

Charter Communications Operating, LLC
Charter Communications Operating Capital Corp.

Quarterly Report
For the three and nine months ended September 30, 2008

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This quarterly report is for the three and nine months ended September 30, 2008. 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," 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:

- the availability, in general, of funds to meet interest payment obligations under our and our parent companies' debt and to fund our operations and necessary capital expenditures, either through cash flows from operating activities, further borrowings or other sources and, in particular, our and our parent companies' ability to fund debt obligations (by dividend, investment or otherwise) to the applicable obligor of such debt;
- our and our parent companies' 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;
- our and our parent companies' ability to repay debt prior to or when it becomes due and/or successfully access the capital or credit markets to refinance that debt through new issuances, exchange offers or otherwise, including restructuring our and our parent companies' balance sheet and leverage position, especially given recent volatility and disruption in the capital and credit markets;
- the impact of competition from other distributors, including incumbent telephone companies, direct broadcast satellite operators, wireless broadband providers, and digital subscriber line ("DSL") providers;
- difficulties in growing, further introducing, and operating our telephone services, while adequately meeting customer expectations for the reliability of voice services;
- our ability to adequately meet demand for installations and customer service;
- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services, and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition;
- our ability to obtain programming at reasonable prices or to adequately raise prices to offset the effects of higher programming costs;
- general business conditions, economic uncertainty or downturn, including the recent volatility and disruption in the capital and credit markets and the significant downturn in the housing sector and overall economy; and
- the effects of governmental regulation on our business.

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

PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

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

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 553	\$ --
Accounts receivable, less allowance for doubtful accounts of \$20 and \$18, respectively	243	220
Prepaid expenses and other current assets	<u>33</u>	<u>24</u>
Total current assets	<u>829</u>	<u>244</u>
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation	5,034	5,072
Franchises, net	<u>8,933</u>	<u>8,942</u>
Total investment in cable properties, net	<u>13,967</u>	<u>14,014</u>
OTHER NONCURRENT ASSETS		
	<u>205</u>	<u>175</u>
Total assets	<u>\$ 15,001</u>	<u>\$ 14,433</u>
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 952	\$ 920
Payables to related party	<u>216</u>	<u>210</u>
Total current liabilities	<u>1,168</u>	<u>1,130</u>
LONG-TERM DEBT		
	<u>9,909</u>	<u>8,714</u>
LOANS PAYABLE – RELATED PARTY	<u>640</u>	<u>607</u>
DEFERRED MANAGEMENT FEES – RELATED PARTY	<u>14</u>	<u>14</u>
OTHER LONG-TERM LIABILITIES	<u>507</u>	<u>545</u>
MINORITY INTEREST	<u>681</u>	<u>663</u>
MEMBER'S EQUITY:		
Member's equity	2,206	2,883
Accumulated other comprehensive loss	<u>(124)</u>	<u>(123)</u>
Total member's equity	<u>2,082</u>	<u>2,760</u>
Total liabilities and member's equity	<u>\$ 15,001</u>	<u>\$ 14,433</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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
REVENUES	\$ 1,636	\$ 1,525	\$ 4,823	\$ 4,449
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	710	679	2,089	1,957
Selling, general and administrative	371	341	1,059	961
Depreciation and amortization	332	334	981	999
Asset impairment charges	--	56	--	56
Other operating expenses, net	15	8	51	13
	<u>1,428</u>	<u>1,418</u>	<u>4,180</u>	<u>3,986</u>
Income from operations	<u>208</u>	<u>107</u>	<u>643</u>	<u>463</u>
OTHER EXPENSES:				
Interest expense, net	(185)	(175)	(543)	(515)
Change in value of derivatives	(7)	(21)	(1)	(16)
Other expense, net	(6)	(3)	(20)	(27)
	<u>(198)</u>	<u>(199)</u>	<u>(564)</u>	<u>(558)</u>
Income (loss) before income taxes	10	(92)	79	(95)
INCOME TAX BENEFIT (EXPENSE)	<u>14</u>	<u>(21)</u>	<u>12</u>	<u>(22)</u>
Net income (loss)	<u>\$ 24</u>	<u>\$ (113)</u>	<u>\$ 91</u>	<u>\$ (117)</u>

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

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 91	\$ (117)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	981	999
Asset impairment charges	--	56
Noncash interest expense	13	11
Change in value of derivatives	1	16
Deferred income taxes	(16)	16
Other, net	52	50
Changes in operating assets and liabilities, net of effects from dispositions:		
Accounts receivable	(23)	(31)
Prepaid expenses and other assets	(9)	(4)
Accounts payable, accrued expenses and other	53	64
Receivables from and payables to related party, including deferred management fees	25	37
Net cash flows from operating activities	1,168	1,097
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(938)	(890)
Change in accrued expenses related to capital expenditures	(41)	(51)
Other, net	(1)	6
Net cash flows from investing activities	(980)	(935)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	2,355	7,122
Repayments of long-term debt	(1,161)	(5,902)
Repayments to related parties	(12)	--
Payments for debt issuance costs	(38)	(31)
Distributions	(768)	(1,380)
Other, net	(11)	5
Net cash flows from financing activities	365	(186)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	553	(24)
CASH AND CASH EQUIVALENTS, beginning of period	--	26
CASH AND CASH EQUIVALENTS, end of period	\$ 553	\$ 2
CASH PAID FOR INTEREST	\$ 471	\$ 444

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, except where indicated)

1. Organization and Basis of Presentation

Charter Communications Operating, LLC ("Charter Operating") is a holding company whose principal assets at September 30, 2008 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 operates broadband communications businesses in the United States offering to residential and commercial customers traditional cable video programming (basic and digital video), high-speed Internet services, and telephone services, as well as advanced broadband services such as high definition television, Charter OnDemand™ ("OnDemand"), and digital video recorder ("DVR") service. Cable video programming, high-speed Internet, telephone, and advanced broadband services are sold primarily on a subscription basis. The Company also sells local advertising on cable networks.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, certain information and footnote disclosures typically included in the Company's Annual Report have been condensed or omitted for this quarterly report. The accompanying condensed consolidated financial statements are unaudited. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("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, franchises and goodwill; income taxes; and contingencies. Actual results could differ from those estimates.

Reclassifications. Certain prior year amounts have been reclassified to conform with the 2008 presentation.

2. Liquidity and Capital Resources

The Company had net income for the three and nine months ended September 30, 2008, however, there can be no assurance that the Company will continue to do so. The Company incurred net losses for the three and nine months ended September 30, 2007. For the nine months ended September 30, 2008, the Company generated cash flows from operating activities.

The Company's long-term debt as of September 30, 2008 totaled \$9.9 billion, consisting of \$7.5 billion of credit facility debt and \$2.4 billion accreted value of high-yield notes. For the remainder of 2008, \$18 million of the Charter Operating credit facility debt matures, and in each of 2009, 2010, and 2011, \$70 million of the Charter Operating credit facility debt matures. In 2012 and beyond, significant additional amounts will become due under the Company's remaining long-term debt obligations.

The Company requires significant cash to fund debt service costs, capital expenditures and ongoing operations. The Company has historically funded these requirements through cash flows from operating activities, borrowings under credit facilities, equity contributions from its parent companies, proceeds from sales of assets, issuances of debt securities, and cash on hand. However, the mix of funding sources changes from period to period. For the nine months ended September 30, 2008, the Company generated \$1.2 billion of net cash flows from operating activities, after paying cash interest of \$471 million. In addition, the Company used \$938 million for purchases of property,

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plant and equipment. Finally, the Company generated net cash flows from financing activities of \$365 million as a result of credit facility borrowings completed during the nine months ended September 30, 2008. As of September 30, 2008, the Company had cash on hand of \$553 million. On a consolidated basis, the Company's parent companies have a significant level of debt, which totaled approximately \$21.0 billion as of September 30, 2008.

The Company expects that cash on hand, cash flows from operating activities, and the amounts available under the Charter Operating credit facilities will be adequate to fund its and its parent companies' projected cash needs, including scheduled maturities, through 2009. The Company believes that cash flows from operating activities, cash on hand, and the amounts available under the Charter Operating credit facilities will not be sufficient to fund its and its parent companies' projected cash needs in 2010 (primarily as a result of the maturity of \$1.9 billion of CCH II, LLC ("CCH II") senior notes in September 2010) and thereafter. However, it is uncertain whether the Company will be able, under applicable law, to make distributions or otherwise move cash to the parent companies for payment of interest and principal. See "Limitations on Distributions" below. The Company's projected cash needs and projected sources of liquidity depend upon, among other things, the Company's actual results, the timing and amount of capital expenditures, and ongoing compliance with the Charter Operating credit facilities, including obtaining an unqualified audit opinion from its independent accountants. Although the Company and its parent companies have been able to refinance or otherwise fund the repayment of debt in the past, they may not be able to access additional sources of refinancing on similar terms or pricing as those that are currently in place, or at all, or otherwise obtain other sources of funding, especially given the recent volatility and disruption of the capital and credit markets and the deterioration of general economic conditions in recent months. A continuation of the recent turmoil in the capital and credit markets and the general economic downturn could adversely impact the availability, terms and/or pricing of financing when the Company needs to raise additional liquidity. The Company would experience liquidity problems if they or their parent companies are unable to obtain sufficient additional financing at the right levels of the capital structure on a timely basis or at all as the Company's debt becomes due, or the Company otherwise needs additional liquidity. Adverse economic conditions, increased competition, or other unfavorable events also could affect the Company's liquidity.

If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under the credit facilities, the Company would consider requesting that Charter or Charter Communications Holding Company, LLC ("Charter Holdco") issue equity, issuing debt securities, further reducing expenses and capital expenditures, selling assets, or requesting waivers or amendments with respect to the Company's credit facilities.

If the above strategies were not successful, the Company could be forced to restructure its obligations or seek protection under the bankruptcy laws. In addition, if the Company finds it necessary to engage in a recapitalization or other similar transaction, the Company's noteholders might not receive principal and interest payments to which they are contractually entitled.

Credit Facility Availability

The Company's ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Operating credit facilities. The Charter Operating credit facilities, along with the Company's indentures, contain certain restrictive covenants, some of which require the Company to maintain specified leverage ratios, meet financial tests, and provide annual audited financial statements with an unqualified opinion from the Company's independent accountants. As of September 30, 2008, the Company was in compliance with the covenants under its indentures and credit facilities. As of September 30, 2008, the Company's potential availability under the Charter Operating revolving credit facility totaled approximately \$780 million, none of which was limited by covenant restrictions. Continued access to the Charter Operating revolving credit facility is subject to the Company remaining in compliance with these covenants, including covenants tied to Charter Operating's leverage ratio and first lien leverage ratio. If any event of non-compliance were to occur, funding under the revolving credit facility may not be available and defaults on some or potentially all of the Company's debt obligations could occur. An event of default under any of the Company's debt instruments could result in the acceleration of their payment obligations under that debt and, under certain circumstances, in cross-defaults under their parent companies' other debt obligations, which could have a material adverse effect on the Company's consolidated financial condition and results of operations. In

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response to recent financial market turmoil, including the failure of some financial institutions, the Company has borrowed amounts under its revolving credit facility in excess of the Company's immediate needs. The Company intends to continue monitoring counterparty risk in the financial markets and may from time to time increase or decrease its borrowings under the revolving credit facility to balance various factors including the liquidity needs of the Company and its parent companies, the leverage ratios of the Company and its parent companies, and counterparty risk in the financial markets.

Parent Company Debt Obligations

Any financial or liquidity problems of the Company's parent companies could cause serious disruption to the Company's business and have a material adverse effect on its business and results of operations.

A failure by Charter Communications Holdings, LLC ("Charter Holdings"), CCH I Holdings, LLC ("CIH"), CCH I, LLC ("CCH I"), CCH II, or CCO Holdings to satisfy their debt payment obligations could, or a bankruptcy with respect to Charter Holdings, CIH, CCH I, CCH II, or CCO Holdings would, give the lenders under the Company's credit facilities the right to accelerate the payment obligations under these facilities. Any such acceleration would be a default under the indenture governing the Company's notes.

In the second quarter of 2008, Charter Holdco repurchased, in private transactions, from a small number of institutional holders, a total of approximately \$35 million principal amount of various Charter Holdings notes due 2009 and 2010 and approximately \$46 million principal amount of Charter's 5.875% convertible senior notes due 2009, for approximately \$77 million of cash. Charter Holdco continues to hold the Charter Holdings notes. The purchased 5.875% convertible senior notes were cancelled resulting in approximately \$3 million principal amount of such notes remaining outstanding.

In July 2008, CCH II completed a tender offer, in which \$338 million of CCH II's 10.25% senior notes due 2010 were accepted for \$364 million of CCH II's 10.25% senior notes due 2013, which were issued as part of the same series of notes as CCH II's \$250 million aggregate principal amount of 10.25% senior notes due 2013, which were issued in September 2006.

In October 2008, Charter Holdco completed a tender offer, in which a total of approximately \$102 million principal amount of various Charter Holdings notes due 2009 and 2010 were accepted for approximately \$99 million of cash. Charter Holdco continues to hold the Charter Holdings notes.

Limitations on Distributions

As long as Charter's convertible senior notes remain outstanding and are not otherwise converted into shares of common stock, Charter must pay interest on the convertible senior notes and repay the principal amount. Charter's ability to make interest payments on its convertible senior notes, and to repay the outstanding principal of its convertible senior notes, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of September 30, 2008, Charter Holdco was owed \$115 million in intercompany loans from Charter Operating and had \$2 million in cash, which amounts were available to pay interest and principal on Charter's convertible senior notes to the extent not otherwise used, for example, to satisfy maturities at Charter Holdings. In connection with Charter Holdco's tender offer in October 2008 for senior notes of Charter Holdings, Charter Operating repaid \$97 million of its intercompany note owed to Charter Holdco, reducing such intercompany note to \$18 million. In addition, as long as Charter Holdco continues to hold the \$35 million (plus \$102 million acquired in the tender offer in October 2008) of Charter Holdings' notes due 2009 and 2010 (as discussed further above), Charter Holdco will receive interest and principal payments from Charter Holdings to the extent Charter Holdings is able to make such payments. Such amounts may be available to pay interest and principal on Charter's convertible senior notes, although Charter Holdco may use those amounts for other purposes.

Distributions by Charter's subsidiaries to a parent company for payment of principal on parent company notes, are restricted under the indentures governing the Company's notes and its parent companies' notes, and under the CCO

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Holdings credit facility, 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 September 30, 2008, there was no default under any of these indentures or credit facilities. However, certain of Charter's subsidiaries did not meet their applicable leverage ratio tests based on September 30, 2008 financial results. As a result, distributions from certain of Charter's subsidiaries to their parent companies would have been restricted at such time and will continue to be restricted unless those tests are met. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities.

Distributions by CIH, CCH I, CCH II, CCO Holdings, and Charter Operating to a parent company for payment of parent company interest are permitted if there is no default under the aforementioned indentures and CCO Holdings credit facility.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on Charter's convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures, and other specified tests are met. For the quarter ended September 30, 2008, there was no default under Charter Holdings' indentures and other specified tests were met. However, Charter Holdings did not meet its leverage ratio test of 8.75 to 1.0 based on September 30, 2008 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco would have been restricted at such time and will continue to be restricted unless that test is met.

In addition to the limitation on distributions under the various indentures discussed above, distributions by Charter's subsidiaries, including the Company, may be limited by applicable law. Under the Delaware Limited Liability Company Act, Charter's subsidiaries may only make distributions if they have "surplus" as defined in the act. Under fraudulent transfer laws, Charter's subsidiaries may not pay dividends if they are insolvent or are rendered insolvent thereby. The measures of insolvency for purposes of these fraudulent transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an entity would be considered insolvent if:

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

Primarily in light of the economic environment, it is uncertain whether there will be, at the relevant times, sufficient surplus at CIH and its parent companies, or potentially its subsidiaries, to make distributions, including for payment of interest and principal on the debts of the parent companies of such entities, and there can otherwise be no assurance that Charter's subsidiaries will not become insolvent or will be permitted to make distributions in the future in compliance with these restrictions in amounts needed to service parent company indebtedness.

Recent Financing Transactions

In March 2008, Charter Operating issued \$546 million principal amount of 10.875% senior second-lien notes due 2014 and borrowed \$500 million principal amount of incremental term loans under the Charter Operating credit facilities (see Note 5).

3. Franchises and Goodwill

Franchise rights represent the value attributed to agreements or authorizations with local and state authorities that allow access to homes in cable service areas. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations,

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or more frequently as warranted by events or changes in circumstances. The October 1, 2008 annual impairment test will be finalized in the fourth quarter of 2008 and any impairment resulting from such test will be recorded in the fourth quarter. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographical clustering of the Company's cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

As of September 30, 2008 and December 31, 2007, indefinite-lived and finite-lived intangible assets are presented in the following table:

	September 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises with indefinite lives	\$ 8,927	\$ --	\$ 8,927	\$ 8,929	\$ --	\$ 8,929
Goodwill	68	--	68	67	--	67
	<u>\$ 8,995</u>	<u>\$ --</u>	<u>\$ 8,995</u>	<u>\$ 8,996</u>	<u>\$ --</u>	<u>\$ 8,996</u>
Finite-lived intangible assets:						
Franchises with finite lives	\$ 15	\$ 9	\$ 6	\$ 23	\$ 10	\$ 13

Franchise amortization expense represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. During the nine months ended September 30, 2008, the net carrying amount of indefinite-lived franchises was reduced by \$3 million related to cable asset sales completed in 2008, and \$4 million as a result of the finalization of purchase accounting related to cable asset acquisitions. Additionally, during the nine months ended September 30, 2008, approximately \$5 million of franchises that were previously classified as finite-lived were reclassified to indefinite-lived, based on management's assessment when these franchises migrated to state-wide franchising. Franchise amortization expense for each of the three and nine months ended September 30, 2008 was approximately \$1 million and \$2 million, respectively. The Company expects that amortization expense on franchise assets will be approximately \$2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Accounts payable – trade	\$ 96	\$ 116
Accrued capital expenditures	54	95
Accrued expenses:		
Interest	139	111
Programming costs	292	273
Compensation	83	75
Franchise-related fees	55	66
Other	233	184
	<u>\$ 952</u>	<u>\$ 920</u>

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
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(UNAUDITED)

(dollars in millions, except where indicated)

5. Long-Term Debt

Long-term debt consists of the following as of September 30, 2008 and December 31, 2007:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Principal Amount</u>	<u>Accreted Value</u>	<u>Principal Amount</u>	<u>Accreted Value</u>
Long-Term Debt				
Charter Communications Operating, LLC:				
8.000% senior second-lien notes due April 30, 2012	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100
8 3/8% senior second-lien notes due April 30, 2014	770	770	770	770
10.875% senior second-lien notes due September 15, 2014	546	526	--	--
Credit facilities	<u>7,513</u>	<u>7,513</u>	<u>6,844</u>	<u>6,844</u>
	<u>\$ 9,929</u>	<u>\$ 9,909</u>	<u>\$ 8,714</u>	<u>\$ 8,714</u>

The accreted values presented above generally represent the principal amount of the notes less the original issue discount at the time of sale, plus the accretion to the balance sheet date. However, the current accreted value for legal purposes and notes indenture purposes (the amount that is currently payable if the debt becomes immediately due) is equal to the principal amount of notes.

In March 2008, Charter Operating issued \$546 million principal amount of 10.875% senior second-lien notes due 2014, guaranteed by CCO Holdings and certain other subsidiaries of Charter Operating, in a private transaction. Net proceeds from the senior second-lien notes were used to reduce borrowings, but not commitments, under the revolving portion of the Charter Operating credit facilities.

The Charter Operating 10.875% senior second-lien notes may be redeemed at the option of Charter Operating on or after varying dates, in each case at a premium, plus the Make-Whole Premium. The Make-Whole Premium is an amount equal to the excess of (a) the present value of the remaining interest and principal payments due on a 10.875% senior second-lien note due 2014 to its final maturity date, computed using a discount rate equal to the Treasury Rate on such date plus 0.50%, over (b) the outstanding principal amount of such note. The Charter Operating 10.875% senior second-lien notes may be redeemed at any time on or after March 15, 2012 at specified prices. In the event of specified change of control events, Charter Operating must offer to purchase the Charter Operating 10.875% senior second-lien notes at a purchase price equal to 101% of the total principal amount of the Charter Operating notes repurchased plus any accrued and unpaid interest thereon.

In addition, Charter Operating borrowed \$500 million principal amount of incremental term loans (the "Incremental Term Loans") under the Charter Operating credit facilities. The Incremental Term Loans have a final maturity of March 6, 2014 and prior to this date will amortize in quarterly principal installments totaling 1% annually beginning on June 30, 2008. The Incremental Term Loans bear interest at LIBOR plus 5.0%, with a LIBOR floor of 3.5%, and are otherwise governed by and subject to the existing terms of the Charter Operating credit facilities. Net proceeds from the Incremental Term Loans were used for general corporate purposes.

6. Loans Payable-Related Party

Loans payable-related party consists of loans from Charter Holdco, CCH II, and CCO Holdings to the Company of \$115 million, \$227 million, and \$298 million, respectively, as of September 30, 2008, and \$123 million, \$209 million, and \$275 million, respectively, as of December 31, 2007.

These loans are subject to certain limitations and may be repaid with borrowings under the Charter Operating revolving credit facility.

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7. Minority Interest

Minority interest on the Company's condensed consolidated balance sheets of \$681 million and \$663 million as of September 30, 2008 and December 31, 2007, respectively, represents preferred membership interests in CC VIII, LLC ("CC VIII"), an indirect subsidiary of the Company, that is held by Mr. Allen, Charter's chairman and controlling shareholder, and CCH I. Minority interest in the accompanying consolidated statements of operations includes the 2% accretion of the preferred membership interests plus approximately 18.6% of CC VIII's income, net of accretion.

8. Comprehensive Income (Loss)

The Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive loss. Comprehensive income was \$5 million and \$90 million for the three and nine months ended September 30, 2008, respectively. Comprehensive loss was \$186 million and \$143 million for the three and nine months ended September 30, 2007, respectively.

9. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate swap agreements to manage interest costs and reduce the Company's exposure to increases in floating interest rates. The Company's policy is to manage exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt within a targeted range. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2013, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts. At the banks' option, certain interest rate swap agreements may be extended through 2014.

The Company's hedging policy does not permit it to hold or issue derivative instruments for speculative trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For each of the three and nine months ended September 30, 2008 and 2007, 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 the effectiveness criteria specified by SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended September 30, 2008 and 2007, losses of \$19 million and \$73 million, respectively, and for the nine months ended September 30, 2008 and 2007, losses of \$1 million and \$25 million, respectively, related to derivative instruments designated as cash flow hedges, were recorded in accumulated other comprehensive loss. 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).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as a change in value of derivatives in the Company's consolidated statements of operations. For the three months ended September 30, 2008 and 2007, change in value of derivatives includes losses of \$7 million and \$21 million, respectively, and for the nine months ended September 30, 2008 and 2007, losses of \$1 million and \$16 million, respectively, resulting from interest rate derivative instruments not designated as hedges.

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As of September 30, 2008 and December 31, 2007, the Company has \$4.3 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 exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

The Company adopted SFAS No. 157, *Fair Value Measurements*, on their financial assets and liabilities effective January 1, 2008, and have an established process for determining fair value. The Company has deferred adoption of SFAS No. 157 on their nonfinancial assets and liabilities including fair value measurements under SFAS No. 142 and SFAS No. 144 of franchises, goodwill, property, plant, and equipment, and other long-term assets until January 1, 2009 as permitted by FASB Staff Position (“FSP”) 157-2. Fair value is based upon quoted market prices, where available. If such valuation methods are not available, fair value is based on internally or externally developed models using market-based or independently-sourced market parameters, where available. Fair value may be subsequently adjusted to ensure that those assets and liabilities are recorded at fair value. The Company’s methodology may produce a fair value that may not be indicative of net realizable value or reflective of future fair values, but the Company believes its methods are appropriate and consistent with other market peers. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value estimate as of the Company’s reporting date.

SFAS No. 157 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.

Interest rate derivatives are valued using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating’s credit risk) and are classified within level 2 of the valuation hierarchy. The Company’s interest rate derivatives are accounted for at fair value on a recurring basis and totaled \$170 million as of September 30, 2008.

10. Other Operating Expenses, Net

Other operating expenses, net consist of the following for the three and nine months ended September 30, 2008 and 2007:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
Loss on sale of assets, net	\$ 3	\$ 2	\$ 7	\$ 5
Special charges, net	12	6	44	8
	<u>\$ 15</u>	<u>\$ 8</u>	<u>\$ 51</u>	<u>\$ 13</u>

Special charges, net for the three and nine months ended September 30, 2008 includes severance charges and litigation related items including expected settlement costs associated with the *Sjoblom* litigation (see Note 14), offset by favorable insurance settlements related to hurricane Katrina claims. Special charges, net for the three and nine months ended September 30, 2007 primarily represent severance charges.

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11. Other Expense, Net

Other expense, net consists of the following for the three and nine months ended September 30, 2008 and 2007:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
Loss on extinguishment of debt	\$ --	\$ --	\$ --	\$ (13)
Minority interest	(6)	(4)	(18)	(14)
Gain (loss) on investments	--	2	(1)	1
Other, net	--	(1)	(1)	(1)
	<u>\$ (6)</u>	<u>\$ (3)</u>	<u>\$ (20)</u>	<u>\$ (27)</u>

As part of the refinancing in 2007, the existing Charter Operating \$350 million revolving/term credit facility was terminated, resulting in a loss on extinguishment of debt for the nine months ended September 30, 2007 of approximately \$13 million.

12. Income Taxes

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

As of September 30, 2008 and December 31, 2007, the Company had net deferred income tax liabilities of approximately \$210 million and \$226 million, respectively. The deferred tax liabilities relate to certain of the Company's indirect subsidiaries that file separate income tax returns.

Income tax expense is recognized through current federal and state income tax expense, as well as, increases to the related deferred tax liabilities of certain of the Company's indirect subsidiaries. During the three month periods ended September 30, 2008 and 2007, the Company recorded \$14 million of income tax benefit and \$21 million of income tax expense, respectively. During the nine months ended September 30, 2008 and 2007, the Company recorded \$12 million of income tax benefit and \$22 million of income tax expense, respectively. The income tax benefit recorded during 2008 results from a change in state income tax laws.

Charter and Charter Holdco, the Company's indirect parent companies, received notification from the Internal Revenue Service ("IRS") examining agent that no changes to the 2004 and 2005 tax returns would be required as a result of their examination. These findings were approved by the IRS Area Director during the quarter ended September 30, 2008.

13. Related Party Transactions

The following sets forth certain transactions in which the Company and the directors, executive officers, and affiliates of the Company are involved. Unless otherwise disclosed, management believes each of the transactions described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

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Digeo, Inc.

Mr. Paul G. Allen, the controlling shareholder of Charter, through his 100% ownership of Vulcan Ventures Incorporated (“Vulcan Ventures”), owns a majority interest in Digeo, Inc. on a fully-converted fully-diluted basis. Ms. Jo Allen Patton is a director of Charter and a director and Vice President of Vulcan Ventures. Mr. Lance Conn is a director of Charter and is Executive Vice President of Vulcan Ventures. Currently, Charter Operating owns 1.8% of Digeo, Inc.’s common stock.

In May 2008, Charter Operating entered into an agreement with Digeo Interactive, LLC, a subsidiary of Digeo, Inc., for the minimum purchase of high-definition DVR units for approximately \$21 million. This minimum purchase commitment is subject to reduction as a result of certain specified events such as the failure to deliver units timely and catastrophic failure. The software for these units is being supplied under a software license agreement with Digeo Interactive, LLC; the cost of which is expected to be approximately \$2 million for the initial licenses and on-going maintenance fees of approximately \$0.3 million annually, subject to reduction to coincide with any reduction in the minimum purchase commitment. For the three and nine months ended September 30, 2008, the Company has purchased approximately \$1 million of DVR units from Digeo Interactive, LLC under these agreements.

14. Contingencies

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

In the ordinary course of business, the Company and its parent companies may face employment law claims, including claims under the Fair Labor Standards Act and wage and hour laws of the states in which we operate. On August 15, 2007, a complaint was filed, on behalf of both nationwide and state of Wisconsin classes of certain categories of current and former technicians, against Charter Communications, LLC, a subsidiary of the Company, and Charter Communications, Inc. in the United States District Court for the Western District of Wisconsin (*Sjoblom v. Charter Communications, LLC and Charter Communications, Inc.*), alleging that such entities violated the Fair Labor Standards Act and Wisconsin wage and hour laws by failing to pay technicians for certain hours claimed to have been worked. While the defendants believe they have substantial factual and legal defenses to the claims at issue, in order to avoid the cost and distraction of continuing to litigate the case, the Company and its parent companies have reached a settlement with the plaintiffs, which is subject to the approval of the court. The Company has accrued expected settlement costs associated with the *Sjoblom* case (see Note 10). The Company has been subjected, in the normal course of business, to the assertion of other similar claims and could be subjected to additional such claims. The Company cannot predict the ultimate outcome of any such proceedings or claims.

The Company and its parent companies are party to other lawsuits and claims that arise in the ordinary course of conducting their business. The ultimate outcome of these other legal matters pending against the Company or its parent companies cannot be predicted. Although such lawsuits and claims, including the employment law claims discussed above, are not expected individually to be material to the Company’s consolidated financial condition, results of operations or liquidity, such lawsuits and claims could be, in the aggregate, material to the Company’s consolidated financial condition, results of operations or liquidity.

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15. Stock Compensation Plans

Charter has stock compensation plans (the "Plans") which provide for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (shares of restricted stock not to exceed 20.0 million shares of Charter Class A common stock), as each term is defined in the Plans. Employees, officers, consultants and directors of Charter and its subsidiaries and affiliates are eligible to receive grants under the Plans. Options granted generally vest over four years from the grant date, with 25% generally vesting on the first anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date. Restricted stock vests annually over a one to three-year period beginning from the date of grant. The 2001 Stock Incentive Plan allows for the issuance of up to a total of 90.0 million shares of Charter Class A common stock (or units convertible into Charter Class A common stock). In March 2008, Charter adopted an incentive program to allow for performance cash. Under the incentive program, subject to meeting performance criteria, performance units under the 2001 Stock Incentive Plan and performance cash are deposited into a performance bank of which one-third of the balance is paid out each year. During the three and nine months ended September 30, 2008, Charter granted 0.3 million and 10.7 million shares of restricted stock, respectively, and 0.3 million and 11.8 million performance units, respectively. During the nine months ended September 30, 2008, Charter granted \$8 million of performance cash under Charter's 2008 incentive program.

The Company recorded \$8 million and \$5 million of stock compensation expense for the three months ended September 30, 2008 and 2007, respectively, and \$24 million and \$15 million for the nine months ended September 30, 2008 and 2007, respectively, which is included in selling, general, and administrative expense.

16. Recently Issued Accounting Standards

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, which requires companies to disclose their objectives and strategies for using derivative instruments, whether or not designated as hedging instruments under SFAS No. 133. SFAS No. 161 is effective for interim periods and fiscal years beginning after November 15, 2008. The Company will adopt SFAS No. 161 effective January 1, 2009. The Company is currently assessing the impact of SFAS No. 161 on its financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors to be considered in renewal or extension assumptions used to determine the useful life of a recognized intangible asset. FSP FAS 142-3 is effective for interim periods and fiscal years beginning after December 15, 2008. The Company will adopt FSP FAS 142-3 effective January 1, 2009. The Company is currently assessing the impact of FSP FAS 142-3 on its financial statements.

The Company does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on its accompanying financial statements.

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 September 30, 2008 are the equity interests in its subsidiaries. Charter Operating is a direct subsidiary of CCO Holdings, LLC (“CCO Holdings”), which is an indirect subsidiary of Charter Communications, Inc. (“Charter”).

We operate broadband communications businesses in the United States with approximately 5.5 million customers at September 30, 2008. Through our hybrid fiber and coaxial cable network, we offer our customers traditional cable video programming (basic and digital, which we refer to as “video” service), high-speed Internet service, and telephone services, as well as advanced broadband services (such as Charter OnDemand™ (“OnDemand”) high definition television service, and digital video recorder (“DVR”) service).

The following table summarizes our customer statistics for basic video, digital video, residential high-speed Internet, and telephone as of September 30, 2008 and 2007:

	Approximate as of	
	September 30, 2008 (a)	September 30, 2007 (a)
Video Cable Services:		
Basic Video:		
Residential (non-bulk) basic video customers (b)	4,860,100	5,073,900
Multi-dwelling (bulk) and commercial unit customers (c)	276,000	273,900
Total basic video customers (b)(c)	<u>5,136,100</u>	<u>5,347,800</u>
Digital Video:		
Digital video customers (d)	3,118,500	2,882,900
Non-Video Cable Services:		
Residential high-speed Internet customers (e)	2,858,200	2,639,200
Telephone customers (f)	1,274,300	802,600

After giving effect to sales and acquisitions of cable systems in 2007 and 2008, basic video customers, digital video customers, high-speed Internet customers and telephone customers would have been approximately 5,285,100, 2,860,500, 2,631,800, and 804,000, respectively, as of September 30, 2007.

- (a) "Customers" include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts (such as our employees). At September 30, 2008 and 2007, "customers" include approximately 42,100 and 33,800 persons whose accounts were over 60 days past due in payment, approximately 7,700 and 5,700 persons whose accounts were over 90 days past due in payment, and approximately 3,800 and 2,100 of which were over 120 days past due in payment, respectively.
- (b) "Basic video customers" include all residential customers who receive video cable services.
- (c) Included within "basic video customers" are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit ("EBU") basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. The EBU method of estimating basic video customers is consistent with the methodology used in determining costs paid to programmers and has been used consistently.
- (d) "Digital video customers" include all basic video customers that have one or more digital set-top boxes or cable cards deployed.

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

(f) "Telephone customers" include all customers receiving telephone service.

Overview

For the nine months ended September 30, 2008 and 2007, our income from operations was \$643 million and \$463 million, respectively. We had operating margins of 13% and 10% for the nine months ended September 30, 2008 and 2007, respectively. The increase in income from operations and operating margins for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 was principally due to increased sales of our bundled services and improved cost efficiencies along with impairment of \$56 million recorded in the nine months ended September 30, 2007 that did not recur in 2008.

We have a history of net losses. In the past, our net losses were principally attributable to insufficient revenue to cover the combination of operating expenses and interest expenses we incurred because of our debt, and depreciation expenses resulting from the capital investments we had made and continue to make in our cable properties. We expect that these expenses will remain significant. We had net income for the nine months ended September 30, 2008, however, there can be no assurance that we will continue to do so.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

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):

	Nine Months Ended September 30,			
	2008		2007	
REVENUES	\$ 4,823	100%	\$ 4,449	100%
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	2,089	43%	1,957	44%
Selling, general and administrative	1,059	22%	961	22%
Depreciation and amortization	981	21%	999	23%
Asset impairment charges	--	--	56	1%
Other operating expenses, net	51	1%	13	--
	<u>4,180</u>	<u>87%</u>	<u>3,986</u>	<u>90%</u>
Income from operations	<u>643</u>	<u>13%</u>	<u>463</u>	<u>10%</u>
OTHER EXPENSES:				
Interest expense, net	(543)		(515)	
Change in value of derivatives	(1)		(16)	
Other expense, net	(20)		(27)	
	<u>(564)</u>		<u>(558)</u>	
Income (loss) before income taxes	79		(95)	
INCOME TAX BENEFIT (EXPENSE)	<u>12</u>		<u>(22)</u>	
Net income (loss)	<u>\$ 91</u>		<u>\$ (117)</u>	

Revenues. Average monthly revenue per basic video customer increased to \$104 for the nine months ended September 30, 2008 from \$92 for the nine months ended September 30, 2007. 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 telephone, high-speed Internet, and digital video customers, price increases, and incremental video revenues from OnDemand, DVR, and high-definition television services, offset by a decrease in basic video customers. Cable system sales, net of acquisitions, in 2007 reduced the increase in revenues for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007 by approximately \$26 million.

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

	Nine Months Ended September 30,					
	2008		2007		2008 over 2007	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$ 2,599	54%	\$ 2,542	57%	\$ 57	2%
High-speed Internet	1,009	21%	920	21%	89	10%
Telephone	399	8%	236	5%	163	69%
Commercial	289	6%	251	6%	38	15%
Advertising sales	223	5%	216	5%	7	3%
Other	304	6%	284	6%	20	7%
	<u>\$ 4,823</u>	<u>100%</u>	<u>\$ 4,449</u>	<u>100%</u>	<u>\$ 374</u>	<u>8%</u>

Video revenues consist primarily of revenues from basic and digital video services provided to our non-commercial customers. Basic video customers decreased by 211,700 customers from September 30, 2007, 62,700 of which was related to asset sales, net of acquisitions, compared to September 30, 2008. Digital video customers increased by 235,600, reduced by the sale, net of acquisitions, of 22,400 customers. The increases in video revenues are attributable to the following (dollars in millions):

	2008 compared to 2007
	Increase / (Decrease)
Incremental video services and rate adjustments	\$ 72
Increase in digital video customers	56
Decrease in basic video customers	(53)
System sales, net of acquisitions	(18)
	<u>\$ 57</u>

High-speed Internet customers grew by 219,000 customers, reduced by asset sales, net of acquisitions, of 7,400 customers, from September 30, 2007 to September 30, 2008. The increase in high-speed Internet revenues from our residential customers is attributable to the following (dollars in millions):

	2008 compared to 2007
	Increase / (Decrease)
Increase in high-speed Internet customers	\$ 88
Rate adjustments and service upgrades	5
System sales, net of acquisitions	(4)
	<u>\$ 89</u>

Revenues from telephone services increased by \$181 million for the nine months ended September 30, 2008, as a result of an increase of 471,700 telephone customers from September 30, 2007 to September 30, 2008, offset by a decrease of \$18 million related to lower average rates.

Commercial revenues consist primarily of revenues from services provided to our commercial customers. Commercial revenues increased primarily as a result of increased sales of the Charter Business Bundle® primarily to small and medium-sized businesses, offset by a decrease of \$2 million related to asset sales, net of acquisitions, for the nine months ended September 30, 2008.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers, and other vendors. Advertising sales revenues for the nine months ended September 30, 2008 increased primarily as a result of an increase in political advertising sales and advertising sales to vendors offset by decreased revenues from the automotive and furniture sectors, and a decrease of \$2 million related to asset sales, net of acquisitions. For the nine months ended September 30, 2008 and 2007, we received \$25 million and \$10 million, respectively, in advertising sales revenues from vendors.

Other revenues consist of franchise fees, regulatory fees, customer installations, home shopping, late payment fees, wire maintenance fees and other miscellaneous revenues. For the nine months ended September 30, 2008 and 2007, franchise fees represented approximately 46% and 47%, respectively, of total other revenues. The increase in other revenues for the nine months ended September 30, 2008 was primarily the result of increases in franchise and other regulatory fees and wire maintenance fees.

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

	2008 compared to 2007	
	Increase / (Decrease)	
Programming costs	\$	63
Labor costs		38
Maintenance costs		14
Regulatory taxes		10
Franchise costs		7
Other, net		15
System sales, net of acquisitions		(15)
	<u>\$</u>	<u>132</u>

Programming costs were approximately \$1.2 billion for both periods, representing 59% and 60% of total operating expenses for the nine months ended September 30, 2008 and 2007, 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 system sales. Programming costs were also offset by the amortization of payments received from programmers of \$25 million and \$19 million for the nine months ended September 30, 2008 and 2007, respectively. We expect programming expenses to continue to increase due to a variety of factors, including annual increases imposed by programmers, amounts paid for retransmission consent, and additional programming, including high-definition, OnDemand, and pay-per-view programming, being provided to our customers.

Labor costs increased primarily due to an increased headcount to support improved service levels.

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

	2008 compared to 2007	
	Increase / (Decrease)	
Marketing costs	\$	33
Employee costs		33
Bad debt and collection costs		13
Stock compensation costs		9
Other, net		13
System sales, net of acquisitions		(3)
	<u>\$</u>	<u>98</u>

Depreciation and amortization. Depreciation and amortization expense decreased by \$18 million for the nine months ended September 30, 2008 compared to September 30, 2007, and was primarily the result of certain assets becoming fully depreciated and the impact of changes in the useful lives of certain assets during 2007, offset by depreciation on capital expenditures.

Asset impairment charges. Asset impairment charges for the nine months ended September 30, 2007 represent the write-down of assets related to cable asset sales to fair value less costs to sell.

Other operating expenses, net. For the nine months ended September 30, 2008 compared to September 30, 2007, the increase in other operating expenses, net was primarily attributable to a \$36 million increase in special 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 nine months ended September 30, 2008 compared to September 30, 2007, net interest expense increased by \$28 million, which was a result of average debt outstanding increasing from \$8.1 billion for the nine months ended September 30, 2007 to \$9.3 billion for the nine months ended September 30, 2008, offset by a decrease in our average borrowing rate from 7.5% for the nine months ended September 30, 2007 to 6.9% for the nine months ended September 30, 2008.

Change in value of derivatives. Interest rate swaps are held to manage our interest costs and reduce our exposure to increases in floating interest rates. We expense the change in fair value of derivatives that do not qualify for hedge accounting and cash flow hedge ineffectiveness on interest rate swap agreements. The loss from the change in value of interest rate swaps decreased from \$16 million for the nine months ended September 30, 2007 to \$1 million for the nine months ended September 30, 2008.

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

	2008 compared to 2007	
Decrease in loss on extinguishment of debt	\$	13
Increase in minority interest		(4)
Increase in loss on investments		(2)
Other, net		--
	<u>\$</u>	<u>7</u>

For more information, see Note 11 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Income tax benefit (expense). Income tax benefit was recognized for the nine months ended September 30, 2008 through a change in state income tax laws, offset by current federal and state income tax expense of certain of our

indirect subsidiaries. Income tax expense was recognized for the nine months ended September 30, 2007, through increases in deferred tax liabilities and current federal and state income tax expenses of certain of our indirect subsidiaries.

Net income (loss). For the nine months ended September 30, 2008, we generated net income of \$91 million compared to net loss of \$117 million for the nine months ended September 30, 2007, as a result of the factors described above.

Liquidity and Capital Resources

Introduction

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

Our long-term debt as of September 30, 2008 totaled \$9.9 billion, consisting of \$7.5 billion of credit facility debt and \$2.4 billion accreted value of high-yield notes. For the remainder of 2008, \$18 million of the Charter Operating credit facility debt matures, and in each of 2009, 2010, and 2011, \$70 million of the Charter Operating credit facility debt matures. In 2012 and beyond, significant additional amounts will become due under our remaining long-term debt obligations.

Our business requires significant cash to fund debt service costs, capital expenditures and ongoing operations. We have historically funded these requirements through cash flows from operating activities, borrowings under our credit facilities, equity contributions from our parent companies, proceeds from sales of assets, issuances of debt securities, and cash on hand. However, the mix of funding sources changes from period to period. For the nine months ended September 30, 2008, we generated \$1.2 billion of net cash flows from operating activities after paying cash interest of \$471 million. In addition, we used \$938 million for purchases of property, plant and equipment. Finally, we generated net cash flows from financing activities of \$365 million, as a result of credit facility borrowings completed during the nine months ended September 30, 2008. As of September 30, 2008, we had cash on hand of \$553 million. We expect that our mix of sources of funds will continue to change in the future based on overall needs relative to our cash flow and on the availability of funds under the Charter Operating credit facilities, our and our parent companies' access to the debt markets, Charter's access to the equity markets, the timing of possible asset sales, and based on our ability to generate cash flows from operating activities. On a consolidated basis, we and our parent companies have a significant level of debt, which totaled approximately \$21.0 billion as of September 30, 2008.

We expect that cash on hand, cash flows from operating activities, and the amounts available under Charter Operating's credit facilities will be adequate to fund our and our parent companies' projected cash needs, including scheduled maturities, through 2009. We believe that cash on hand, cash flows from operating activities, and the amounts available under Charter Operating's credit facilities will not be sufficient to fund our and our parent companies' projected cash needs in 2010 (primarily as a result of the maturity of \$1.9 billion of CCH II, LLC ("CCH II") senior notes in September 2010) and thereafter. However, it is uncertain whether we will be able, under applicable law, to make distributions or otherwise move cash to the parent companies for payment of interest and principal. See "Limitations on Distributions" below. Our projected cash needs and projected sources of liquidity depend upon, among other things, our actual results, the timing and amount of our capital expenditures, and ongoing compliance with the Charter Operating credit facilities, including obtaining an unqualified audit opinion from our independent accountants. Although we and our parent companies have been able to refinance or otherwise fund the repayment of debt in the past, we and our parent companies may not be able to access additional sources of refinancing on similar terms or pricing as those that are currently in place, or at all, or otherwise obtain other sources of funding, especially given the recent volatility and disruption of the capital and credit markets and the deterioration of general economic conditions in recent months. A continuation of the recent turmoil in the capital and credit markets and the general economic downturn could adversely impact the availability, terms and/or pricing of financing when we need to raise additional liquidity.

Access to Capital

Our debt could negatively affect our ability to access additional capital in the future. Additionally, our ability to incur additional debt may be limited by the restrictive covenants in our indentures and credit facilities. We would experience liquidity problems if we or our parent companies are unable to obtain sufficient additional financing at the right levels of the capital structure on a timely basis or at all as our debt becomes due, or we otherwise need additional liquidity. Adverse economic conditions, increased competition or other unfavorable events also could affect our liquidity. If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under our credit facilities, we would consider:

- requesting that Charter or Charter Holdco issue equity, or debt at any level above Charter Operating, the proceeds of which could be loaned or contributed to us;
- issuing debt securities that may have structural or other priority over our existing notes;
- further reducing our expenses and capital expenditures, which may impair our ability to increase revenue and grow operating cash flows;
- selling assets; or
- requesting waivers or amendments with respect to our credit facilities, which may not be available on acceptable terms, and cannot be assured.

If the above strategies were not successful, we could be forced to restructure our obligations or seek protection under the bankruptcy laws. In addition, if we find it necessary to engage in a recapitalization or other similar transaction, our noteholders might not receive the full principal and interest payments to which they are contractually entitled.

Credit Facility Availability

Our ability to operate depends upon, among other things, our continued access to capital, including credit under the Charter Operating credit facilities. The Charter Operating credit facilities, along with our indentures, contain certain restrictive covenants, some of which require us to maintain specified leverage ratios and meet financial tests, and provide annual audited financial statements with an unqualified opinion from our independent accountants. See “Risk Factors — We may not be able to access funds under the Charter Operating revolving credit facility if we fail to satisfy the covenant restrictions, which could adversely affect our financial condition and our ability to conduct our business.” As of September 30, 2008, we were in compliance with the covenants under our indentures and credit facilities. As of September 30, 2008, our potential availability under the Charter Operating revolving credit facility totaled approximately \$780 million, none of which was limited by covenant restrictions. Continued access to the Charter Operating revolving credit facility is subject to our remaining in compliance with these covenants, including covenants tied to Charter Operating’s leverage ratio and first lien leverage ratio. If any event of non-compliance were to occur, funding under the revolving credit facility may not be available and defaults on some or potentially all of our debt obligations could occur. An event of default under any of our debt instruments could result in the acceleration of our payment obligations under that debt and, under certain circumstances, in cross-defaults under our parent companies’ debt obligations, which could have a material adverse effect on our consolidated financial condition and results of operations. In response to recent financial market turmoil, including the failure of some financial institutions, we have borrowed amounts under the Charter Operating revolving credit facility in excess of our immediate needs. We intend to continue monitoring counterparty risk in the financial markets and may from time to time increase or decrease our borrowings under the Charter Operating revolving credit facility to balance various factors including our and our parent companies’ liquidity needs, our and our parent companies leverage ratios, and counterparty risk in the financial markets.

Parent Company Debt Obligations

Any financial or liquidity problems of our parent companies could cause serious disruption to our business and have a material adverse effect on our business and results of operations.

A failure by Charter Communications Holdings, LLC (“Charter Holdings”), CCH I Holdings, LLC (“CIH”), CCH I, LLC (“CCH I”), CCH II, or CCO Holdings to satisfy their debt payment obligations could, or a bankruptcy with respect to Charter Holdings, CIH, CCH I, CCH II, or CCO Holdings would, give the lenders under our credit facilities the right to accelerate the payment obligations under these facilities. Any such acceleration would be a default under the indenture governing our notes.

In the second quarter of 2008, Charter Holdco repurchased, in private transactions, from a small number of institutional holders, a total of approximately \$35 million principal amount of various Charter Holdings notes due 2009 and 2010 and approximately \$46 million principal amount of Charter's 5.875% convertible senior notes due 2009, for approximately \$77 million of cash. Charter Holdco continues to hold the Charter Holdings notes. The purchased 5.875% convertible senior notes were cancelled resulting in approximately \$3 million principal amount of such notes remaining outstanding.

In July 2008, CCH II completed a tender offer, in which \$338 million of CCH II's 10.25% senior notes due 2010 were accepted for \$364 million of CCH II's 10.25% senior notes due 2013, which were issued as part of the same series of notes as CCH II's \$250 million aggregate principal amount of 10.25% senior notes due 2013, which were issued in September 2006.

In October 2008, Charter Holdco completed a tender offer, in which a total of approximately \$102 million principal amount of various Charter Holdings notes due 2009 and 2010 were accepted for approximately \$99 million of cash. Charter Holdco continues to hold the Charter Holdings notes.

Limitations on Distributions

As long as Charter's convertible senior notes remain outstanding and are not otherwise converted into shares of common stock, Charter must pay interest on the convertible senior notes and repay the principal amount. Charter's ability to make interest payments on its convertible senior notes and to repay the outstanding principal of its convertible senior notes, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of September 30, 2008, Charter Holdco was owed \$115 million in intercompany loans from Charter Operating and had \$2 million in cash, which amounts were available to pay interest and principal on Charter's convertible senior notes to the extent not otherwise used, for example, to satisfy maturities at Charter Holdings. In connection with Charter Holdco's tender offer in October 2008 for senior notes of Charter Holdings, Charter Operating repaid \$97 million of its intercompany note owed to Charter Holdco, reducing such intercompany note to \$18 million. In addition, as long as Charter Holdco continues to hold the \$35 million (plus \$102 million acquired in the tender offer in October 2008) of Charter Holdings' notes due 2009 and 2010 (as discussed above), Charter Holdco will receive interest and principal payments from Charter Holdings to the extent Charter Holdings is able to make such payments. Such amounts may be available to pay interest and principal on Charter's convertible senior notes, although Charter Holdco may use those amounts for other purposes.

Distributions by Charter's subsidiaries to a parent company for payment of principal on parent company notes, are restricted under the indentures governing our and our parent companies' notes, and under the CCO Holdings credit facility, 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 September 30, 2008, there was no default under any of these indentures or credit facilities. However, certain of Charter's subsidiaries did not meet their applicable leverage ratio tests based on September 30, 2008 financial results. As a result, distributions from certain of Charter's subsidiaries to their parent companies would have been restricted at such time and will continue to be restricted unless those tests are met. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities.

Distributions by CIH, CCH I, CCH II, CCO Holdings, and Charter Operating to a parent company for payment of parent company interest are permitted if there is no default under the aforementioned indentures and CCO Holdings credit facility.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on Charter's convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures, and other specified tests are met. For the quarter ended September 30, 2008, there was no default under Charter Holdings' indentures and other specified tests were met. However, Charter Holdings did not meet its leverage ratio test of 8.75 to 1.0 based on September 30, 2008 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco would have been restricted at such time and will continue to be restricted unless that test is met.

In addition to the limitation on distributions under the various indentures discussed above, distributions by Charter's subsidiaries, including us, may be limited by applicable law. Under the Delaware Limited Liability Company Act, Charter's subsidiaries may only make distributions if they have "surplus" as defined in the act. Under fraudulent transfer laws, Charter's subsidiaries may not pay dividends if they are insolvent or are rendered insolvent thereby. The measures of insolvency for purposes of these fraudulent transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an entity would be considered insolvent if:

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

Primarily in light of the economic environment, it is uncertain whether there will be, at the relevant times, sufficient surplus at CIH and its parent companies, or potentially its subsidiaries, to make distributions, including for payment of interest and principal on the debts of the parent companies of such entities, and there can otherwise be no assurance that Charter's subsidiaries will not become insolvent or will be permitted to make distributions in the future in compliance with these restrictions in amounts needed to service parent company indebtedness.

Recent Financing Transactions

In March 2008, Charter Operating issued \$546 million principal amount of 10.875% senior second-lien notes due 2014 (the "Notes"), guaranteed by CCO Holdings and certain other subsidiaries of Charter Operating, in a private transaction. The net proceeds of this issuance were used to repay, but not permanently reduce, the outstanding debt balances under the existing revolving credit facility of Charter Operating. The Notes were sold to qualified institutional buyers in reliance on Rule 144A and outside the United States to non-U.S. persons in reliance on Regulation S.

In March 2008, Charter Operating borrowed \$500 million principal amount of incremental term loans (the "Incremental Term Loans") under the Charter Operating credit facilities. The net proceeds were used for general corporate purposes. The Incremental Term Loans have a final maturity of March 6, 2014 and prior to this date will amortize in quarterly principal installments totaling 1% annually beginning on June 30, 2008. The Incremental Term Loans bear interest at LIBOR plus 5.0%, with a LIBOR floor of 3.5%, and are otherwise governed by and subject to the existing terms of the Charter Operating credit facilities.

Historical Operating, Investing and Financing Activities

Cash and Cash Equivalents. We held \$553 million in cash and cash equivalents as of September 30, 2008 compared to none as of December 31, 2007. The increase in cash was the result of a draw-down on our revolving credit facility.

Operating Activities. Net cash provided by operating activities increased \$71 million, or 6%, from \$1.1 billion for the nine months ended September 30, 2007 to \$1.2 billion for the nine months ended September 30, 2008, primarily as a result of revenues increasing at a faster rate than cash expenses offset by changes in operating assets and liabilities that provided \$20 million less cash during the nine months ended September 30, 2008 than the corresponding period in 2007.

Investing Activities. Net cash used in investing activities was \$980 million and \$935 million for the nine months ended September 30, 2008 and 2007, respectively. The increase is primarily due to an increase of \$38 million in cash used for the purchase of property, plant, and equipment.

Financing Activities. Net cash provided by financing activities was \$365 million for the nine months ended September 30, 2008 and net cash used in financing activities was \$186 million for the nine months ended September 30, 2007. The increase in cash provided during the nine months ended September 30, 2008 as compared to the corresponding period in 2007, was primarily the result of a decrease in distributions.

Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were \$938 million and \$890 million for the nine months ended September 30, 2008 and 2007, respectively. Capital expenditures increased as a result of spending on customer premise equipment and scalable infrastructure to meet increased digital, high-speed Internet, and telephone customer growth and increased demand for advanced services. See the table below for more details.

Our capital expenditures are funded primarily from cash flows from operating activities, the issuance of debt, and borrowings under our credit facilities. In addition, during the nine months ended September 30, 2008 and 2007, our liabilities related to capital expenditures decreased \$41 million and \$51 million, respectively.

During 2008, we expect capital expenditures to be approximately \$1.2 billion. We expect the nature of these expenditures will continue to be composed primarily of purchases of customer premise equipment related to telephone and other advanced services, support capital, and scalable infrastructure. We have funded and expect to continue to fund capital expenditures for 2008 primarily from cash flows from operating activities and borrowings under our credit facilities. The actual amount of our capital expenditures depends on the deployment of advanced broadband services and offerings. We may need additional capital if there is accelerated growth in high-speed Internet, telephone or digital customers or there is an increased need to respond to competitive pressures by expanding the delivery of other advanced services.

We have adopted capital expenditure disclosure guidance, which was developed by eleven then publicly traded cable system operators, including Charter, with the support of the National Cable & Telecommunications Association ("NCTA"). The disclosure is intended to provide more consistency in the reporting of 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.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the nine months ended September 30, 2008 and 2007 (dollars in millions):

	Nine Months Ended	
	September 30,	
	2008	2007
Customer premise equipment (a)	\$ 480	\$ 428
Scalable infrastructure (b)	185	164
Line extensions (c)	63	76
Upgrade/Rebuild (d)	37	35
Support capital (e)	173	187
Total capital expenditures	<u>\$ 938</u>	<u>\$ 890</u>

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to various market risks, including fluctuations in interest rates. We use interest rate swap agreements to manage our interest costs and reduce our exposure to increases in floating interest rates. Our policy is to manage our exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt within a targeted range. Using interest rate swap agreements, we agree to exchange, at specified intervals through 2013, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts. At the banks' option, certain interest rate swap agreements may be extended through 2014.

As of September 30, 2008 and December 31, 2007, our long-term debt totaled approximately \$9.9 billion and \$8.7 billion, respectively. As of September 30, 2008 and December 31, 2007, the weighted average interest rate on the credit facility debt was approximately 6.8% and 6.8%, respectively; and the weighted average interest rate on the high-yield notes was approximately 8.8% and 8.2%, respectively; resulting in a blended weighted average interest rate of 7.2% and 7.1%, respectively. The interest rate on approximately 68% and 71% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate swap agreements, as of September 30, 2008 and December 31, 2007, respectively. The fair value of our high-yield notes was \$2.2 billion and \$1.8 billion at September 30, 2008 and December 31, 2007, respectively. The fair value of our credit facilities was \$6.1 billion and \$6.4 billion at September 30, 2008 and December 31, 2007, respectively. The fair value of high-yield notes was based on quoted market prices and the fair value of the credit facilities was based on dealer quotations.

We do not hold or issue derivative instruments for trading purposes. We do, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the nine months ended September 30, 2008 and 2007, 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 the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the nine months ended September 30, 2008 and 2007, losses of \$1 million and \$25 million, respectively, related to derivative instruments designated as cash flow hedges, were recorded in accumulated other comprehensive loss. 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).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as a change in value of derivatives in our statements of operations. For the nine months ended September 30, 2008 and 2007, change in value of derivatives included losses of \$1 million and \$16 million, respectively, resulting from interest rate derivative instruments not designated as hedges.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of September 30, 2008 (dollars in millions):

	2008	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value at September 30, 2008
Debt:									
Fixed Rate	\$ --	\$ --	\$ --	\$ --	\$ 1,100	\$ --	\$ 1,316	\$ 2,416	\$ 2,190
Average Interest Rate	--	--	--	--	8.00%	--	9.41%	8.77%	
Variable Rate	\$ 18	\$ 70	\$ 70	\$ 70	\$ 70	\$ 635	\$ 6,580	\$ 7,513	\$ 6,069
Average Interest Rate	5.84%	5.79%	5.41%	6.54%	6.70%	6.59%	6.96%	6.90%	
Interest Rate Instruments:									
Variable to Fixed Swaps	\$ --	\$ --	\$ 500	\$ 300	\$ 2,500	\$ 1,000	\$ --	\$ 4,300	\$ (170)
Average Pay Rate	--	--	7.01%	7.18%	7.14%	7.14%	--	7.13%	
Average Receive Rate	--	--	5.31%	6.25%	6.77%	6.69%	--	6.54%	

The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts. The estimated fair value approximates the costs (proceeds) to settle the outstanding contracts. Interest rates on variable debt are estimated using the average implied forward LIBOR for the year of maturity based on the yield curve in effect at September 30, 2008 including applicable bank spread.

At September 30, 2008 and December 31, 2007, we had \$4.3 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 exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this quarterly report. The evaluation was based in part upon reports and 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 September 30, 2008 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.

See Note 14 to our consolidated financial statements of this Quarterly Report for a discussion concerning our legal proceedings.

Item 1A. Risk Factors.

Our Annual Report for the year ended December 31, 2007 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 Significant Indebtedness of Us and Our Parent Companies

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

We and our parent companies have a significant amount of debt and may (subject to applicable restrictions in our debt instruments) incur additional debt in the future. As of September 30, 2008, our total long-term debt was approximately \$9.9 billion, our member’s equity was approximately \$2.1 billion, and the ratio of earnings to cover fixed charges for the nine months ended September 30, 2008 was 1.2. On a consolidated basis, we and our parent companies have a significant level of debt, which totaled approximately \$21.0 billion as of September 30, 2008.

Because of the significant indebtedness of us and our parent companies and adverse changes in the capital markets, our and our parent companies’ ability to raise additional capital at reasonable rates or at all is uncertain, and our and our parent companies’ ability to make distributions or payments to parent companies is subject to availability of funds and restrictions under our and their applicable debt instruments and under applicable law. If we find it necessary to engage in a recapitalization or other similar transaction, our noteholders might not receive principal and interest payments to which they are contractually entitled.

Our and our parent companies’ significant amounts of debt could have other important consequences. For example, the debt will or could:

- require us to dedicate a significant portion of our cash flow from operating activities to make payments on our and our parent companies’ debt, reducing our funds available for working capital, capital expenditures, and other general corporate expenses;
- limit our flexibility in planning for, or reacting to, changes in our business, the cable and telecommunications industries, and the economy at large;
- place us at a disadvantage compared to our competitors that have proportionately less debt;
- make us vulnerable to interest rate increases, because net of hedging transactions approximately 32% of our borrowings are, and will continue to be, subject to variable rates of interest;
- expose us to increased interest expense to the extent we refinance existing debt with higher cost debt;
- adversely affect our relationship with customers and suppliers;
- limit our and our parent companies’ ability to borrow additional funds in the future, due to applicable financial and restrictive covenants in our and our parent companies’ debt;
- make it more difficult for us and our parent companies to obtain financing given the current volatility and disruption in the capital and credit markets and the deterioration of general economic conditions;
- make it more difficult for us and our parent companies to satisfy our and their obligations to the holders of our and their notes and to our and our parent companies’ lenders under our and their credit facilities; and
- limit future increases in the value, or cause a decline in the value of Charter’s equity, which could limit Charter’s ability to raise additional capital by issuing equity.

A default by us under our debt obligations could result in the acceleration of those obligations, which in turn could trigger cross-defaults under other agreements governing our long-term indebtedness. In addition, the secured lenders under the Charter Operating credit facilities have a first-priority lien on the collateral that also secures the senior second-lien notes and could foreclose on the collateral, which includes equity interests in us and our subsidiaries, and exercise other rights of secured creditors with a first-priority lien. Any default under our or our parent companies' debt could adversely affect our growth, our financial condition, our results of operations, and our and our parent companies' ability to make payments on our and our parent companies' debt, and could force us to seek the protection of the bankruptcy laws. We and our parent companies may incur significant additional debt in the future. If current debt amounts increase, the related risks that we now face will intensify.

We depend on generating (and having available to the applicable obligor) sufficient cash flow and having access to additional liquidity sources to fund our and our parent companies' debt obligations, capital expenditures, and ongoing operations.

Our ability to service our and our parent companies' debt and to fund our planned capital expenditures and ongoing operations will depend on both our ability to generate and grow cash flow and our and our parent companies' access (by dividend or otherwise) to additional liquidity sources. Our ability to generate and grow cash flow is dependent on many factors, including:

- the impact of competition from other distributors, including incumbent telephone companies, direct broadcast satellite operators, wireless broadband providers and DSL providers;
- difficulties in growing, further introducing, and operating our telephone services, while adequately meeting customer expectations for the reliability of voice services;
- our ability to adequately meet demand for installations and customer service;
- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services, and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition;
- our ability to obtain programming at reasonable prices or to adequately raise prices to offset the effects of higher programming costs;
- general business conditions, economic uncertainty or downturn, including the recent volatility and disruption in the capital and credit markets and the significant downturn in the housing sector and overall economy; and
- the effects of governmental regulation on our business.

Some of these factors are beyond our control. It is also difficult to assess the impact that the general economic downturn and recent turmoil in the credit markets will have on future operations and financial results. However, we believe that the general economic downturn could result in reduced spending by customers and advertisers, which could reduce our revenues and our cash flows from operating activities from those that otherwise would have been generated. If we are unable to generate sufficient cash flow or we and our parent companies are unable to access additional liquidity sources, we and our parent companies may not be able to service and repay our and our parent companies' debt, operate our business, respond to competitive challenges, or fund our and our parent companies' other liquidity and capital needs. We expect that cash on hand, cash flows from operating activities, and the amounts available under the Charter Operating credit facilities will be adequate to fund our and our parent companies' projected cash needs, including scheduled maturities, through 2009. We believe that cash on hand, cash flows from operating activities, and the amounts available under the Charter Operating credit facilities will not be sufficient to fund our and our parent companies' projected cash needs in 2010 (primarily as a result of the maturity of \$1.9 billion of CCH II senior notes in September 2010) and thereafter. However, it is uncertain whether we will be able, under applicable law, to make distributions or otherwise move cash to the parent companies for payment of interest and principal. See "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Limitations on Distributions."

Our projected cash needs and projected sources of liquidity depend upon, among other things, our actual results, the timing and amount of our capital expenditures, and ongoing compliance with the Charter Operating credit facilities, including obtaining an unqualified audit opinion from our independent accountants. Although we and our parent companies have been able to refinance or otherwise fund the repayment of debt in the past, we and our parent companies may not be able to access additional sources of refinancing on similar terms or pricing as those that are currently in place, or at all, or otherwise obtain other sources of funding, especially given the recent volatility and

disruption in the capital and credit markets and the deterioration of the general economic conditions in recent months. An inability to access additional sources of liquidity to fund our and our parent companies' cash needs in 2010 or thereafter or to refinance or otherwise fund the repayment of the CCH II senior notes could adversely affect our growth, our financial condition, our results of operations, and our and our parent companies' ability to make payments on our and their debt, and could force us to seek the protection of the bankruptcy laws, which could materially adversely impact our ability to operate our business and to make payments under our and our parent companies' debt instruments. See "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

We may not be able to access funds under the Charter Operating revolving credit facility if we fail to satisfy the covenant restrictions, which could adversely affect our financial condition and our ability to conduct our business.

We have historically relied on access to credit facilities to fund operations, capital expenditures, and to service our and our parent companies' debt, and we expect such reliance to continue in the future. Our total potential borrowing availability under our revolving credit facility was approximately \$780 million as of September 30, 2008, none of which was limited by covenant restrictions. There can be no assurance that actual availability under our revolving credit facility will not be limited by covenant restrictions in the future.

One of the conditions to the availability of funding under the Charter Operating revolving credit facility is the absence of a default under such facility, including as a result of any failure to comply with the covenants under the facilities. Among other covenants, the Charter Operating credit facility requires us to maintain specified leverage ratios. The Charter Operating revolving credit facility also provides that Charter Operating obtain an unqualified audit opinion from its independent accountants for each fiscal year, which, among other things, requires Charter to demonstrate its ability to fund, at all relevant subsidiaries, its projected liquidity needs for a reasonable period of time following the balance sheet date of the financial statements being audited. There can be no assurance that Charter Operating will be able to continue to comply with these or any other of the covenants under the credit facilities. See "—We and our parent companies have a significant amount of debt and may incur significant additional debt, including secured debt, in the future, which could adversely affect our and our parent companies' financial health and our and their ability to react to changes in our business" for a discussion of the consequences of a default under our and our parent companies' debt obligations.

The soundness of financial institutions could adversely affect us.

Our ability to borrow under the Charter Operating revolving credit facility and to engage in other routine funding transactions could be adversely affected by the actions and commercial soundness of financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to different counterparties and we execute transactions with counterparties in the financial services industry, including commercial banks, investment banks and other financial institutions. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could affect our liquidity or lead to losses or defaults by us.

Risks Related to Our Business

Our exposure to the credit risks of our customers, vendors and third parties could adversely affect our cash flow, results of operations and financial condition.

We are exposed to risks associated with the potential financial instability of our customers, many of whom may be adversely affected by the general economic downturn. Dramatic declines in the housing market over the past year, including falling home prices and increasing foreclosures, together with significant increases in unemployment, have severely affected consumer confidence and may cause increased delinquencies or cancellations by our customers or lead to unfavorable changes in the mix of products purchased. The general economic downturn also may affect advertising sales, as companies seek to reduce expenditures and conserve cash. Any of these events may adversely affect our cash flow, results of operations and financial condition.

In addition, we are susceptible to risks associated with the potential financial instability of the vendors and third parties on which we rely to provide products and services or to which we delegate certain functions. The same

economic conditions that may affect our customers, as well as volatility and disruption in the capital and credit markets, also could adversely affect vendors and third parties and lead to significant increases in prices, reduction in output or the bankruptcy of our vendors or third parties upon which we rely. Any interruption in the services provided by our vendors or by third parties could adversely affect our cash flow, results of operation and financial condition.