

Charter Communications Operating, LLC
Charter Communications Operating Capital Corp.

Quarterly Report
For the three months ended March 31, 2011

Charter Communications Operating, LLC
Charter Communications, Operating Capital Corp.
Quarterly Report for the Period ended March 31, 2011

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This quarterly report is for the three months ended March 31, 2011. In this quarterly report, "we," "us" and "our" refer to Charter Communications Operating, LLC and its 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 and the factors described under “Risk Factors” under Part I, Item 1A of our most recent Annual Report. 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,” “tentative,” “positioning” 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, and include, but are not limited to:

- our ability to sustain and grow revenues and free cash flow by offering video, high-speed Internet, telephone and other services to residential and commercial customers, to adequately meet the customer experience demands in our markets and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition, the need for innovation and the related capital expenditures and the difficult economic conditions in the United States;
- the impact of competition from other market participants, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband and telephone providers, and digital subscriber line (“DSL”) providers and competition from video provided over the Internet;
- general business conditions, economic uncertainty or downturn, high unemployment levels and the level of activity in the housing sector;
- our ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);
- the effects of governmental regulation on our business;
- the availability and access, in general, of funds to meet our and our parent companies’ debt obligations, prior to or when they become due, and to fund our operations and necessary capital expenditures, either through (i) cash on hand, (ii) free cash flow, or (iii) access to the capital or credit markets; and
- our ability to comply with all covenants in our and our parent companies’ indentures and credit facilities, any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions.

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.

**CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS)**

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23	\$ --
Restricted cash and cash equivalents	28	28
Accounts receivable, less allowance for doubtful accounts of \$16 and \$17, respectively	223	246
Prepaid expenses and other current assets	37	25
Total current assets	<u>311</u>	<u>299</u>
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation	6,836	6,785
Franchises	5,257	5,257
Customer relationships, net	1,923	2,000
Goodwill	951	951
Total investment in cable properties, net	<u>14,967</u>	<u>14,993</u>
OTHER NONCURRENT ASSETS	<u>150</u>	<u>153</u>
Total assets	<u>\$ 15,428</u>	<u>\$ 15,445</u>
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 748	\$ 771
Payables to related party	242	255
Total current liabilities	<u>990</u>	<u>1,026</u>
LONG-TERM DEBT	<u>6,200</u>	<u>7,335</u>
LOANS PAYABLE – RELATED PARTY	<u>358</u>	<u>542</u>
OTHER LONG-TERM LIABILITIES	<u>327</u>	<u>334</u>
MEMBER'S EQUITY:		
Accumulated other comprehensive loss	(46)	(57)
Member's equity	7,327	6,003
Total Charter Operating member's equity	<u>7,281</u>	<u>5,946</u>
Noncontrolling interest	272	262
Total member's equity	<u>7,553</u>	<u>6,208</u>
Total liabilities and member's equity	<u>\$ 15,428</u>	<u>\$ 15,445</u>

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

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS)
Unaudited

	Three Months Ended March 31,	
	2011	2010
REVENUES	\$ 1,770	\$ 1,735
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization)	768	756
Selling, general and administrative	345	347
Depreciation and amortization	383	369
Other operating expenses, net	5	12
	1,501	1,484
Income from operations	269	251
OTHER EXPENSES:		
Interest expense, net	(109)	(135)
Loss on extinguishment of debt	(67)	(1)
Other expenses, net	--	(3)
	(176)	(139)
Income before income taxes	93	112
INCOME TAX EXPENSE	(6)	(6)
Consolidated net income	87	106
Less: Net income – noncontrolling interest	(10)	(9)
Net income – Charter Operating member	\$ 77	\$ 97

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

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

	Three Months Ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$ 87	\$ 106
Adjustments to reconcile consolidated net income to net cash flows from operating activities:		
Depreciation and amortization	383	369
Noncash interest expense	16	25
Loss on extinguishment of debt	67	1
Deferred income taxes	4	3
Other, net	7	6
Changes in operating assets and liabilities:		
Accounts receivable	23	25
Prepaid expenses and other assets	(12)	(2)
Accounts payable, accrued expenses and other	(5)	63
Receivables from and payables to related party	(4)	4
Net cash flows from operating activities	566	600
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(356)	(310)
Change in accrued expenses related to capital expenditures	(19)	(15)
Other, net	(6)	(5)
Net cash flows from investing activities	(381)	(330)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	456	--
Repayments of long-term debt	(1,666)	(667)
Repayments of related party loans	(202)	--
Payments for debt issuance costs	--	(31)
Contributions	1,369	--
Distributions	(122)	(50)
Other, net	3	(2)
Net cash flows from financing activities	(162)	(750)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23	(480)
CASH AND CASH EQUIVALENTS, beginning of period	28	533
CASH AND CASH EQUIVALENTS, end of period	\$ 51	\$ 53
CASH PAID FOR INTEREST	\$ 81	\$ 97

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

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

1. Organization and Basis of Presentation

Organization

Charter Communications Operating, LLC (“Charter Operating”) is a holding company whose principal assets at March 31, 2011 are the equity interests in its operating subsidiaries. Charter Operating is a direct subsidiary of CCO Holdings, LLC (“CCO Holdings”), which is an indirect subsidiary of Charter Communications, Inc. (“Charter”). The consolidated financial statements include the accounts of Charter Operating and all of its subsidiaries where the underlying operations reside, which are collectively referred to herein as the “Company.” All significant intercompany accounts and transactions among consolidated entities have been eliminated.

The Company is a cable operator providing services in the United States. The Company offers to residential and commercial customers traditional cable video programming (basic and digital video), high-speed Internet services, and telephone services, as well as advanced video services such as Charter OnDemand™, high-definition television, and digital video recorder (“DVR”) service. The Company sells its cable video programming, high-speed Internet, telephone, and advanced video services primarily on a subscription basis. The Company also sells local advertising on cable networks and provides fiber connectivity to cellular towers.

On November 17, 2009, the Company and its parent companies’ Joint Plan of Reorganization (the “Plan”) was confirmed by order of the Bankruptcy Court, and became effective on November 30, 2009 (the “Effective Date”), the date on which the Company and its parent companies emerged from protection under Chapter 11 of the Bankruptcy Code. Upon the Company’s emergence from bankruptcy, the Company adopted fresh start accounting. This resulted in the Company becoming a new entity on December 1, 2009, with a new capital structure, a new accounting basis in the identifiable assets and liabilities assumed and no retained earnings or accumulated losses.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Accordingly, certain information and footnote disclosures typically included in Charter Operating’s Annual Report 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 GAAP 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, intangibles and goodwill; income taxes; contingencies; and programming expense. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform with the 2011 presentation.

Restricted cash on the accompanying condensed consolidated balance sheet as of March 31, 2011 and December 31, 2010 of \$28 million represents amounts held in escrow accounts pending final resolution from the Bankruptcy Court. Restricted cash is included in cash and cash equivalents on the accompanying condensed consolidated statements of cash flows. Approximately \$12 million of restricted cash held in an escrow account established in bankruptcy proceedings was used to pay for professional services for the three months ended March 31, 2010.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

2. Franchises, Goodwill and Other Intangible Assets

As of March 31, 2011 and December 31, 2010, indefinite-lived and finite-lived intangible assets are presented in the following table:

	March 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises	\$ 5,257	\$ --	\$ 5,257	\$ 5,257	\$ --	\$ 5,257
Goodwill	951	--	951	951	--	951
	<u>\$ 6,208</u>	<u>\$ --</u>	<u>\$ 6,208</u>	<u>\$ 6,208</u>	<u>\$ --</u>	<u>\$ 6,208</u>
Finite-lived intangible assets:						
Customer relationships	\$ 2,358	\$ 435	\$ 1,923	\$ 2,358	\$ 358	\$ 2,000
Other intangible assets	60	9	51	53	7	46
	<u>\$ 2,418</u>	<u>\$ 444</u>	<u>\$ 1,974</u>	<u>\$ 2,411</u>	<u>\$ 365</u>	<u>\$ 2,046</u>

Amortization expense related to customer relationships and other intangible assets for the three months ended March 31, 2011 and 2010 was approximately \$79 million and \$86 million, respectively.

The Company expects amortization expense on its finite-lived intangible assets will be as follows.

9 months ended December 31, 2011	\$ 235
2012	288
2013	261
2014	235
2015	209
2016	182
Thereafter	<u>564</u>
	<u>\$ 1,974</u>

Actual amortization expense in future periods could differ from these estimates as a result of new intangible assets, acquisitions or divestitures, changes in useful lives, impairments and other relevant factors.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

3. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of March 31, 2011 and December 31, 2010:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Accounts payable – trade	\$ 134	\$ 144
Accrued capital expenditures	35	54
Accrued expenses:		
Interest	39	32
Programming costs	296	282
Compensation	72	72
Franchise-related fees	46	53
Other	126	134
	<u>\$ 748</u>	<u>\$ 771</u>

4. Long-Term Debt

Long-term debt consists of the following as of March 31, 2011 and December 31, 2010:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Principal Amount</u>	<u>Accreted Value</u>	<u>Principal Amount</u>	<u>Accreted Value</u>
Charter Communications Operating, LLC:				
8.00% senior second-lien notes due April 30, 2012	\$ 1,100	\$ 1,110	\$ 1,100	\$ 1,112
10.875% senior second-lien notes due September 15, 2014	546	589	546	591
Credit facilities	4,744	4,501	5,954	5,632
Long-Term Debt	<u>\$ 6,390</u>	<u>\$ 6,200</u>	<u>\$ 7,600</u>	<u>\$ 7,335</u>

The accreted values presented above represent the fair value of the notes as of the Effective Date, plus accretion to the balance sheet dates. However, the amount that is currently payable if the debt becomes immediately due is equal to the principal amount of the debt. The Company has availability under the revolving portion of its credit facility of approximately \$957 million as of March 31, 2011, and as such, debt maturing in the next twelve months is classified as long-term.

In January 2011, CCO Holdings and CCO Holdings Capital Corp. closed on transactions in which they issued \$1.4 billion aggregate principal amount of 7.00% Senior Notes due 2019. The net proceeds of the issuances were contributed by CCO Holdings to Charter Operating as a capital contribution and were used to repay indebtedness under the Charter Operating credit facilities. The Company recorded a loss on extinguishment of debt of approximately \$67 million for the three months ended March 31, 2011 related to these transactions.

On March 31, 2010, Charter Operating entered into an amended and restated credit agreement. The refinancing resulted in a loss on extinguishment of debt for the three months ended March 31, 2010 of approximately \$1 million.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

5. Loans Payable – Related Party

Loans payable-related party as of March 31, 2011 consists of loans from Charter Communications Holding Company, LLC (“Charter Holdco”), CCH II, LLC (“CCH II”) and CCO Holdings to the Company of \$43 million, \$256 million and \$59 million, respectively. Loans payable-related party as of December 31, 2010 consists of loans from Charter Holdco, CCH II and CCO Holdings to the Company of \$42 million, \$248 million and \$252 million, respectively. Accrued interest of \$17 million and \$19 million was reclassified to loans payable – related party in the three months ended March 31, 2011 and 2010, respectively.

6. Noncontrolling Interest

Noncontrolling interest represents Charter’s 5.6% membership interest and CCH I’s 13% membership interest in CC VIII, LLC (“CC VIII”) of \$272 million and \$262 million as of March 31, 2011 and December 31, 2010, respectively. Noncontrolling interest in the accompanying condensed consolidated statements of operations represents the 2% accretion of the preferred membership interest in CC VIII plus approximately 18.6% of CC VIII’s income.

7. Comprehensive Income

The Company reports changes in the fair value of interest rate swap agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria in other comprehensive income. Consolidated comprehensive income was \$98 million and \$106 million for the three months ended March 31, 2011 and 2010, respectively. Consolidated comprehensive income for the three months ended March 31, 2011 included an \$11 million gain on the change in the fair value of interest rate swap agreements designated as cash flow hedges. There were no cash flow hedges outstanding for the three months ended March 31, 2010.

8. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate swap agreements to manage its interest costs and reduce the Company’s exposure to increases in floating interest rates. The Company manages its exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2015, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts.

The Company does not hold or issue derivative instruments for speculative trading purposes. The Company has 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, realized derivative gains and losses offset related results on hedged items in the consolidated statements of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended March 31, 2011, there was no cash flow hedge ineffectiveness on interest rate swap agreements.

Interest rate swap agreements are included in other long-term liabilities at fair value of \$46 million and \$57 million as of March 31, 2011 and December 31, 2010, respectively. Changes in the fair value of interest rate agreements that are designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, and that meet effectiveness criteria are reported in other comprehensive income. For the three months ended March 31, 2011, gains of \$11 million related to derivative instruments designated as cash flow hedges, were recorded in other comprehensive income. The amounts are subsequently reclassified as an increase or decrease to interest expense in the same periods in which the related interest on the floating-rate debt obligations affected earnings (losses). For the three months ended March 31, 2011, \$10 million was reclassified from accumulated other comprehensive loss into interest expense. No interest rate swaps were outstanding during the three months ended March 31, 2010.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

As of March 31, 2011 and December 31, 2010, the Company had \$2.0 billion in notional amounts of interest rate swap agreements outstanding. 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 were determined by reference to the notional amount and the other terms of the contracts.

9. Fair Value Measurements

Financial Assets and Liabilities

The Company has estimated the fair value of its financial instruments as of March 31, 2011 and December 31, 2010 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying condensed consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash and cash equivalents, receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments.

The estimated fair value of the Company's debt at March 31, 2011 and December 31, 2010 are based on quoted market prices and is classified within Level 1 (defined below) of the valuation hierarchy.

A summary of the carrying value and fair value of the Company's debt at March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Charter Operating notes	\$ 1,699	\$ 1,769	\$ 1,703	\$ 1,774
Credit facilities	4,501	4,735	5,632	5,913

The accounting guidance establishes a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The interest rate derivatives designated as hedges were valued as \$46 million and \$57 million liabilities as of March 31, 2011 and December 31, 2010, respectively, using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating's or counterparties' credit risk) and were classified within Level 2 of the valuation hierarchy. The weighted average pay rate for the Company's interest rate swap agreements was 2.25% at March 31, 2011 and December 31, 2010 (exclusive of applicable spread).

Nonfinancial Assets and Liabilities

The Company's nonfinancial assets such as franchises, property, plant, and equipment, and other intangible assets are not measured at fair value on a recurring basis; however they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No impairments were recorded in the three months ended March 31, 2011 and 2010.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

10. Other Operating Expenses, Net

Other operating expenses, net consist of the following for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Loss on sales of assets, net	\$ --	\$ 1
Special charges, net	5	11
	\$ 5	\$ 12

Loss on sales of assets, net

Loss on sales of assets, net represents the loss recognized on the sale of fixed assets and cable systems.

Special charges, net

Special charges, net for the three months ended March 31, 2011 primarily includes severance charges and for the three months ended March 31, 2010 primarily includes net amounts of litigation settlements and severance charges.

11. Other Expenses, Net

Other expenses, net for the three months ended March 31, 2010 consisted primarily of reorganization items which represent items of income, expense, gain or loss that were realized or incurred by the Company because it was in reorganization under Chapter 11 of the U.S. Bankruptcy Code. Reorganization items consisted of \$4 million in professional fees for the three months ended March 31, 2010. Post-emergence professional fees relate to claim settlements, Plan implementation and other transition costs related to the Plan.

12. Income Taxes

Charter Operating is a single member limited liability company not subject to income tax. Charter Operating holds all operations through indirect subsidiaries. The majority of these indirect subsidiaries are limited liability companies that are not subject to income tax. However, certain of the limited liability companies are subject to state income tax. In addition, certain of Charter Operating's indirect subsidiaries are corporations that are subject to income tax.

For each of the three months ended March 31, 2011 and 2010, the Company recorded \$6 million of income tax expense. Income tax expense was recognized through increases in deferred tax liabilities and current federal and state income tax expense.

As of March 31, 2011 and December 31, 2010, the Company had net deferred income tax liabilities of approximately \$229 million and \$225 million, respectively, included in other long-term liabilities in the condensed consolidated balance sheets. The net deferred tax liabilities relate to certain of the Company's indirect subsidiaries, which file separate income tax returns.

No tax years for Charter, Charter Holdco or the Company's indirect subsidiaries are currently under examination by the Internal Revenue Service. Tax years ending 2007 through 2010 remain subject to examination and assessment. Years prior to 2007 remain open solely for purposes of examination of net operating loss and credit carryforwards.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

13. Related Party Transactions

The following sets forth certain transactions in which the Company and the directors, executive officers, and affiliates of Charter and the Company are involved.

Allen Agreement

In connection with the Plan, Charter, Mr. Allen and Charter Investment, Inc (“CII”) entered into a separate restructuring agreement (as amended, the “Allen Agreement”), in settlement and compromise of their legal, contractual and equitable rights, claims and remedies against Charter and its subsidiaries. In addition to any amounts received by virtue of CII’s holding other claims against Charter and its subsidiaries, on the Effective Date, CII was issued 2.2 million shares of the new Charter Class B common stock and 35% (determined on a fully diluted basis) of the total voting power of all new capital stock of Charter. Each share of new Charter Class B common stock was convertible, at the option of the holder or the Disinterested Members of the Board of Directors of Charter, into one share of new Charter Class A common stock, and was subject to significant restrictions on transfer and conversion. Certain holders of new Charter Class A common stock (and securities convertible into or exercisable or exchangeable therefore) and new Charter Class B common stock received certain customary registration rights with respect to their shares. As of December 31, 2010, Mr. Allen held all 2.2 million shares of Class B common stock of Charter. Pursuant to the terms of the Certificate of Incorporation of Charter, on January 18, 2011, the Disinterested Members of the Board of Directors of Charter caused a conversion of the shares of Class B common stock into shares of Class A common stock on a one-for-one basis. As a result of such conversion, Mr. Allen no longer has the right to appoint four directors and the Class B directors became Class A directors. On January 18, 2011, directors William L. McGrath and Christopher M. Temple, both former Class B directors, resigned from Charter’s board of directors. Edgar Lee and Stan Parker were appointed to fill the vacant positions.

14. Contingencies

On August 28, 2008, a lawsuit was filed against Charter and Charter Communications, LLC (“Charter LLC”) in the United States District Court for the Western District of Wisconsin (now entitled, *Marc Goodell et al. v. Charter Communications, LLC and Charter Communications, Inc.*). The plaintiffs sought to represent a class of current and former broadband, system and other types of technicians who are or were employed by Charter or Charter LLC in the states of Michigan, Minnesota, Missouri or California. Plaintiffs alleged that Charter and Charter LLC violated certain wage and hour statutes of those four states by failing to pay technicians for all hours worked. In May 2010, the parties entered into a settlement agreement disposing of all claims, including those potential wage and hour claims for potential class members in additional states beyond the four identified above. On September 24, 2010, the court granted final approval of the settlement. The Company had accrued and paid the settlement costs associated with this case. The Company and its parent companies have been subjected, in the normal course of business, to the assertion of other wage and hour claims and could be subjected to additional such claims in the future. The Company cannot predict the outcome of any such claims.

On March 27, 2009, Charter filed its chapter 11 petition in the United States Bankruptcy Court for the Southern District of New York. On the same day, JPMorgan Chase Bank, N.A., (“JPMorgan”), for itself and as Administrative Agent under the Charter Operating Credit Agreement, filed an adversary proceeding (the “JPMorgan Adversary Proceeding”) in Bankruptcy Court against Charter Operating and CCO Holdings seeking a declaration that there were events of default under the Charter Operating Credit Agreement. JPMorgan, as well as other parties, objected to the Plan. The Bankruptcy Court jointly held 19 days of trial in the JPMorgan Adversary Proceeding and on the objections to the Plan.

On November 17, 2009, the Bankruptcy Court issued its Order and Opinion confirming the Plan over the objections of JPMorgan and various other objectors. The Court also entered an order ruling in favor of Charter in the JPMorgan Adversary Proceeding. Several objectors attempted to stay the consummation of the Plan, but those motions were denied by the Bankruptcy Court and the U.S. District Court for the Southern District of New York.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions)

Charter consummated the Plan on November 30, 2009 and reinstated the Charter Operating Credit Agreement and certain other debt of its subsidiaries.

Six appeals were filed relating to confirmation of the Plan. The parties initially pursuing appeals were: (i) JPMorgan; (ii) Wilmington Trust Company (“Wilmington Trust”) (as indenture trustee for the holders of the 8% senior second lien notes due 2012 and 8.375% senior second lien notes due 2014 issued by and among Charter Operating and Charter Communications Operating Capital Corp. and the 10.875% senior second lien notes due 2014 issued by and among Charter Operating and Charter Communications Operating Capital Corp.); (iii) Wells Fargo Bank, N.A. (“Wells Fargo”) (in its capacities as successor Administrative Agent and successor Collateral Agent for the third lien prepetition secured lenders to CCO Holdings under the CCO Holdings credit facility); (iv) Law Debenture Trust Company of New York (“Law Debenture Trust”) (as the Trustee with respect to the \$479 million in aggregate principal amount of 6.50% convertible senior notes due 2027 issued by Charter which are no longer outstanding following consummation of the Plan); (v) R2 Investments, LDC (“R2 Investments”) (an equity interest holder in Charter); and (vi) certain plaintiffs representing a putative class in a securities action against three former Charter officers or directors filed in the United States District Court for the Eastern District of Arkansas (Iron Workers Local No. 25 Pension Fund, Indiana Laborers Pension Fund, and Iron Workers District Council of Western New York and Vicinity Pension Fund, in the action styled *Iron Workers Local No. 25 Pension Fund v. Allen, et al.*, Case No. 4:09-cv-00405-JLH (E.D. Ark.)).

Charter Operating amended its senior secured credit facilities effective March 31, 2010. In connection with the closing of these amendments, each of Bank of America, N.A. and JPMorgan, for itself and on behalf of the lenders under the Charter Operating senior secured credit facilities, agreed to dismiss the pending appeal of the Company’s Confirmation Order pending before the District Court for the Southern District of New York and to waive any objections to the Company’s Confirmation Order issued by the United States Bankruptcy Court for the Southern District of New York. The lenders filed their Stipulation of that dismissal and waiver of objections and in April 2010, the case was dismissed. On December 3, 2009, Wilmington Trust withdrew its notice of appeal. In April 2010, Wells Fargo filed its Stipulation of Dismissal of their appeal on behalf of the lenders under the CCO Holdings credit facility and in April 2010, the case was dismissed. The appeals by Law Debenture Trust and R2 Investments were denied by the District Court for the Southern District of New York in March 2011. A Notice of Appeal of that denial has been filed by both parties. The appeals of the securities plaintiffs have been briefed but have not been argued to, or ruled upon by the District Court for the Southern District of New York. The Company cannot predict the ultimate outcome of the appeals.

The Company and its parent companies are party to 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 and its parent companies 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.

15. Stock Compensation Plans

Charter’s 2009 Stock Plan provides for grants of nonqualified stock options, incentive stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock, restricted stock units and restricted stock. Directors, officers and other employees of Charter and its subsidiaries, as well as others performing consulting services for the Company and its parent companies, are eligible for grants under the 2009 Stock Plan.

During the three months ended March 31, 2011 and 2010, Charter granted 12,500 and 39,900 shares of restricted stock, respectively. Restricted stock vests annually over a one to three-year period beginning from the date of grant. During the three months ended March 31, 2011, Charter granted 14,300 stock options. Stock options vest annually over four years from the grant date and expire ten years from the grant date. As of March 31, 2011, total unrecognized compensation remaining to be recognized in future periods totaled \$28 million for restricted stock and

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(UNAUDITED)
(dollars in millions)

\$15 million for stock options and the weighted average period over which it is expected to be recognized is 2 years for restricted stock and 3 years for stock options.

The Company recorded \$6 million and \$5 million of stock compensation expense for the three months ended March 31, 2011 and 2010, respectively, which is included in selling, general, and administrative expense.

On April 26, 2011, Charter granted 2 million stock options and 0.2 million shares of restricted stock units.

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

General

Charter Communications Operating, LLC ("Charter Operating") is a holding company whose principal assets at March 31, 2011 are the equity interests in its operating subsidiaries. Charter Operating is a direct subsidiary of CCO Holdings, LLC ("CCO Holdings"), which is an indirect subsidiary of Charter Communications, Inc. ("Charter"). The consolidated financial statements include the accounts of Charter Operating and all of its subsidiaries where the underlying operations reside.

We are a cable operator providing services in the United States with approximately 5.2 million residential and commercial customers at March 31, 2011. We offer our customers traditional cable video programming (basic and digital video), high-speed Internet services, and telephone services, as well as advanced video services such as Charter OnDemand™ ("OnDemand"), high-definition television and digital video recorder ("DVR") service. We also sell local advertising on cable networks and provide fiber connectivity to cellular towers.

Overview

For the three months ended March 31, 2011 and 2010, adjusted earnings before interest expense, income taxes, depreciation and amortization ("Adjusted EBITDA") was \$663 million and \$637 million, respectively. See "—Use of Adjusted EBITDA and Free Cash Flow" for further information on Adjusted EBITDA and free cash flow. Adjusted EBITDA increased as a result of continued growth in high-speed Internet and telephone customers, combined with growth in advanced services revenue and our commercial services. For the three months ended March 31, 2011 and 2010, our income from operations was \$269 million and \$251 million, respectively. The increase in income from operations for the three months ended March 31, 2011 is primarily due to increases in revenues offset by increases in operating expenses and depreciation and amortization.

We believe that continued competition and the weakened economic conditions in the United States, including the housing market and relatively high unemployment levels, have adversely affected consumer demand for our services. In addition, we believe these factors have contributed to an increase in the number of homes that replace their traditional telephone service with wireless service thereby impacting the growth of our telephone business. These conditions have affected our net customer additions and revenue growth during 2010, especially with our basic video customers. For the three months ended March 31, 2011, we had an increase in total customers of approximately 25,600 but lost approximately 23,800 basic video customers. If these conditions do not improve, we believe the growth of our business and results of operations will be further adversely affected which may contribute to future impairments of our franchises and goodwill.

The following table summarizes our customer statistics for basic video, digital video, high-speed Internet, and telephone as of March 31, 2011 and 2010:

	Approximate as of	
	March 31, 2011 (a)	March 31, 2010 (a)
Video (b)	4,253,300	4,547,800
High-speed Internet (c)	3,334,000	3,166,000
Telephone (d)	1,741,000	1,622,900
Residential PSUs (e)	9,328,300	9,336,700
Video (b)(f)	243,300	252,800
High-speed Internet (c)	133,000	117,700
Telephone (d)	64,400	44,400
Commercial PSUs (e)	440,700	414,900
Digital video RGUs (g)	3,391,600	3,313,900
Total RGUs (h)	13,160,600	13,065,500

After giving effect to sales of cable systems in 2010, residential basic video customers, residential high-speed Internet customers and residential telephone customers would have been approximately 4,478,700, 3,141,700, and 1,621,000, respectively, as of March 31, 2010. After giving effect to sales of cable systems in 2010, commercial basic video customers, commercial high-speed Internet customers, commercial telephone customers and digital revenue generating units would have been approximately 246,300, 116,600, 44,300 and 3,275,900, respectively, as of March 31, 2010.

- (a) We calculate the aging of customer accounts based on the monthly billing cycle for each account. On that basis, at March 31, 2011 and 2010, customers include approximately 12,500 and 16,200 persons, respectively, whose accounts were over 60 days past due in payment, approximately 1,700 and 1,600 persons, respectively, whose accounts were over 90 days past due in payment, and approximately 1,100 and 1,700 persons, respectively, whose accounts were over 120 days past due in payment.
- (b) "Video customers" represent those customers who subscribe to our video cable services.
- (c) "High-speed Internet customers" represent those customers who subscribe to our high-speed Internet service.
- (d) "Telephone customers" represent those customers who subscribe to our telephone service.
- (e) "Primary Service Units" or "PSUs" represent the total of video, high-speed Internet and telephone customers.
- (f) Included within commercial video customers are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit ("EBU") basis. We calculate EBUs by dividing the bulk price charged to accounts in an area by the published rate charged to non-bulk residential customers in that market for the comparable tier of service rather than the most prevalent price charged. This EBU method of estimating basic video customers is consistent with the methodology used in determining costs paid to programmers and is consistent with the methodology used by other multiple system operators ("MSOs"). As we increase our published video rates 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.
- (g) "Digital video RGUs" include all video customers that rent one or more digital set-top boxes or cable cards.
- (h) "Revenue Generating Units" or "RGUs" represent the total of all basic video, digital video, high-speed Internet and telephone customers, not counting additional outlets within one household. For example, a customer who receives two types of service (such as basic video and digital video) would be treated as two RGUs and, if that customer added on high-speed Internet service, the customer would be treated as three RGUs. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association ("NCTA").

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 2010 Annual Report.

RESULTS OF OPERATIONS

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):

	Three Months Ended March 31,			
	2011		2010	
REVENUES	\$ 1,770	100%	\$ 1,735	100%
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	768	43%	756	44%
Selling, general and administrative	345	20%	347	20%
Depreciation and amortization	383	22%	369	21%
Other operating expenses, net	5	--	12	1%
	<u>1,501</u>	<u>85%</u>	<u>1,484</u>	<u>86%</u>
Income from operations	<u>269</u>	<u>15%</u>	<u>251</u>	<u>14%</u>
OTHER EXPENSES:				
Interest expense, net	(109)		(135)	
Loss on extinguishment of debt	(67)		(1)	
Other expenses, net	--		(3)	
	<u>(176)</u>		<u>(139)</u>	
Income before income taxes	93		112	
INCOME TAX EXPENSE	<u>(6)</u>		<u>(6)</u>	
Consolidated net income	87		106	
Less: Net income – noncontrolling interest	<u>(10)</u>		<u>(9)</u>	
Net income – Charter Operating member	<u>\$ 77</u>		<u>\$ 97</u>	

Revenues. Average monthly revenue per basic video customer increased to \$131 for the three months ended March 31, 2011 from \$120 for the three months ended March 31, 2010. Average monthly revenue per basic video customer represents total revenue, divided by the number of respective months, divided by the average number of basic video customers during the respective period. Revenue growth primarily reflects increases in the number of residential and commercial telephone, high-speed Internet, and digital video customers, price increases, and incremental video revenues from premium, DVR, and high-definition television services, offset by a decrease in basic video customers. Asset sales reduced the increase in revenues for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 by approximately \$18 million.

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

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010		2011 over 2010	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$ 908	51%	\$ 926	53%	\$ (18)	(2%)
High-speed Internet	412	23%	395	23%	17	4%
Telephone	212	12%	198	12%	14	7%
Commercial	137	8%	118	7%	19	16%
Advertising sales	62	4%	59	3%	3	5%
Other	39	2%	39	2%	--	--
	<u>\$ 1,770</u>	<u>100%</u>	<u>\$ 1,735</u>	<u>100%</u>	<u>\$ 35</u>	<u>2%</u>

Video revenues consist primarily of revenues from basic and digital video services provided to our non-commercial customers, as well as franchise fees, equipment rental and video installation revenue. Residential basic video customers decreased by 294,500 customers from March 31, 2010 compared to March 31, 2011, 69,100 of which were related to asset sales. Digital video customers increased by 77,700 during the same period, offset by asset sales of 38,000 customers. The decrease in video revenues is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)
Incremental video services and rate adjustments	\$ 7
Increase in digital video customers	14
Decrease in basic video customers	(27)
Asset sales	(12)
	<u>\$ (18)</u>

Residential high-speed Internet customers grew by 168,000 customers from March 31, 2010 to March 31, 2011. The increase was reduced by asset sales of 24,300 residential high-speed Internet customers. The increase in high-speed Internet revenues from our residential customers is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)
Increase in residential high-speed Internet customers	\$ 25
Rate adjustments and service upgrades	(5)
Asset sales	(3)
	<u>\$ 17</u>

Average monthly revenue per residential high-speed Internet customer decreased during the three months ended March 31, 2011 compared to the corresponding period in 2010 due to an increase in entry level products and promotions offset by an increase in home networking customers.

Residential telephone customers grew by 118,100 customers from March 31, 2010 to March 31, 2011, offset by asset sales of 1,900 residential telephone customers. The increase in telephone revenues from our residential customers is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)	
Increase in residential telephone customers	\$	17
Rate adjustments and service upgrades		(3)
	<u>\$</u>	<u>14</u>

Average monthly revenue per residential telephone customer decreased during the three months ended March 31, 2011 compared to the corresponding period in 2010 due to promotional activity to increase sales of The Charter Bundle®.

The increase in commercial revenues is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)	
Sales to small-to-medium sized business customers	\$	11
Carrier site customers		6
Other		3
Asset sales		(1)
	<u>\$</u>	<u>19</u>

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers, and other vendors. Advertising sales revenues for the three months ended March 31, 2011 increased primarily as a result of an increase in revenue from the automotive sector. The increase for the three months ended March 31, 2011 was reduced by approximately \$1 million as a result of asset sales. For each of the three months ended March 31, 2011 and 2010, we received \$10 million in advertising sales revenues from vendors.

Other revenues consist of home shopping, late payment fees, wire maintenance fees and other miscellaneous revenues.

Operating expenses. The increase in operating expenses is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)	
	<hr/>	
Programming costs	\$	14
Service labor costs		6
Commercial services		2
Asset sales		(10)
	<hr/>	
	\$	12
	<hr/> <hr/>	

Programming costs were approximately \$466 million and \$457 million, representing 61% and 60% of total operating expenses for the three months ended March 31, 2011 and 2010, respectively. Programming costs consist primarily of costs paid to programmers for basic, premium, digital, OnDemand, and pay-per-view programming. The increase in programming costs is primarily a result of annual contractual rate adjustments, offset in part by asset sales and customer losses. Programming costs were also offset by the amortization of payments received from programmers of \$2 million and \$4 million for the three months ended March 31, 2011 and 2010, respectively. We expect programming expenses to continue to increase, and at a higher rate than in 2010, due to a variety of factors, including amounts paid for retransmission consent, annual increases imposed by programmers, and additional programming, including high-definition, OnDemand, and pay-per-view programming, being provided to our customers.

Service labor increased as a result of an increase in reconnect activity, and commercial services expenses increased as a result of growth in our commercial business.

Selling, general and administrative expenses. The increase in selling, general and administrative expenses is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)	
	<hr/>	
Marketing costs	\$	9
Bad debt and collection costs		(7)
Commercial services		3
Customer care		(2)
Stock compensation		1
Other, net		(2)
Asset sales		(4)
	<hr/>	
	\$	(2)
	<hr/> <hr/>	

Depreciation and amortization. Depreciation and amortization expense increased by \$14 million for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily representing depreciation on capital expenditures, offset by certain assets becoming fully depreciated.

Other operating expenses, net. The change in other operating expense, net is attributable to the following (dollars in millions):

	Three months ended March 31, 2011 compared to three months ended March 31, 2010 Increase / (Decrease)	
	<hr/>	
Special charges, net	\$	(6)
Loss on sales of assets, net		(1)
	<hr/>	
	\$	(7)
	<hr/>	

The change in special charges in the three months ended March 31, 2011 as compared to the prior period is the result of litigation settlements plus severance charges. For more information, see Note 10 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Interest expense, net. For the three months ended March 31, 2011 compared to March 31, 2010, net interest expense decreased by \$26 million, which was primarily a result of a decrease in our weighted average debt outstanding from \$9.9 billion for the three months ended March 31, 2010 to \$6.0 billion for the three months ended March 31, 2011 offset by an increase in our weighted average interest rate from 4.1% for the three months ended March 31, 2010 to 5.3% for the three months ended March 31, 2011.

Other expenses, net. Other expenses, net of \$3 million for the three months ended March 31, 2010 represent items of income, expense, gain or loss that we realized or incurred related to our reorganization under Chapter 11 of the U.S. Bankruptcy Code. For more information, see Note 11 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Loss on extinguishment of debt. Loss on extinguishment of debt for the three months ended March 31, 2011 represents the loss recognized on the repayment of indebtedness under the Charter Operating credit facilities with the proceeds of the issuance of \$1.4 billion principal amount of CCO Holdings 7.00% senior notes due 2019. Loss on extinguishment of debt for the three months ended March 31, 2010 relates to Charter Operating entering into an amended and restated credit agreement. For more information, see Note 4 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Income tax expense. Income tax expense was recognized for the three months ended March 31, 2011 and 2010, through increases in deferred tax liabilities and current federal and state income tax expense of certain of our indirect subsidiaries.

Net income – noncontrolling interest. Noncontrolling interest includes the 2% accretion of the preferred membership interests in CC VIII, LLC (“CC VIII”) plus approximately 18.6% of CC VIII’s income, net of accretion. For more information, see Note 6 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Net income – Charter Operating member. For the three months ended March 31, 2011 compared to March 31, 2010, net income – Charter Operating member decreased by \$20 million, which was primarily a result of the factors described above.

Use of Adjusted EBITDA and Free Cash Flow

We use certain measures that are not defined by accounting principles generally accepted in the United States (“GAAP”) to evaluate various aspects of our business. Adjusted EBITDA and free cash flow are non-GAAP financial measures and should be considered in addition to, not as a substitute for, consolidated net income and net cash flows from operating activities reported in accordance with GAAP. These terms, as defined by us, may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA and free cash flow are reconciled to consolidated net income and net cash flows from operating activities, respectively, below.

Adjusted EBITDA is defined as consolidated net income plus net interest expense, income taxes, depreciation and amortization, stock compensation expense, loss on extinguishment of debt, and other expenses, such as special charges, loss on sale or retirement of assets and reorganization items. As such, it eliminates the significant non-cash depreciation and amortization expense that results from the capital-intensive nature of our businesses as well as other non-cash or special items, and is unaffected by our capital structure or investment activities. Adjusted EBITDA is used by management and Charter's board of directors to evaluate the performance of our business. For this reason, it is a significant component of Charter's annual incentive compensation program. However, this measure is limited in that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues and our cash cost of financing. Management evaluates these costs through other financial measures.

Free cash flow is defined as net cash flows from operating activities, less capital expenditures and changes in accrued expenses related to capital expenditures.

We believe that Adjusted EBITDA and free cash flow provide information useful to investors in assessing our performance and our ability to service our debt, fund operations and make additional investments with internally generated funds. In addition, Adjusted EBITDA generally correlates to the leverage ratio calculation under our credit facilities or outstanding notes to determine compliance with the covenants contained in the facilities and notes (all such documents have been previously filed with the United States Securities and Exchange Commission). Adjusted EBITDA includes management fee expenses in the amount of \$35 million for each of the three months ended March 31, 2011 and 2010, which expense amounts are excluded for the purposes of calculating compliance with leverage covenants.

	Three Months Ended March 31,	
	2011	2010
Consolidated net income	\$ 87	\$ 106
Plus: Interest expense, net	109	135
Income tax expense	6	6
Depreciation and amortization	383	369
Stock compensation expense	6	5
Loss on extinguishment of debt	67	1
Other, net	5	15
Adjusted EBITDA	<u>\$ 663</u>	<u>\$ 637</u>
Net cash flows from operating activities	\$ 566	\$ 600
Less: Purchases of property, plant and equipment	(356)	(310)
Change in accrued expenses related to capital expenditures	<u>(19)</u>	<u>(15)</u>
Free cash flow	<u>\$ 191</u>	<u>\$ 275</u>

Liquidity and Capital Resources

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

Overview of Our Debt and Liquidity

We have significant amounts of debt. The accreted value of our debt as of March 31, 2011 was \$6.2 billion, consisting of \$4.5 billion of credit facility debt and \$1.7 billion of notes. Our business requires significant cash to fund principal and interest payments on our debt. For the remainder of 2011, \$33 million of our debt matures. As of March 31, 2011, \$1.1 billion of our debt matures in 2012, \$513 million in 2013, \$1.8 billion in 2014 and \$2.9 billion thereafter.

The amount of the maturities in 2013 includes \$270 million of amounts outstanding under Charter Operating's \$1.3 billion revolving facility. The revolving credit facility matures in March 2015. However, if on December 1, 2013 Charter Operating has scheduled maturities in excess of \$1.0 billion between January 1, 2014 and April 30, 2014, the revolving credit facility will mature on December 1, 2013 unless lenders holding more than 50% of the revolving credit facility consent to the maturity being March 2015. As of March 31, 2011, Charter Operating had maturities of \$1.3 billion between January 1, 2014 and April 30, 2014. We expect to utilize free cash flow and availability under our revolving credit facilities as well as future refinancing transactions to further extend or reduce the maturities of our principal obligations. The timing and terms of any refinancing transactions will be subject to market conditions. Additionally, we may, from time to time, depending on market conditions and other factors, use cash on hand and the proceeds from securities offerings or other borrowings, to retire our debt through open market purchases, privately negotiated purchases, tender offers, or redemption provisions. As of March 31, 2011, the amount available under the revolving credit facility was approximately \$957 million.

In May 2011, CCO Holdings and CCO Holdings Capital Corp. announced they intend to issue \$1.5 billion aggregate principal amount of 6.50% Senior Notes due 2021. The net proceeds of the issuances will be contributed by CCO Holdings to Charter Operating as a capital contribution and will be used to repay indebtedness under the Charter Operating credit facilities. We expect to close the offering on May 10, 2011, subject to customary closing conditions.

We continue to evaluate the deployment of our anticipated future free cash flow including to reduce our leverage, to invest in our business growth and other strategic opportunities, including mergers and acquisitions as well as stock repurchases and dividends. As possible acquisitions, swaps or dispositions arise in our industry, we actively review them against our objectives including, among other considerations, improving the operational efficiency and clustering of our business and achieving appropriate return targets, and we may participate to the extent we believe these possibilities present attractive opportunities. Although we are actively analyzing and considering several such possibilities, we do not believe any of these are both probable and material, and there can be no assurance that we will actually complete any acquisition, disposition or system swap or that any such transactions will be material to our operations or results.

Our business requires significant cash to fund capital expenditures and ongoing operations. Our projected cash needs and projected sources of liquidity depend upon, among other things, our actual results, and the timing and amount of our expenditures. We believe we have sufficient liquidity from cash on hand, free cash flow and Charter Operating's revolving credit facility as well as access to the capital markets to fund our projected operating cash needs.

Free Cash Flow

Free cash flow was \$191 million and \$275 million for the three months ended March 31, 2011 and 2010, respectively. The decrease in free cash flow is primarily due to changes in operating assets and liabilities that provided \$91 million less cash during the same period of 2011 and an increase of \$46 million in capital expenditures, offset by a decrease in cash paid for interest of \$16 million and by revenues increasing at a faster rate than cash expenses. The \$91 million reduction in cash provided by changes in operating assets and liabilities is driven by one-time benefits in the first quarter of 2010 post emergence from bankruptcy along with timing of payments in the first quarter of 2011.

Limitations on Distributions

Distributions by Charter's subsidiaries to a parent company for payment of principal on parent company notes are restricted under indentures and credit facilities governing our and our parent companies' indebtedness, unless there is no default under the applicable indenture and credit facilities, and unless each applicable subsidiary's leverage ratio test is met at the time of such distribution. For the quarter ended March 31, 2011, there was no default under any of these indentures or credit facilities and each subsidiary met its applicable leverage ratio tests based on March 31, 2011 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at the time of the contemplated distribution. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of the contemplated distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities.

Distributions by 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 and CCO Holdings and Charter Operating credit facilities.

In addition to the limitation on distributions under the various indentures discussed above, distributions by Charter Operating may be limited by applicable law, including the Delaware Limited Liability Company Act, under which it may only make distributions if it has “surplus” as defined in the act.

Historical Operating, Investing and Financing Activities

Cash and Cash Equivalents. We held \$51 million in cash and cash equivalents, including restricted cash, as of March 31, 2011 compared to \$28 million as of December 31, 2010.

Operating Activities. Net cash provided by operating activities decreased \$34 million from \$600 million for the three months ended March 31, 2010 to \$566 million for the three months ended March 31, 2011, primarily as a result of changes in operating assets and liabilities that provided \$91 million less cash during the same period driven by one-time benefits in the first quarter of 2010 post emergence from bankruptcy along with timing of payments in the first quarter of 2011 offset by a decrease of \$16 million in cash paid for interest and by revenues increasing at a faster rate than cash expenses.

Investing Activities. Net cash used in investing activities was \$381 million and \$330 million for the three months ended March 31, 2011 and 2010, respectively. The increase is primarily due to an increase of \$46 million in purchases of property, plant, and equipment as a result of capital investments to enhance our residential and commercial products and services capabilities.

Financing Activities. Net cash used in financing activities was \$162 million and \$750 million for the three months ended March 31, 2011 and 2010, respectively. The decrease in cash used during the three months ended March 31, 2011 as compared to the corresponding period in 2010, was primarily the result of increased borrowings of long-term debt and contributions from our parent companies, offset by increased repayments of long-term debt, repayments of related party loans and distributions to our parent company.

Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were \$356 million and \$310 million for the three months ended March 31, 2011 and 2010, respectively, and increased as a result of strategic investments in our Internet and video platforms including DOCSIS 3.0 and bandwidth reclamation projects such as switched-digital video launches, and investments made to move into new commercial segments.

During 2011, we expect capital expenditures to be between \$1.3 billion and \$1.4 billion. We expect the nature of these expenditures will continue to be composed primarily of purchases of customer premise equipment related to advanced video services, scalable infrastructure and support capital. The actual amount of our capital expenditures depends in part on the deployment of advanced video services and offerings. Capital expenditures will increase if there is accelerated growth in high-speed Internet, telephone, commercial business or digital customers or there is an increased need to respond to competitive pressures by expanding the delivery of other advanced video services.

Our capital expenditures are funded primarily from free cash flow and borrowings on our credit facility. In addition, our liabilities related to capital expenditures decreased \$19 million and \$15 million for the three months ended March 31, 2011 and 2010 compared to year end, respectively.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the three months ended March 31, 2011 and 2010. The disclosure is intended to provide more consistency in the reporting of capital expenditures among peer companies in the cable industry. These disclosure guidelines are not required disclosures under GAAP, nor do they impact our accounting for capital expenditures under GAAP (dollars in millions):

	Three Months Ended	
	March 31,	
	2011	2010
Customer premise equipment (a)	\$ 157	\$ 156
Scalable infrastructure (b)	122	87
Line extensions (c)	20	16
Upgrade/Rebuild (d)	5	9
Support capital (e)	52	42
Total capital expenditures (f)	\$ 356	\$ 310

- (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 and customer premise equipment (e.g., set-top boxes and cable modems, etc.).
- (b) Scalable infrastructure includes costs not related to customer premise equipment or our network, to secure growth of new customers, revenue units, and additional bandwidth revenues, or provide service enhancements (e.g., headend equipment).
- (c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).
- (d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.
- (e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).
- (f) Total capital expenditures includes \$27 million and \$18 million of capital expenditures related to commercial services for the three months ended March 31, 2011 and 2010, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to various market risks, including fluctuations in interest rates. We have used interest rate swap agreements to manage our interest costs and reduce our exposure to increases in floating interest rates. We manage our exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt. Using interest rate swap agreements, we agree to exchange, at specified intervals through 2015, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts.

As of March 31, 2011 and December 31, 2010, the accreted value of our debt was approximately \$6.2 billion and \$7.3 billion, respectively. As of March 31, 2011 and December 31, 2010, the weighted average interest rate on the credit facility debt, including the effects of our interest rate swap agreements, was approximately 4.1% and 3.8%, respectively, and the weighted average interest rate on the notes was approximately 9.0% and 9.0%, respectively, resulting in a blended weighted average interest rate of 5.3% and 4.9%, respectively. The interest rate on approximately 57% and 48% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate swap agreements, as of March 31, 2011 and December 31, 2010, respectively.

We do not hold or issue derivative instruments for speculative trading purposes. We have 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, derivative gains and losses offset related results on hedged items in the consolidated statements of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended March 31, 2011, there was no cash flow hedge ineffectiveness on interest rate swap agreements.

Changes in the fair value of interest rate agreements that are designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, and that meet effectiveness criteria are reported in other

comprehensive income. For the three months ended March 31, 2011, gains of \$11 million related to derivative instruments designated as cash flow hedges, were recorded in other comprehensive income. The amounts are subsequently reclassified as an increase or decrease to interest expense in the same periods in which the related interest on the floating-rate debt obligations affects earnings (losses). No interest rate swaps were outstanding during the three months ended March 31, 2010.

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 March 31, 2011 (dollars in millions):

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value at March 31, 2011</u>	
Fixed Rate		\$	--	\$ 1,100	\$	--	\$ 546	\$	--	\$ 1,646
Average Interest Rate	--	8.00%	--	10.88%	--	--	--	8.95%		
Variable Rate	\$ 33	\$ 44	\$ 513	\$ 1,289	\$ 30	\$ 2,835	\$	--	\$ 4,744	\$ 4,735
Average Interest Rate	3.50%	4.33%	4.99%	5.71%	7.29%	7.76%	--	6.84%		
Interest Rate Instruments:										
Variable to Fixed Rate	\$ --	\$ --	\$ 900	\$ 800	\$ 300	\$ --	\$ --	\$ 2,000	\$	46
Average Pay Rate	--	--	5.21%	5.65%	5.99%	--	--	5.50%		
Average Receive Rate	--	--	5.63%	6.44%	7.03%	--	--	6.16%		

Amounts outstanding under the revolving credit facility mature on March 6, 2015; provided, however, that unless otherwise directed by the revolving lenders holding more than 50% of the revolving commitments, the termination date will be December 1, 2013 if, on December 1, 2013, Charter Operating and its subsidiaries do not have less than \$1.0 billion of indebtedness on a consolidated basis with maturities between January 1, 2014 and April 30, 2014. Because Charter Operating, as of March 31, 2011, has indebtedness of \$1.3 billion with maturities between January 1, 2014 and April 30, 2014, the \$270 million outstanding under the revolving credit facility is included in 2013 in the above table.

At March 31, 2011, we had \$2.0 billion in notional amounts of interest rate swaps outstanding. 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 is determined using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating's or counterparties' credit risk). Interest rates on variable debt are estimated using the average implied forward LIBOR for the year of maturity based on the yield curve in effect at March 31, 2011 including applicable bank spread.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have 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 certifications 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 SEC's rules and forms.

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, we believe that our controls provide such reasonable assurances.

There was no change in our internal control over financial reporting during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

Bankruptcy Proceedings

On March 27, 2009, Charter filed its chapter 11 petition in the United States Bankruptcy Court for the Southern District of New York. On the same day, JPMorgan Chase Bank, N.A., (“JPMorgan”), for itself and as Administrative Agent under the Charter Operating Credit Agreement, filed an adversary proceeding (the “JPMorgan Adversary Proceeding”) in Bankruptcy Court against Charter Operating and CCO Holdings seeking a declaration that there were events of default under the Charter Operating Credit Agreement. JPMorgan, as well as other parties, objected to the Plan. The Bankruptcy Court jointly held 19 days of trial in the JPMorgan Adversary Proceeding and on the objections to the Plan.

On November 17, 2009, the Bankruptcy Court issued its Order and Opinion confirming the Plan over the objections of JPMorgan and various other objectors. The Court also entered an order ruling in favor of Charter in the JPMorgan Adversary Proceeding. Several objectors attempted to stay the consummation of the Plan, but those motions were denied by the Bankruptcy Court and the U.S. District Court for the Southern District of New York. Charter consummated the Plan on November 30, 2009 and reinstated the Charter Operating Credit Agreement and certain other debt of its subsidiaries.

Six appeals were filed relating to confirmation of the Plan. The parties initially pursuing appeals were: (i) JPMorgan; (ii) Wilmington Trust Company (“Wilmington Trust”) (as indenture trustee for the holders of the 8% Senior Second Lien Notes due 2012 and 8.375% senior second lien notes due 2014 issued by and among Charter Operating and Charter Communications Operating Capital Corp. and the 10.875% senior second lien notes due 2014 issued by and among Charter Operating and Charter Communications Operating Capital Corp.); (iii) Wells Fargo Bank, N.A. (“Wells Fargo”) (in its capacities as successor Administrative Agent and successor Collateral Agent for the third lien prepetition secured lenders to CCO Holdings under the CCO Holdings credit facility); (iv) Law Debenture Trust Company of New York (“Law Debenture Trust”) (as the Trustee with respect to the \$479 million in aggregate principal amount of 6.50% convertible senior notes due 2027 issued by Charter which are no longer outstanding following consummation of the Plan); (v) R2 Investments, LDC (“R2 Investments”) (an equity interest holder in Charter); and (vi) certain plaintiffs representing a putative class in a securities action against three former Charter officers or directors filed in the United States District Court for the Eastern District of Arkansas (Iron Workers Local No. 25 Pension Fund, Indiana Laborers Pension Fund, and Iron Workers District Council of Western New York and Vicinity Pension Fund, in the action styled *Iron Workers Local No. 25 Pension Fund v. Allen, et al.*, Case No. 4:09-cv-00405-JLH (E.D. Ark.)).

Charter Operating amended its senior secured credit facilities effective March 31, 2010. In connection with the closing of these amendments, each of Bank of America, N.A. and JPMorgan, for itself and on behalf of the lenders under the Charter Operating senior secured credit facilities, agreed to dismiss the pending appeal of our Confirmation Order pending before the District Court for the Southern District of New York and to waive any objections to our Confirmation Order issued by the United States Bankruptcy Court for the Southern District of New York. The lenders filed their Stipulation of that dismissal and waiver of objections and in April 2010, the case was dismissed. On December 3, 2009, Wilmington Trust withdrew its notice of appeal. In April 2010, Wells Fargo filed its Stipulation of Dismissal of their appeal on behalf of the lenders under the CCO Holdings credit facility and in April 2010, the case was dismissed. The appeals by Law Debenture Trust and R2 Investments were denied by the District Court for the Southern District of New York in March 2011. A Notice of Appeal of that denial has been filed by both parties. The appeals of the securities plaintiffs have been briefed but have not been argued to, or ruled upon by the District Court for the Southern District of New York. We cannot predict the ultimate outcome of the appeals.

Other Proceedings

We have had communications with the United States Environmental Protection Agency (“the EPA”) in connection with a self reporting audit which may result in a proceeding. Pursuant to the audit, we discovered certain compliance issues concerning our reports to the EPA for backup batteries used at our facilities. We do not view these matters as material.

We and our parent companies also are 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 parent companies 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. Whether or not we ultimately prevail in any particular lawsuit or claim, litigation can be time consuming and costly and injure our reputation.

Item 1A. Risk Factors.

Our Annual Report for the year ended December 31, 2010 includes “Risk Factors” under Item 1A of Part I. Except for the updated risk factors described below, there have been no material changes from the risk factors described in our Annual Report. The information below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report.

Risks Related to Regulatory and Legislative Matters

Our cable system franchises 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. 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, local franchises have not been renewed at expiration, and we have operated and are operating under either temporary operating agreements or without a franchise while negotiating renewal terms with the local franchising authorities.

The traditional cable franchising regime is currently undergoing significant change as a result of various federal and state actions. Some of the new state franchising laws do not allow us to immediately opt into favorable statewide franchising. In many cases, state franchising laws, and their varying application to us and new video providers, will result in less franchise imposed requirements for our competitors, who are new entrants, than for us until we are able to opt into the applicable state franchise.

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

In a series of rulemakings, the FCC adopted new rules that streamline entry for new competitors (particularly those affiliated with telephone companies) and reduce franchising burdens for these new entrants. At the same time, a substantial number of states have adopted new franchising laws principally designed to streamline entry for new

competitors, and often provide advantages for these new entrants that are not immediately available to existing operators.

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

Pole attachments are cable wires that are attached to utility poles. Cable system attachments to investor-owned 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. In contrast, utility poles owned by municipalities or cooperatives are not subject to federal regulation and are generally exempt from state regulation. On April 7, 2011, the FCC amended its pole attachment rules to promote broadband deployment. The new order (the "Order") maintains the basic rate formula applicable to "cable" attachments in the 30 states directly subject to FCC regulation, but reduces the rate formula previously applicable to "telecommunications" attachments to make it roughly equivalent to the cable attachment rate. Although the Order maintains the status quo treatment of cable-provided VoIP service as an unclassified service eligible for the favorable cable rate, there is still some uncertainty in this area. The Order also allows for new penalties in certain cases involving unauthorized attachments that could result in additional costs for cable operators. The new Order overall strengthens the cable industry's ability to access investor-owned utility poles on reasonable rates, terms and conditions. Electric utilities, however, have already signaled their intent to appeal certain aspects of the new Order.

Increasing regulation of our Internet service product could adversely affect our ability to provide new products and services.

In August 2005, the FCC issued a nonbinding policy statement identifying four principles it deemed necessary to ensure continuation of an "open" Internet that is not unduly restricted by network "gatekeepers." In August 2008, the FCC issued an order concerning one Internet network management practice in use by another cable operator, effectively treating the four principles as rules and ordering a change in that operator's network management practices. On April 6, 2010, the United States Court of Appeals for the D.C. Circuit concluded that the FCC lacked jurisdictional authority and vacated the FCC's 2008 order. On December 21, 2010, the FCC responded by enacting new "net neutrality" rules based on three core principles of: (1) transparency, (2) no blocking, and (3) no unreasonable discrimination. The "transparency" rule requires broadband Internet access providers to disclose applicable terms, performance, and network management practices to consumers and third party users. The "no blocking" rule restricts Internet access providers from blocking lawful content, applications, services, or devices. The "no unreasonable discrimination" rule prohibits Internet access providers from engaging in unreasonable discrimination in transmitting lawful traffic. The new rules will permit broadband service providers to exercise "reasonable network management" for legitimate management purposes, such as management of congestion, harmful traffic, and network security. The rules will also permit usage-based billing, and permit broadband service providers to offer additional specialized services such as facilities-based IP voice services, without being subject to restrictions on discrimination. These rules do not become effective until 60 days following the announcement in the Federal Register of the Office of Management and Budget's decision regarding the information collection requirements associated with the new rules, which has not yet occurred. When they become effective, the FCC will enforce these rules based on case-by-case complaints. Although the new rules encompass both wireline providers (like us) and wireless providers, the rules are less stringent with regard to wireless providers. The FCC premised the new "net neutrality" rules on its Title I and ancillary jurisdiction. An initial appeal filed by Verizon was rejected by the court on procedural grounds, but it is expected that Verizon will refile in due course. A legislative review is also possible. The FCC's new rules, if they withstand such challenges, as well as any additional legislation or regulation, could impose new obligations and restraints on high-speed Internet providers. Any such rules or statutes could limit our ability to manage our cable systems to obtain value for use of our cable systems and respond to operational and competitive challenges.

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

Cable operators also face significant regulation of their channel carriage. We can be required to devote substantial capacity to the carriage of programming that we might not carry voluntarily, including certain local broadcast signals; local public, educational and government access ("PEG") programming; and unaffiliated, commercial leased access programming (required channel capacity for use by persons unaffiliated with the cable operator who desire to distribute programming over a cable system). Under FCC regulations, most cable systems are currently required to offer both an analog and digital version of local broadcast signals. This burden could increase further if we are required to carry multiple programming streams included within a single digital broadcast transmission

(multicast carriage) or if our broadcast carriage obligations are otherwise expanded. Pursuant to recent copyright legislation, the Copyright Office and the General Accounting Office are now conducting proceedings exploring the feasibility of phasing out the compulsory copyright license through which cable systems have retransmitted broadcast programming since 1976. At the same time, the cost that cable operators face to secure retransmission consent (separate from copyright authority) for the carriage of popular broadcast stations is increasing significantly. The FCC also adopted new commercial leased access rules (currently stayed while under appeal) which dramatically reduce the rate we can charge for leasing this capacity and dramatically increase our associated administrative burdens. These regulatory changes could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity, increase our programming costs, and limit our ability to offer services that would maximize our revenue potential. It is possible that other legal restraints will be adopted limiting our discretion over programming decisions.

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

We offer voice communications services over our broadband network and continue to develop and deploy 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 additional authorizations. 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 carrier requirements, such as E911, Universal Service fund collection, CALEA, Customer Proprietary Network Information, number porting and telephone relay requirements to many VoIP providers such as us. There is a pending FCC proposal that might extend new inter-carrier compensation rules to VoIP traffic. 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.