over 90 days past due in payment, and approximately 6,200 and 6,000 of which were over 120 days past due in payment, respectively.

(b) "Analog video customers" include all customers who receive video services (including those who also purchase high-speed Internet and telephone services) but excludes approximately 289,700 and 261,800 customers at September 30, 2006 and 2005, respectively, who receive high-speed Internet service only or telephone service only and who are only counted as high-speed Internet customers or telephone customers.

(c) Included within "analog video customers" are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit ("EBU") basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. The EBU method of estimating analog video customers is consistent with the methodology used in determining costs paid to programmers and has been consistently applied year over year. As we increase our effective analog prices to residential customers without a corresponding increase in the prices charged to commercial service or multi-dwelling customers, our EBU count will decline even if there is no real loss in commercial service or multi-dwelling customers.

(d) "Digital video customers" include all households that have one or more digital set-top terminals. Included in "digital video customers" on September 30, 2006 and 2005 are approximately 6,700 and 8,900 customers, respectively, that receive digital video service directly through satellite transmission.

(e) "Residential high-speed Internet customers" represent those customers who subscribe to our high-speed Internet service.

(f) "Residential telephone customers" include all households receiving telephone service.

Overview of Operations

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 $974 million and $634 million for the nine months ended September 30, 2006 and 2005, respectively.

For the three months ended September 30, 2006 and 2005, our operating income from continuing operations was $66 million and $54 million, respectively, and for the nine months ended September 30, 2006 and 2005, our operating income from continuing operations was $204 million and $196 million, respectively. Operating income from continuing operations includes depreciation and amortization expense and asset impairment charges but excludes interest expense. We had operating margins of 5% and 4% for the three months ended September 30, 2006 and 2005, respectively, and 5% for each of the nine months ended September 30, 2006 and 2005. The increase in operating income from continuing operations and operating margins for the three months ended September 30, 2006 compared to 2005 was principally due to an increase in revenue over expenses as a result of increased customers for digital and advanced services as well as overall rate increases.

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 sold 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 sales price 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 nine months ended September 30, 2006 of approximately $99 million related to the New Wave Transaction and the Orange Transaction. Also, in the third quarter of 2006, we recorded asset impairment charges of $60 million related to other cable systems meeting the criteria of assets held for sale. In the third quarter of 2006 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, including a gain of approximately $200 million on the transaction, have been presented as discontinued operations, net of tax for the three and nine months ended September 30, 2006 and all prior periods presented herein have been reclassified to conform to the current presentation.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and the means by which we develop estimates therefore, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2005 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2006 Compared to Three Months Ended September 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 data):

	Three Months Ended September 30,					
		2006			2005	
Revenues	$	1,388	100%	$	1,265	100%
Costs and expenses:						
Operating (excluding depreciation and amortization)		615	44%		564	45%
Selling, general and administrative		309	22%		263	21%
Depreciation and amortization		334	24%		362	29%
Asset impairment charges		60	5%		--	--
Other operating expenses, net		4	--		22	2%
		1,322	95%		1,211	96%
Operating income from continuing operations		66	5%		54	4%
Interest expense, net		(466)			(462)	
Other income, net		131			504	
		(335)			42	
Income (loss) from continuing operations before income taxes		(269)			96	
Income tax expense		(64)			(24)	
Income (loss) from continuing operations		(333)			72	
Income from discontinued operations, net of tax		200			4	
Net income (loss)		(133)			76	
		--			(1)	

Dividends on preferred stock - redeemable				
Net income (loss) applicable to common stock	$	(133)	$	75
Earnings (loss) per common share:				
Income (loss) from continuing operations, basic	$	(1.02)	$	0.23
Income (loss) from continuing operations, diluted	$	(1.02)	$	0.08
Net income (loss), basic	$	(0.41)	$	0.24
Net income (loss), diluted	$	(0.41)	$	0.09
Weighted average common shares outstanding, basic		326,910,632		316,214,740
Weighted average common shares outstanding, diluted		326,910,632		1,012,591,842

Revenues. The overall increase in revenues from continuing operations in 2006 compared to 2005 is principally the result of an increase from September 30, 2005 of 299,100 high-speed Internet customers, 133,200 digital video

27

customers and 234,900 telephone customers, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 189,700 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, video on demand ("VOD"), high definition television and digital video recorder service.

Average monthly revenue per analog video customer increased to $83.27 for the three months ended September 30, 2006 from $74.34 for the three months ended September 30, 2005 primarily as a result of incremental revenues from advanced services and price increases. Average monthly revenue per analog video customer represents total quarterly revenue, divided by three, divided by the average number of analog video customers during the respective period.

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

	Three Months Ended September 30,					
	2006		2005		2006 over 2005	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	$ 836	60%	$ 811	64%	$ 25	3%
High-speed Internet	267	19%	222	18%	45	20%
Telephone	37	3%	9	1%	28	311%
Advertising sales	81	6%	72	6%	9	13%
Commercial	78	6%	68	5%	10	15%
Other	89	6%	83	6%	6	7%
	$ 1,388	100%	$ 1,265	100%	$ 123	10%

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Approximately $28 million of the increase was the result of price increases and incremental video revenues on advanced services from existing customers and approximately $15 million was the result of an increase in digital video customers. The increases were offset by decreases of approximately $6 million related to a decrease in analog video customers and approximately $12 million related to the cable asset sales described above in “Sale of Assets” (the “System Sales”).

Approximately $37 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 $10 million related to the increase in average price of the service. The increases were offset by approximately $2 million related to the System Sales.

Revenues from telephone services increased primarily as a result of an increase of 234,900 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 and national advertising sales. For the three months ended September 30, 2006 and 2005, we received $3 million and $5 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 three months ended September 30, 2006 and 2005, franchise fees represented approximately 51% and 53%, respectively, of total other revenues. The increase in other revenues was primarily the result of an increase in installation revenue of $3 million and wire maintenance fees of $3 million.

Operating Expenses. Programming costs represented 61% of operating expenses for each of the three months ended September 30, 2006 and 2005, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Three Months Ended September 30,					
	2006		2005		2006 over 2005	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	$ 371	27%	$ 343	27%	$ 28	8%
Service	216	15%	196	16%	20	10%
Advertising sales	28	2%	25	2%	3	12%
	$ 615	44%	$ 564	45%	$ 51	9%

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels, VOD and pay-per-view programming. The increase in programming costs was primarily a result of rate increases and was offset in part by approximately $5 million related to the System Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of $4 million and $9 million for the three months ended September 30, 2006 and 2005, respectively.

Our cable programming costs have increased in every year 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 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 fully 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, costs of providing high-speed Internet service and telephone service, franchise fees, system utilities, maintenance and pole rent expense. The increase in service costs resulted primarily from increased costs of providing high-speed Internet and telephone service of $10 million, increased franchise fees of $3 million, increased labor and maintenance costs to improve service levels and to support our advanced products of $6 million, and higher fuel and utility prices of $1 million. The increases in service costs were offset in part by approximately $3 million related to 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 costs in these areas.

Selling, General and Administrative Expenses. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Three Months Ended September 30,					
	2006		2005		2006 over 2005	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	$ 253	18%	$ 226	18%	$ 27	12%
Marketing	56	4%	37	3%	19	51%

	$	309	22%	$	263	21%	$	46	17%

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

29

primarily from a rise in call center costs of $16 million, an increase in salaries and benefits of $8 million, property and casualty losses of $6 million, bad debt expense of $3 million, billing costs of $2 million, and computer maintenance of $2 million offset by decreases in consulting services of $10 million, approximately $2 million related to the System Sales.

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 $28 million for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. The decrease in depreciation was primarily the result of assets becoming fully depreciated. Approximately $7 million of the decrease was related to the System Sales.

Asset Impairment Charges. Asset impairment charges for the three months ended September 30, 2006 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 decreased $18 million from $22 million for the three months ended September 30, 2005 to $4 million for the three months ended September 30, 2006 primarily as a result of a $19 million hurricane asset retirement loss recognized during the three months ended September 30, 2005 which did not recur in 2006.

Interest Expense, Net. Net interest expense increased by $4 million, or 1%, for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. The increase in net interest expense was a result of an increase in our average borrowing rate from 9.1% in the three months ended September 30, 2005 to 9.5% in the three months ended September 30, 2006 and an increase of $146 million in average debt outstanding from $19.2 billion for the three months ended September 30, 2005 to $19.3 billion for the three months ended September 30, 2006.

Other Income, Net. Other income decreased $373 million primarily as a result of the decrease in gain on extinguishment of debt for the three months ended September 30, 2006 as compared to September 30, 2005. See Note 15 to the condensed consolidated financial statements. Other income also decreased as a result of a $20 million decrease in net gains on derivative instruments and hedging activities.

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 $9 million related to asset impairment charges recorded in the three months ended September 30, 2006.

Income From Discontinued Operations, Net of Tax. Income from discontinued operations, net of tax increased from $4 million for the three months ended September 30, 2005 to $200 million for the three months ended September 30, 2006 due to a gain of $200 million recognized on the sale of the West Virginia and Virginia systems.

Net Income (Loss). Net income was $76 million for the three months ended September 30, 2005 and net loss was $133 million for the three months ended September 30, 2006 as a result of the factors described above.

Preferred Stock Dividends. On August 31, 2001, Charter issued 505,664 shares (and on February 28, 2003 issued an additional 39,595 shares) of Series A Convertible Redeemable Preferred Stock in connection with the Cable USA acquisition, on which Charter pays or accrues a quarterly cumulative cash dividend at an annual rate of 5.75% if paid or 7.75% if accrued on a liquidation preference of $100 per share. Beginning January 1, 2005, Charter 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 of preferred stock remain outstanding.

Net Income (Loss) Per Common Share. Basic net loss per common share increased by $0.65 from net income of $0.24 per common share for the three months ended September 30, 2005 to a net loss of $0.41 per common share for the three months ended September 30, 2006 as a result of the factors described above.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 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 data):

	Nine Months Ended September 30,					
	2006			2005		
Revenues	$	4,091	100%	$	3,746	100%
Costs and expenses:						
Operating (excluding depreciation and amortization)		1,830	45%		1,645	44%
Selling, general and administrative		860	21%		746	20%
Depreciation and amortization		1,024	25%		1,092	29%
Asset impairment charges		159	4%		39	1%
Other operating expenses, net		14	--		28	1%
		3,887	95%		3,550	95%
Operating income from continuing operations		204	5%		196	5%
Interest expense, net		(1,409)			(1,333)	
Other income, net		121			553	
		(1,288)			(780)	
Loss from continuing operations before income taxes		(1,084)			(584)	
Income tax expense		(124)			(80)	
Loss from continuing operations		(1,208)			(664)	
Income from discontinued operations, net of tax		234			33	
Net loss		(974)			(631)	
Dividends on preferred stock - redeemable		--			(3)	
Net loss applicable to common stock	$	(974)		$	(634)	
Loss per common share, basic and diluted:						
Loss from continuing operations	$	(3.77)		$	(2.16)	
Net loss	$	(3.04)		$	(2.06)	

Weighted average common shares outstanding, basic and diluted	320,680,698	307,761,930

Revenues. The overall increase in revenues from continuing operations in 2006 compared to 2005 is principally the result of an increase from September 30, 2005 of 299,100 high-speed Internet customers, 133,200 digital video customers and 234,900 telephone customers, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 189,700 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 $81.21 for the nine months ended September 30, 2006 from $72.95 for the nine months ended September 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 nine months ended during the respective period, divided by nine, divided by the average number of analog video customers during the respective period.

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

	Nine Months Ended September 30,					
	2006		2005		2006 over 2005	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	$ 2,520	62%	$ 2,434	65%	$ 86	4%
High-speed Internet	773	19%	647	17%	126	19%
Telephone	86	2%	23	1%	63	274%
Advertising sales	228	6%	207	6%	21	10%
Commercial	227	5%	196	5%	31	16%
Other	257	6%	239	6%	18	8%
	$ 4,091	100%	$ 3,746	100%	$ 345	9%

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Approximately $77 million of the increase was the result of price increases and incremental video revenues on advanced services from existing customers and approximately $41 million was the result of an increase in digital video customers. The increases were offset by decreases of approximately $20 million related to a decrease in analog video customers and approximately $12 million related to the System Sales.

Approximately $112 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 $16 million related to the increase in average price of the service. The increases were offset by approximately $2 million related to the System Sales.

Revenues from telephone services increased primarily as a result of an increase of 234,900 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 and national advertising sales. For the nine months ended September 30, 2006 and 2005, we received $13 million and $11 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 nine months ended September 30, 2006 and 2005, franchise fees represented approximately 52% and 53%, respectively, of total other revenues. The increase in other revenues was primarily the result of an increase in franchise fees of $6 million, installation revenue of $6 million and wire maintenance fees of $6 million.

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

	Nine Months Ended September 30,					
	2006		2005		2006 over 2005	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	$ 1,126	28%	$ 1,021	27%	$ 105	10%
Service	624	15%	552	15%	72	13%
Advertising sales	80	2%	72	2%	8	11%
	$ 1,830	45%	$ 1,645	44%	$ 185	11%

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels, VOD and pay-per-view programming. The increase in programming costs was primarily a result of rate increases and was offset in part by approximately $5 million related to the System Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of $12 million and $27 million for the nine months ended September 30, 2006 and 2005, respectively.

Our cable programming costs have increased in every year 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 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 fully 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, costs of providing high-speed Internet service and telephone service, franchise fees, system utilities, maintenance and pole rent expense. The increase in service costs resulted primarily from increased costs of providing high-speed Internet and telephone service of $22 million, increased labor and maintenance costs to improve service levels and to support our advanced products of $22 million, an increase in service personnel salaries and benefits of $13 million, franchise fees of $9 million, and higher fuel and utility prices of $4 million. The increases in service costs were offset in part by approximately $3 million related to 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 costs in these areas.

Selling, General and Administrative Expenses. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Nine Months Ended September 30,					
	2006		2005		2006 over 2005	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change

General and administrative	$	724	18%	$	644	17%	$	80	12%
Marketing		136	3%		102	3%		34	33%
	$	860	21%	$	746	20%	$	114	15%

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

33

primarily from a rise in salaries and benefits of $23 million, an increase in call center costs of $44 million, increases in billing costs of $9 million, computer maintenance of $7 million, bad debt expense of $8 million and property and casualty losses of $8 million partially offset by decreases in consulting services of $18 million and approximately $2 million related to the System Sales.

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 $68 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The decrease in depreciation was primarily the result of assets becoming fully depreciated. Approximately $7 million of the decrease was related to the System Sales.

Asset Impairment Charges. Asset impairment charges for the nine months ended September 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 decreased $14 million as a result of a $19 million hurricane asset retirement loss recognized during the nine months ended September 30, 2005 which did not recur in 2006 partially offset by an $8 million increase in special charges related to severance associated with closing call centers and divisional restructuring.

Interest Expense, Net. Net interest expense increased by $76 million, or 6%, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The increase in net interest expense was a result of an increase in our average borrowing rate from 9.0% in the nine months ended September 30, 2005 to 9.5% in the nine months ended September 30, 2006 and an increase of $197 million in average debt outstanding from $19.3 billion for the nine months ended September 30, 2005 compared to $19.5 billion for the nine months ended September 30, 2006.

Other Income, Net. Other income decreased $432 million primarily as a result of a $397 million decrease in the gain on extinguishment of debt for the nine months ended September 30, 2006 as compared to September 30, 2005. See Note 15 to the condensed consolidated financial statements. Other income also decreased as a result of a $35 million decrease in net gains on derivative instruments and hedging activities.

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 $30 million and $5 million related to asset impairment charges recorded in the nine months ended September 30, 2006 and 2005, respectively.

Income From Discontinued Operations, Net of Tax. Income from discontinued operations, net of tax increased from $33 million for the nine months ended September 30, 2005 to $234 million for the nine months ended September 30, 2006 due to a gain of $200 million recognized on the sale of the West Virginia and Virginia systems.

Net Loss. Net loss increased by $343 million, or 54%, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 as a result of the factors described above.

Preferred Stock Dividends. On August 31, 2001, Charter issued 505,664 shares (and on February 28, 2003 issued an additional 39,595 shares) of Series A Convertible Redeemable Preferred Stock in connection with the Cable USA acquisition, on which Charter pays 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 of preferred stock remain outstanding.

Loss Per Common Share. Loss per common share increased by $0.98, or 48%, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 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 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.

In September 2006, Charter Holdings and its wholly owned subsidiaries, CCH I, LLC (“CCH I”) and CCH II, completed the exchange of approximately $797 million in total principal amount of outstanding debt securities of Charter Holdings. Holders of Charter Holdings notes due in 2009-2010 tendered $308 million principal amount of notes for $250 million principal amount of new 10.25% CCH II notes due 2013 and $37 million principal amount of 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011-2012 tendered $490 million principal amount of notes for $425 million principal amount of 11% CCH I notes due 2015. The Charter Holdings notes received in the exchanges were thereafter distributed to Charter Holdings and retired. Also in September 2006, CCHC and CCH II completed the exchange of $450 million principal amount of Charter’s outstanding 5.875% senior convertible notes due 2009 for $188 million in cash, 45 million shares of Charter’s Class A Common Stock and $146 million principal amount of 10.25% CCH II notes due 2010. The convertible notes received in the exchange are held by CCHC.

We have a significant level of debt. Our long-term financing as of September 30, 2006 consists of $5.1 billion of credit facility debt, $13.3 billion accreted value of high-yield notes and $407 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 nine months ended September 30, 2006, we generated $348 million of net cash flows from operating activities after paying cash interest of $1.1 billion. In addition, we received proceeds from the sale of assets of approximately $988 million and used approximately $795 million for purchases of property, plant and equipment. Finally, we had net cash flows used in financing activities of $480 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 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. 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 September 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 September 30, 2006, our potential availability under our credit facilities totaled approximately $1.6 billion, although the actual availability at that time was only $673 million 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.

Specific Limitations

Charter’s ability to make interest payments on its convertible senior notes, and, in 2009, to repay the outstanding principal of its convertible senior notes of $413 million, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of September 30, 2006, Charter Holdco was owed $3 million in intercompany loans from its subsidiaries and had $7 million in cash, which were available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has $75 million of U.S. government securities pledged as security for the semi-annual interest payments on Charter’s convertible senior notes scheduled in November 2006 and in 2007. CCHC also holds $450 million of Charter’s convertible senior notes. As a result, if CCHC continues to hold those notes, CCHC will receive interest payments on the convertible senior notes from the pledged government securities. The cumulative amount of interest payments expected to be received by CCHC may be available to be distributed to pay interest on the outstanding $413 million of the convertible senior notes due in 2008 and May 2009, although CCHC may use those amounts for other purposes.

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 and each applicable subsidiary’s leverage ratio test is met at the time of such distribution. For the quarter ended September 30, 2006, there was no default under any of these indentures. However, certain of our subsidiaries did not meet their applicable leverage ratio tests based on September 30, 2006 financial results. As a result, distributions from certain of our subsidiaries to their parent companies would have been restricted at such time and will continue to be restricted unless those tests are met. 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.

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 the other specified tests were met. However, Charter Holdings did not meet the leverage ratio test of 8.75 to 1.0 based on September 30, 2006 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco would have been restricted at such time and will continue to be restricted unless that test is met. 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 the third quarter of 2006, we closed the Cebridge Transaction, New Wave Transaction and Orange Transaction for a total sales price of approximately $971 million. We used the net proceeds from the asset sales to reduce borrowings, but not commitments, under the revolving portion of our credit facilities. Also in the third quarter of 2006, we recorded asset impairment charges of $60 million related to other cable systems meeting the criteria of assets held for sale.

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.

Historical Operating, Financing and Investing Activities

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

We held $85 million in cash and cash equivalents as of September 30, 2006 compared to $21 million as of December 31, 2005. For the nine months ended September 30, 2006, we generated $348 million of net cash flows from operating activities after paying cash interest of $1.1 billion. In addition, we received proceeds from the sale of assets of approximately $988 million and used approximately $795 million for purchases of property, plant and equipment. Finally, we had net cash flows used in financing activities of $480 million.

Operating Activities. Net cash provided by operating activities increased $230 million, or 195%, from $118 million for the nine months ended September 30, 2005 to $348 million for the nine months ended September 30, 2006. For the nine months ended September 30, 2006, net cash provided by operating activities increased primarily as a result of changes in operating assets and liabilities that provided $368 million more cash during the nine months ended

37

September 30, 2006 than the corresponding period in 2005. The decrease in the cash used in operating assets and liabilities is primarily due to accelerated interest payments in the nine months ended September 30, 2005 as a result of the debt exchange in September 2005 coupled with the finalization of a class action settlement in the third quarter of 2005.

Investing Activities. Net cash provided by investing activities was $196 million for the nine months ended September 30, 2006 compared to net cash used by investing activities of $729 million for the nine months ended September 30, 2005, which was primarily related to $988 million of proceeds received from the sale of assets including cable systems.

Financing Activities. Net cash used by financing activities was $480 million and $17 million for the nine months ended September 30, 2006 and 2005, respectively. The increase in cash used during the nine months ended September 30, 2006 as compared to the corresponding period in 2005, was primarily the result of an increase in repayments of long-term debt.

Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were $795 million and $815 million for the nine months ended September 30, 2006 and 2005, 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 nine months ended September 30, 2006 and 2005, our liabilities related to capital expenditures increased $4 million and $36 million, respectively.

During 2006, we expect capital expenditures to be approximately $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 have and expect to continue 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 & 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 nine months ended September 30, 2006 and 2005 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Customer premise equipment (a)	$ 120	$ 94	$ 378	$ 322
Scalable infrastructure (b)	49	49	146	138
Line extensions (c)	23	37	82	114
Upgrade/Rebuild (d)	13	13	36	35

Support capital (e)		51		80		153		206
Total capital expenditures	$	256	$	273	$	795	$	815

(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).

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

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

As of September 30, 2006 and December 31, 2005, our long-term debt totaled approximately $18.8 billion and $19.4 billion, respectively. This debt was comprised of approximately $5.1 billion and $5.7 billion of credit facilities debt, $13.3 billion and $12.8 billion accreted amount of high-yield notes and $407 million and $843 million accreted amount of convertible senior notes, respectively.

As of September 30, 2006 and December 31, 2005, the weighted average interest rate on the credit facility debt was approximately 7.9% 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 6.9% and 6.3%, respectively, resulting in a blended weighted average interest rate of 9.6% and 9.3%, respectively. The interest rate on approximately 79% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements as of September 30, 2006 and December 31, 2005. The fair value of our high-yield notes was $12.0 billion and $10.4 billion at September 30, 2006 and December 31, 2005, respectively. The fair value of our convertible senior notes was $363 million and $647 million at September 30, 2006 and December 31, 2005, respectively. The fair value of our credit facilities is $5.2 billion and $5.7 billion at September 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. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended September 30, 2006 and 2005, other income, net includes gains of $0 and $1 million, respectively, and for each of the nine months ended September 30, 2006 and 2005, other income, net includes gains of $2 million which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended September 30, 2006 and 2005, a loss of $1 million and a gain of $5 million, respectively, and for the nine months ended September 30, 2006 and 2005, a loss of $1 million and a gain of $14 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently

39

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 the Company's condensed consolidated statements of operations. For the three months ended September 30, 2006 and 2005, other income, net includes losses of $3 million and gains of $16 million, respectively, and for the nine months ended September 30, 2006 and 2005, other income, net includes gains of $6 million and $41 million, respectively, for interest rate derivative instruments not designated as hedges.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of September 30, 2006 (dollars in millions):

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**	**Fair Value at September 30, 2006**
Debt:									
Fixed Rate	$ --	$ 105	$ --	$ 828	$ 2,251	$ 303	$ 9,532	$ 13,019	$ 11,819
Average Interest Rate	--	8.25%	--	7.67%	10.26%	11.21%	10.13%	10.01%	
Variable Rate	$ --	$ 25	$ 50	$ 50	$ 600	$ 190	$ 4,775	$ 5,690	$ 5,729
Average Interest Rate	--	7.79%	7.47%	7.57%	9.07%	8.04%	8.04%	8.14%	
Interest Rate Instruments:									
Variable to Fixed Swaps	$ 898	$ 775	$ --	$ --	$ --	$ --	$ --	$ 1,673	$ 2
Average Pay Rate	7.66%	7.57%	--	--	--	--	--	7.62%	
Average Receive Rate	7.98%	7.92%	--	--	--	--	--	7.95%	

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

At September 30, 2006 and December 31, 2005, we had outstanding $1.7 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.

Item 4. Controls and Procedures.

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

There was no change in our internal control over financial reporting during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

We are a defendant or co-defendant in several unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. Other industry participants are also defendants in certain of these cases, and, in many cases, we expect that any potential liability would be the responsibility of our equipment vendors pursuant to applicable contractual indemnification provisions. In the event that a court ultimately determines that we infringe on any intellectual property rights, we may be subject to substantial damages and/or an injunction that could require us or our vendors to modify certain products and services we offer to our subscribers. While we believe the lawsuits are without merit and intend to defend the actions vigorously, the lawsuits could be material to our consolidated results of operations of any one period, and no assurance can be given that any adverse outcome would not be material to our consolidated financial condition, results of operations or liquidity.

We are a party to other lawsuits and claims that arise in the ordinary course of conducting our business. The ultimate outcome of these other legal matters pending against us or our subsidiaries cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on our consolidated financial condition, results of operations or liquidity, such lawsuits could have, in the aggregate, a material adverse effect on our consolidated financial condition, results of operations or liquidity.

Item 1A. Risk Factors.

Risks Related to Significant Indebtedness of Us and Our Subsidiaries

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

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

- our future operating performance;
- the demand for our products and services
- general economic conditions and conditions affecting customer and advertiser spending;
- competition and our ability to stabilize customer losses; and
- legal and regulatory factors affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow or access additional external liquidity sources, we may not be able to service and repay our debt, operate our business, respond to competitive challenges or fund our other liquidity and capital needs. Although our subsidiaries, CCH II and CCH II Capital Corp., sold $450 million principal amount of 10.250% senior notes due 2010 in January 2006, our subsidiary, Charter Operating, completed a $6.85 billion refinancing of its credit facilities in April 2006 and we and certain of our subsidiaries completed the exchange offers in September 2006, we may not be able to access additional sources of external liquidity on similar terms, if at all. We expect that cash on hand, cash flows from operating activities, proceeds from sales 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 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 “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

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

Our subsidiaries have historically relied on access to credit facilities in order to fund operations and to service parent company debt, and we expect such reliance to continue in the future. Our total potential borrowing availability under the Charter Operating credit facilities was approximately $1.6 billion as of September 30, 2006, although the actual availability at that time was only $673 million because of limits imposed 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.

One of the conditions to the availability of funding under Charter Operating's credit facilities is the absence of a default under the credit facilities, including as a result of any failure to comply with the covenants under the facilities. Among other covenants, the facilities require Charter Operating to maintain specific financial ratios. The facilities also provide that Charter Operating has to obtain an unqualified audit opinion from its independent accountants for each fiscal year. There can be no assurance that Charter Operating will be able to continue to comply with these or any other of the covenants under the credit facilities.

An event of default under the credit facilities or indentures, if not waived, could result in the acceleration of those debt obligations and, consequently, other debt obligations. Such acceleration could result in exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments.

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

Our sole assets are our equity interests in our subsidiaries. Our operating subsidiaries are separate and distinct legal entities and are not obligated to make funds available to us for payments on our notes or other obligations in the form of loans, distributions or otherwise. Our subsidiaries' ability to make distributions to us is subject to their compliance with the terms of their credit facilities and indentures and restrictions under applicable law. Under the Delaware limited liability company act, our subsidiaries may only pay dividends to us if they have "surplus" as defined in the act. Under fraudulent transfer laws, our subsidiaries may not pay dividends to us if they are insolvent or are rendered insolvent thereby. The measures of insolvency for purposes of these fraudulent transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an entity would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they became absolute and mature;
- or it could not pay its debts as they became due.

While we believe that our relevant subsidiaries currently have surplus and are not insolvent, there can be no assurance that these subsidiaries will be permitted to make distributions in the future in compliance with these restrictions in amounts needed to service our indebtedness. Our direct or indirect subsidiaries include the borrowers and guarantors under the Charter Operating credit facilities. Several of our subsidiaries are also obligors under other senior high yield notes. See "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Debt Covenants." Our notes are structurally subordinated in right of payment to all of the debt and other liabilities of our subsidiaries. As of September 30, 2006, our total debt was approximately $18.8

billion, of which approximately $18.4 billion was structurally senior to our convertible notes.

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

- the lenders under Charter Operating's credit facilities and the holders of our subsidiaries' other debt instruments will have the right to be paid in full before us from any of our subsidiaries' assets; and

- the holders of preferred membership interests in our subsidiary, CC VIII, would have a claim on a portion of its assets that may reduce the amounts available for repayment to holders of our outstanding notes.

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

Charter and its subsidiaries have a significant amount of debt and may (subject to applicable restrictions in their debt instruments) incur additional debt in the future. As of September 30, 2006, our total debt was approximately $18.8 billion, our shareholders' deficit was approximately $5.8 billion and the deficiency of earnings to cover fixed charges for the three and nine months ended September 30, 2006 was $68 million and $847 million, respectively.

As of September 30, 2006, approximately $413 million aggregate principal amount of Charter's convertible notes were outstanding. An additional $450 million of convertible notes is held by CCHC. We will need to raise additional capital and/or receive distributions or payments from our subsidiaries in order to satisfy our debt obligations in 2009. However, because of our significant indebtedness, our ability to raise additional capital at reasonable rates or at all is uncertain, and the ability of our subsidiaries to make distributions or payments to us is subject to availability of funds and restrictions under our and our subsidiaries' applicable debt instruments.

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

- require us to dedicate a significant portion of our cash flow from operating activities to make payments on our debt, which will reduce our funds available for working capital, capital expenditures and other general corporate expenses;
- limit our flexibility in planning for, or reacting to, changes in our business, the cable and telecommunications industries and the economy at large;
- place us at a disadvantage as compared to our competitors that have proportionately less debt;
- make us vulnerable to interest rate increases, because a significant portion of our borrowings are, and will continue to be, at variable rates of interest;
- expose us to increased interest expense as we refinance existing lower interest rate instruments;
- adversely affect our relationship with customers and suppliers;
- limit our ability to borrow additional funds in the future, if we need them, due to applicable financial and restrictive covenants in our debt; and
- make it more difficult for us to satisfy our obligations to the holders of our notes and for our subsidiaries to satisfy their obligations to their lenders under their credit facilities and to their noteholders.

A default by one of our subsidiaries under its debt obligations could result in the acceleration of those obligations, the obligations of our other subsidiaries and our obligations under our convertible notes. We may not have the ability to fund our obligations under our convertible notes in the event of such a default. We and our subsidiaries may incur substantial additional debt in the future. If current debt levels increase, the related risks that we now face will intensify.

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

The Charter Operating credit facilities and the indentures governing our and our subsidiaries' debt contain a number of significant covenants that could adversely affect our ability to operate our business, as well as significantly affect our liquidity, and therefore could adversely affect our results of operations. These covenants will restrict, among other things, our and our subsidiaries' ability to:

- incur additional debt;
- repurchase or redeem equity interests and debt;
- issue equity;

- make certain investments or acquisitions;
- pay dividends or make other distributions;
- dispose of assets or merge;
- enter into related party transactions;
- grant liens and pledge assets.

Furthermore, Charter Operating's credit facilities require our subsidiaries to, among other things, maintain specified financial ratios, meet specified financial tests and provide annual audited financial statements, with an unqualified opinion from our independent auditors. Charter Operating's ability to comply with these provisions may be affected by events beyond our control.

The breach of any covenants or obligations in the foregoing indentures or credit facilities, not otherwise waived or amended, could result in a default under the applicable debt agreement or instrument and could trigger acceleration of the related debt, which in turn could trigger defaults under other agreements governing our long-term indebtedness. In addition, the secured lenders under the Charter Operating credit facilities and the holders of the Charter Operating senior second-lien notes could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under those credit facilities or the indentures governing our convertible notes or our subsidiaries' debt could adversely affect our growth, our financial condition and our results of operations and our ability to make payments on our notes and Charter Operating's credit facilities and other debt of our subsidiaries.

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

We may not have the ability to raise the funds necessary to fulfill our obligations under our and our subsidiaries' notes and credit facilities following a change of control. Under the indentures governing our and our subsidiaries' notes, upon the occurrence of specified change of control events, we are required to offer to repurchase all of these notes. However, Charter and our subsidiaries may not have sufficient funds at the time of the change of control event to make the required repurchase of these notes, and our subsidiaries are limited in their ability to make distributions or other payments to fund any required repurchase. In addition, a change of control under our credit facilities would result in a default under those credit facilities. Because such credit facilities and our subsidiaries' notes are obligations of our subsidiaries, the credit facilities and our subsidiaries' notes would have to be repaid by our subsidiaries before their assets could be available to us to repurchase our convertible senior notes. Our failure to make or complete a change of control offer would place us in default under our convertible senior notes. The failure of our subsidiaries to make a change of control offer or repay the amounts accelerated under their credit facilities would place them in default.

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

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

Risks Related to Our Business

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

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

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

Local telephone companies and electric utilities can offer video and other services in competition with us and they increasingly may do so in the future. Certain telephone companies have begun more extensive deployment of fiber in their networks that enable them to begin providing video services, as well as telephone and high bandwidth Internet access services, to residential and business customers and they are now offering such service in limited areas. Some of these telephone companies have obtained, and are now seeking, franchises or operating authorizations that are less burdensome than existing Charter franchises.

The subscription television industry also faces competition from free broadcast television and from other communications and entertainment media. Further loss of customers to DBS or other alternative video and Internet services could have a material negative impact on the value of our business and its performance.

With respect to our Internet access services, we face competition, including intensive marketing efforts and aggressive pricing, from telephone companies and other providers of DSL and “dial-up”. DSL service is competitive with high-speed Internet service over cable systems. In addition, DBS providers have entered into joint marketing arrangements with Internet access providers to offer bundled video and Internet service, which competes with our ability to provide bundled services to our customers. Moreover, as we expand our telephone offerings, we will face considerable competition from established telephone companies and other carriers, including VoIP providers.

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

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

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

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

We have had a history of net losses and expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the combination of operating costs and interest costs we incur because of our high level of 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 expect to continue to report net losses for the foreseeable future. We reported net losses applicable to common stock of $133 million, $974 million and $634 million for the three months ended September 30, 2006 and for the nine months ended September 30, 2006 and 2005, respectively. We reported net income applicable to common stock of $75 million for the three months ended September 30, 2005. Continued losses would reduce our cash available from operations to service our indebtedness, as well as limit our ability to finance our operations.

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

Programming has been, and is expected to continue to be, our largest operating expense item. In recent years, the cable industry has experienced a rapid escalation in the cost of programming, particularly sports programming. We expect programming costs to continue to increase because of a variety of factors, including inflationary or negotiated annual increases, additional programming being provided to customers and increased costs to purchase programming. The inability to fully pass these programming cost increases on to our customers has had an adverse impact on our cash flow and operating margins. As measured by programming costs and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of October 6, 2006, approximately 7% of our current programming contracts were expired, and approximately another 4% were scheduled to expire at or before the end of 2006. There can be no assurance that these agreements will be renewed on favorable or comparable terms. Our programming costs increased by approximately 8% and 10% in the three and nine months ended September 30, 2006 compared to the corresponding periods in 2005, respectively. We expect our programming costs in 2006 to continue to increase at a higher rate than in 2005. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable we may be forced to remove such programming channels from our line-up, which could result in a further loss of customers.

If our required capital expenditures in 2006, 2007 and beyond exceed our projections, we may not have sufficient funding, which could adversely affect our growth, financial condition and results of operations.

During the three and nine months ended September 30, 2006, we spent approximately $256 million and $795 million, respectively, on capital expenditures. During 2006, we expect capital expenditures to be approximately $1.1 billion. The actual amount of our capital expenditures depends on the level of growth in high-speed Internet and telephone customers and in the delivery of other advanced services, as well as the cost of introducing any new services. We may need additional capital in 2006, 2007 and beyond if there is accelerated growth in high-speed Internet customers, telephone customers or in the delivery of other advanced services. If we cannot obtain such capital from increases in our cash flow from operating activities, additional borrowings, proceeds from asset sales or other sources, our growth, financial condition and results of operations could suffer materially.

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

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

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

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

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

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

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

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

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

- we would retain our proportional equity interest in Charter Holdco but would lose all of our powers to direct the management and affairs of Charter Holdco and its subsidiaries; and
- we would become strictly a passive investment vehicle and would be treated under the Investment Company Act as an investment company.

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

- the liquidity of the Class A common stock;
- how the Class A common stock trades in the marketplace;
- the price that purchasers would be willing to pay for the Class A common stock in a change of control transaction or otherwise; and
- the market price of the Class A common stock.

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

Risks Related to Mr. Allen's Controlling Position

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

The Charter Operating credit facilities provide that the failure by (a) Mr. Allen, (b) his estate, spouse, immediate family members and heirs and (c) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners or other owners of which consist exclusively of Mr. Allen or such other persons referred to in (b) above or a combination thereof, to maintain a 35% direct or indirect voting interest in the applicable borrower would result in a change of control default. Such a default could result in the acceleration of repayment of our and our subsidiaries' indebtedness, including borrowings under the Charter Operating credit facilities.

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

Mr. Allen has the ability to control us. Through his control as of September 30, 2006 of approximately 90% of the voting power of our capital stock, Mr. Allen is entitled to elect all but one of our board members and effectively has the voting power to elect the remaining board member as well. Mr. Allen thus has the ability to control fundamental corporate transactions requiring equity holder approval, including, but not limited to, the election of all of our directors, approval of merger transactions involving us and the sale of all or substantially all of our assets.

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

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

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

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

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

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

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

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

Charter Holdco's limited liability company agreement provided that through the end of 2003, net tax losses (such net tax losses being determined under the federal income tax rules for determining capital accounts) of Charter Holdco that would otherwise have been allocated to us based generally on our percentage ownership of outstanding common membership units of Charter Holdco would instead be allocated to the membership units held by Vulcan Cable III Inc.

(“Vulcan Cable”) and Charter Investment, Inc. (“CII”). The purpose of these special tax allocation provisions was to allow Mr. Allen to take advantage, for tax purposes, the losses generated by Charter Holdco during such period. In some situations, these special tax allocation provisions could result in our having to pay taxes in an amount that is more or less than if Charter Holdco had allocated net tax losses to its members based generally on the percentage of outstanding common membership units owned by such members. For further discussion on the details of the tax allocation provisions see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Income Taxes” of our 2005 annual report on Form 10-K.

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

As of September 30, 2006, we had approximately $6.4 billion of tax net operating losses (resulting in a gross deferred tax asset of approximately $2.6 billion) expiring in the years 2007 through 2026. Due to uncertainties in projected future taxable income, valuation allowances have been established against the gross deferred tax assets for book accounting purposes except for deferred benefits available to offset certain deferred tax liabilities. Currently, such tax net operating losses can accumulate and be used to offset any of our future taxable income. An “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended, would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income we may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate our ability to use a substantial portion of our net operating losses to offset future taxable income.

The issuance of 45 million shares of our Class A common stock in connection with the September 2006 exchange offer, up to a total of 150 million shares of our Class A common stock (of which a total of 59.5 million are outstanding as of September 2006) offered pursuant to a share lending agreement executed by Charter in connection with the issuance of the 5.875% convertible senior notes in November 2004, as well as possible future conversions of our convertible notes, significantly increases the risk that we will experience an ownership change in the future for tax purposes, resulting in a material limitation on the use of a substantial amount of our existing net operating loss carryforwards. As of September 30, 2006, the issuance and return of shares associated with the share lending agreement did not result in our experiencing an ownership change. However, future transactions and the timing of such transactions could cause an ownership change. Such transactions include additional issuances of common stock by us (including but not limited to issuances upon future conversion of our 5.875% convertible senior notes), reacquisitions of the borrowed shares by us, or acquisitions or sales of shares by certain holders of our shares, including persons who have held, currently hold, or accumulate in the future five percent or more of our outstanding stock (including upon an exchange by Mr. Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco into our Class A common stock). Many of the foregoing transactions are beyond our control.

Risks Related to Regulatory and Legislative Matters

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

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

- rules governing the provision of cable equipment and compatibility with new digital technologies;
- rules and regulations relating to subscriber privacy;
- limited rate regulation;
- requirements governing when a cable system must carry a particular broadcast station and when it must first obtain consent to carry a broadcast station;
- rules and regulations relating to provision of voice communications;
- rules for franchise renewals and transfers; and
- other requirements covering a variety of operational areas such as equal employment opportunity, technical standards and customer service requirements.

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

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

Our cable systems generally operate pursuant to franchises, permits and similar authorizations issued by a state or local governmental authority controlling the public rights-of-way. Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with significant provisions set forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms and must be periodically renewed. Local franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate. Franchise authorities often demand concessions or other commitments as a condition to renewal. In some instances, franchises have not been renewed at expiration, and we have operated and are operating under either temporary operating agreements or without a license while negotiating renewal terms with the local franchising authorities. Approximately 12% of our franchises, covering approximately 14% of our analog video customers, were expired as of September 30, 2006. Approximately 2% of additional franchises, covering approximately an additional 4% of our analog video customers, will expire on or before December 31, 2006, if not renewed prior to expiration.

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

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

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

Different legislative proposals have been introduced in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has passed in several states in which we have operations and one of these newly enacted statutes is subject to court challenge. Although various legislative proposals provide some regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants due to a number of factors, including provisions withholding streamlined cable franchising from incumbents until after the expiration of their existing franchises. To the extent incumbent cable operators are not able to avail themselves of this streamlined franchising process, such operators may continue to be subject to more onerous franchise requirements at the local level than new entrants. A proceeding is pending at the Federal Communications Commission ("FCC") to determine whether local franchising authorities are impeding the deployment of competitive cable services through unreasonable franchising requirements and whether such impediments should be preempted. We are not yet able to determine what impact such proceeding may have on us.

The existence of more than one cable system operating in the same territory is referred to as an overbuild. These overbuilds could adversely affect our growth, financial condition and results of operations by creating or increasing competition. As of September 30, 2006, we are aware of overbuild situations impacting approximately 8% of our estimated homes passed, and potential overbuild situations in areas servicing approximately an additional 8% of our estimated homes passed. Additional overbuild situations may occur in other systems.

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

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

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

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

There has been considerable legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an á la carte basis or to at least offer a separately available child-friendly “Family Tier.” It is possible that new marketing restrictions could be adopted in the future. Such restrictions could adversely affect our operations.

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

Pole attachments are cable wires that are attached to poles. Cable system attachments to public utility poles historically have been regulated at the federal or state level, generally resulting in favorable pole attachment rates for attachments used to provide cable service. The FCC clarified that a cable operator’s favorable pole rates are not endangered by the provision of Internet access, and that approach ultimately was upheld by the Supreme Court of the United States. Despite the existing regulatory regime, utility pole owners in many areas are attempting to raise pole attachment fees and impose additional costs on cable operators and others. The favorable pole attachment rates afforded cable operators under federal law can be increased by utility companies if the operator provides telecommunications services, in addition to cable service, over cable wires attached to utility poles. To date, Voice over Internet Protocol or VoIP service has not been classified as either a telecommunications service or cable service under the Communications Act. If VoIP were classified as a telecommunications service under the Communications Act by the FCC, a state Public Utility Commission, or an appropriate court, it might result in significantly increased pole attachment costs for us, which could adversely affect our financial condition and results of operations. Any significant increased costs could have a material adverse impact on our profitability and discourage system upgrades and the introduction of new products and services.

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

A number of companies, including independent Internet service providers, or ISPs, have requested local authorities and the FCC to require cable operators to provide non-discriminatory access to cable’s broadband infrastructure, so that these companies may deliver Internet services directly to customers over cable facilities. In a June 2005 ruling, commonly referred to as *Brand X*, the Supreme Court upheld an FCC decision (and overruled a conflicting Ninth Circuit opinion) making it less likely that any nondiscriminatory “open access” requirements (which are generally associated with common carrier regulation of “telecommunications services”) will be imposed on the cable industry by local, state or federal authorities. The Supreme Court held that the FCC was correct in classifying cable provided

Internet service as an “information service,” rather than a “telecommunications service.” Notwithstanding *Brand X*, there has been increasing advocacy by certain internet content providers and consumer groups for new federal laws or regulations to limiting the ability of broadband network owners (like Charter) to manage and control their own networks. The proposals might prevent network owners, for example, from charging bandwidth intensive content providers, such as certain online gaming, music, and video service providers, an additional fee to ensure quality delivery of the services to consumers. If we were required to allocate a portion of our bandwidth capacity to other Internet service providers, or were prohibited from charging heavy bandwidth intensive services a fee for use of our networks, we believe that it could impair our ability to use our bandwidth in ways that would generate maximum revenues.

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

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

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

In 2002, we began to offer voice communications services on a limited basis over our broadband network. We continue to develop and deploy Voice over Internet Protocol or VoIP services. The FCC has declared that certain VoIP services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of state and local regulation of VoIP services is not yet clear. Expanding our offering of these services may require us to obtain certain authorizations, including federal and state licenses. We may not be able to obtain such authorizations in a timely manner, or conditions could be imposed upon such licenses or authorizations that may not be favorable to us. The FCC has extended certain traditional telecommunications requirements, such as E911 and Universal Service requirements, to many VoIP providers, such as Charter. The FCC has also required that these VoIP providers comply with obligations applied to traditional telecommunications carriers to ensure their networks can accommodate law enforcement wiretaps by May 2007, which requirement has been affirmed by the Court of Appeals for the D.C. Circuit. Telecommunications companies generally are subject to other significant regulation which could also be extended to VoIP providers. If additional telecommunications regulations are applied to our VoIP service, it could cause us to incur additional costs.

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

The annual meeting of shareholders of Charter Communications, Inc. was held on August 29, 2006. Of the total 438,524,028 shares of Class A common stock issued, outstanding and eligible to be voted at the meeting, 392,645,419 shares, representing the same number of votes, were represented in person or by proxy at the meeting. Of the total 50,000 shares of Class B common stock issued, outstanding and eligible to be voted at the meeting, 50,000 shares, representing 3,391,820,310 votes, were represented in person or by proxy at the meeting. Four matters were submitted to a vote of the shareholders at the meeting.

ELECTION OF ONE CLASS A/CLASS B DIRECTOR. The holders of the Class A common stock and the Class B common stock voting together elected Robert P. May as the Class A/Class B director, to hold office for a term of one year. The voting results are set forth below:

NOMINEE	FOR	WITHHELD	BROKER NON-VOTE
Robert P. May	3,778,131,560	6,334,169	N/A

53

ELECTION OF ELEVEN CLASS B DIRECTORS. The holder of the Class B common stock elected eleven Class B directors to the Board of Directors, each to hold office for a term of one year. The voting results are set forth below:

NOMINEE	FOR	WITHHELD
Paul G. Allen	3,391,820,310	0
W. Lance Conn	3,391,820,310	0
Nathaniel A. Davis	3,391,820,310	0
Jonathan L. Dolgen	3,391,820,310	0
Rajive Johri	3,391,820,310	0
David C. Merritt	3,391,820,310	0
Marc B. Nathanson	3,391,820,310	0
Jo Allen Patton	3,391,820,310	0
Neil Smit	3,391,820,310	0
John H. Tory	3,391,820,310	0
Larry W. Wangberg	3,391,820,310	0

RATIFICATION OF KPMG LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. The holders of the Class A common stock and the Class B common stock voting together ratified KPMG LLP as Charter Communications, Inc.’s independent registered public accounting firm for the year ended December 31, 2006. The voting results are set forth below:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
3,782,949,373	1,192,971	323,384	N/A

Under the Certificate of Incorporation and Bylaws of Charter Communications, Inc. for purposes of determining whether votes have been cast, abstentions and broker "non-votes" are not counted and therefore do not have an effect on the proposals.

Item 6. Exhibits.

The index to the exhibits begins on page 56 of this quarterly report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, Charter Communications, Inc. has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHARTER COMMUNICATIONS, INC.,
Registrant

Dated: October 31, 2006	By: /s/ Kevin D. Howard	
	Name:	Kevin D. Howard
	Title:	*Vice President and Chief Accounting Officer*

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1*	Amended and Restated By-laws of Charter Communications, Inc. as of October 30, 2006.
10.1+	Employment Agreement dated as of August 1, 2006 by and between Marwan Fawaz and Charter Communications, Inc. (incorporated by reference to Exhibit 99.1 to the current report on Form 8-K of Charter Communications, Inc. filed on August 1, 2006 (File No. 000-27927)).
10.2	Indenture relating to the 10.25% Senior Notes due 2013, dated as of September 14, 2006, by and between CCH II, LLC, CCH II Capital Corp. as Issuers, Charter Communications Holdings, LLC as Parent Guarantor and The Bank of New York Trust Company, N.A. as trustee (incorporated by reference to Exhibit 10.2 to the current report on Form 8-K of Charter Communications, Inc. on September 19, 2006)).
10.3	First Supplemental Indenture relating to the 11.00% Senior Notes due 2015, dated as of September 14, 2006, by and between CCH I, LLC, CCH I Capital Corp. as Issuers, Charter Communications Holdings, LLC as Parent Guarantor and The Bank of New York Trust Company, N.A. as trustee (incorporated by reference to Exhibit 10.4 to the current report on Form 8-K of Charter Communications, Inc. on September 19, 2006)).
10.4	Amendment to the Pledge Agreement between CCH I, LLC in favor of The Bank of New York Trust Company, N.A., as Collateral Agent, dated as of September 14, 2006 (incorporated by reference to Exhibit 10.3 to the current report on Form 8-K of Charter Communications, Inc. on September 19, 2006)).
10.5	Exchange and Registration Rights Agreement dated as of September 14, 2006 by CCH I, LLC, CCH I Capital Corp., CCH II, LLC, CCH II Capital Corp. and Charter Communications Holdings, LLC. (Incorporated by reference to Exhibit 10.5 to the current report on Form 8-K of Charter Communications, Inc. filed on September 19, 2006 (File No. 000-27927)).
15.1*	Letter re Unaudited Interim Financial Statements.
31.1*	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.
31.2*	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

* Document attached

+ Management compensatory plan or arrangement