

Charter Communications Operating, LLC
Charter Communications Operating Capital Corp.

Quarterly Report
For the three and six months ended June 30, 2008

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This quarterly report is for the three and six months ended June 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 pay or refinance debt prior to or when it becomes due and/or refinance that debt through new issuances, exchange offers or otherwise, including restructuring our and our parent companies' balance sheet and leverage position;
- 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 slowdown, including the recent significant slowdown 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>June 30, 2008</u>	<u>December 31, 2007</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 62	\$ --
Accounts receivable, less allowance for doubtful accounts of \$19 and \$18, respectively	242	220
Prepaid expenses and other current assets	<u>23</u>	<u>24</u>
Total current assets	<u>327</u>	<u>244</u>
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation	5,077	5,072
Franchises, net	<u>8,935</u>	<u>8,942</u>
Total investment in cable properties, net	<u>14,012</u>	<u>14,014</u>
OTHER NONCURRENT ASSETS	<u>207</u>	<u>175</u>
Total assets	<u>\$ 14,546</u>	<u>\$ 14,433</u>
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 901	\$ 920
Payables to related party	<u>184</u>	<u>210</u>
Total current liabilities	<u>1,085</u>	<u>1,130</u>
LONG-TERM DEBT	<u>9,362</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>510</u>	<u>545</u>
MINORITY INTEREST	<u>675</u>	<u>663</u>
Member's equity	2,365	2,883
Accumulated other comprehensive loss	<u>(105)</u>	<u>(123)</u>
Total member's equity	<u>2,260</u>	<u>2,760</u>
Total liabilities and member's equity	<u>\$ 14,546</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 June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
REVENUES	\$ 1,623	\$ 1,499	\$ 3,187	\$ 2,924
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	698	647	1,380	1,278
Selling, general and administrative	342	317	687	620
Depreciation and amortization	328	334	649	665
Other operating expenses, net	25	1	36	5
	<u>1,393</u>	<u>1,299</u>	<u>2,752</u>	<u>2,568</u>
Income from operations	<u>230</u>	<u>200</u>	<u>435</u>	<u>356</u>
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(184)	(175)	(358)	(340)
Change in value of derivatives	36	6	6	5
Other expense, net	(7)	(18)	(14)	(24)
	<u>(155)</u>	<u>(187)</u>	<u>(366)</u>	<u>(359)</u>
Income (loss) before income taxes	75	13	69	(3)
INCOME TAX BENEFIT (EXPENSE)	<u>--</u>	<u>1</u>	<u>(2)</u>	<u>(1)</u>
Net income (loss)	<u>\$ 75</u>	<u>\$ 14</u>	<u>\$ 67</u>	<u>\$ (4)</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

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 67	\$ (4)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	649	665
Noncash interest expense	9	7
Change in value of derivatives	(6)	(5)
Deferred income taxes	--	(3)
Other, net	32	36
Changes in operating assets and liabilities, net of effects from dispositions:		
Accounts receivable	(22)	(26)
Prepaid expenses and other assets	1	2
Accounts payable, accrued expenses and other	16	3
Receivables from and payables to related party, including deferred management fees	4	21
Net cash flows from operating activities	750	696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(650)	(579)
Change in accrued expenses related to capital expenditures	(41)	(39)
Other, net	1	31
Net cash flows from investing activities	(690)	(587)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	1,765	6,897
Repayments of long-term debt	(1,118)	(5,787)
Repayments to related parties	(12)	--
Payments for debt issuance costs	(39)	(32)
Distributions	(585)	(1,186)
Other, net	(9)	--
Net cash flows from financing activities	2	(108)
NET INCREASE IN CASH AND CASH EQUIVALENTS	62	1
CASH AND CASH EQUIVALENTS, beginning of period	--	26
CASH AND CASH EQUIVALENTS, end of period	\$ 62	\$ 27
CASH PAID FOR INTEREST	\$ 326	\$ 322

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 June 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 has 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 months ended June 30, 2008 and 2007, and for the six months ended June 30, 2008, however, there can be no assurance that the Company will continue to do so. The Company incurred a net loss for the six months ended June 30, 2007. For the six months ended June 30, 2008 and 2007, the Company generated cash flows from operating activities.

The Company's long-term debt as of June 30, 2008 totaled \$9.4 billion, consisting of \$7.0 billion of credit facility debt and \$2.4 billion accreted value of high-yield notes. For the remainder of 2008, \$36 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 six months ended June 30, 2008, the Company generated \$750 million of net cash flows from operating activities after paying cash interest of \$326 million. In addition, the Company used \$650 million for purchases of property, plant and

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

equipment. Finally, the Company generated net cash flows from financing activities of \$2 million. On a consolidated basis, the Company's parent companies have a significant level of debt, which totaled approximately \$20.5 billion as of June 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, 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 CCH II, LLC ("CCH II") \$1.9 billion of senior notes outstanding at July 2, 2008 that mature in September 2010) and thereafter. 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. A continuation of the recent turmoil in the credit markets and the general economic downturn could adversely impact the terms and/or pricing when the Company needs to raise additional liquidity. No assurances can be given that the Company will not experience liquidity problems if they do not obtain sufficient additional financing on a timely basis as the Company's debt becomes due or because of adverse market conditions, increased competition, or other unfavorable events.

If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under 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 June 30, 2008, the Company was in compliance with the covenants under its indentures and credit facilities, and the Company expects to remain in compliance with those covenants for the next twelve months. As of June 30, 2008, the Company's potential availability under the Charter Operating revolving credit facility totaled approximately \$1.4 billion, 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.

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.

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
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(dollars in millions, except where indicated)

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.

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 June 30, 2008, Charter Holdco was owed \$115 million in intercompany loans from Charter Operating, which amounts were available to pay interest and principal on Charter’s convertible senior notes. In addition, as long as Charter Holdco continues to hold the \$35 million of Charter Holdings’ notes due 2009 and 2010 (as discussed above), Charter Holdco will receive interest and principal payments from Charter Holdings. 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 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 June 30, 2008, there was no default under any of these indentures or credit facilities and each subsidiary met its applicable leverage ratio tests based on June 30, 2008 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at the time of the contemplated distribution. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of the contemplated distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in the Charter Operating 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 June 30, 2008, there was no default under Charter Holdings’ indentures, the other specified tests were met, and Charter Holdings met its leverage ratio test of 8.75 to 1.0 based on June 30, 2008 financial results. Such distributions would be restricted, however, if Charter

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
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Holdings fails to meet these tests at the time of the contemplated distribution. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of the contemplated distribution. During periods in which distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that are not restricted payments) in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

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 with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographical clustering of the 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 June 30, 2008 and December 31, 2007, indefinite-lived and finite-lived intangible assets are presented in the following table:

	June 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	\$ 8,928	\$ --	\$ 8,928	\$ 8,929	\$ --	\$ 8,929
Goodwill	68	--	68	67	--	67
	<u>\$ 8,996</u>	<u>\$ --</u>	<u>\$ 8,996</u>	<u>\$ 8,996</u>	<u>\$ --</u>	<u>\$ 8,996</u>
Finite-lived intangible assets:						
Franchises with finite lives	<u>\$ 15</u>	<u>\$ 8</u>	<u>\$ 7</u>	<u>\$ 23</u>	<u>\$ 10</u>	<u>\$ 13</u>

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 six months ended June 30, 2008, the net carrying amount of indefinite-lived franchises was reduced by \$2 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 six months ended June 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 the three and six months ended June 30, 2008 was approximately \$0 and \$1 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.

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

(dollars in millions, except where indicated)

4. Accounts Payable and Accrued Expenses

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

	June 30, 2008	December 31, 2007
Accounts payable – trade	\$ 81	\$ 116
Accrued capital expenditures	54	95
Accrued expenses:		
Interest	112	111
Programming costs	288	273
Compensation	77	75
Franchise related fees	55	66
Other	234	184
	\$ 901	\$ 920

5. Long-Term Debt

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

	June 30, 2008		December 31, 2007	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
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	6,966	6,966	6,844	6,844
Total	\$ 9,382	\$ 9,362	\$ 8,714	\$ 8,714

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

CHARTER COMMUNICATIONS OPERATING, LLC AND SUBSIDIARIES
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(dollars in millions, except where indicated)

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 June 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.

7. Minority Interest

Minority interest on the Company's condensed consolidated balance sheets of \$675 million and \$663 million as of June 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

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 for the Company was \$197 and \$64 million for the three months ended June 30, 2008 and 2007, respectively, and \$85 million and \$43 million for the six months ended June 30, 2008 and 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.

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 six months ended June 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

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No. 133 are reported in accumulated other comprehensive loss. For the three months ended June 30, 2008 and 2007, gains of \$122 million and \$50 million, respectively, and for the six months ended June 30, 2008 and 2007, gains of \$18 million and \$48 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 change in value of derivatives 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 June 30, 2008 and 2007, change in value of derivatives includes gains of \$36 million and \$6 million, respectively, and for the six months ended June 30, 2008 and 2007, gains of \$6 million and \$5 million, respectively, resulting from interest rate derivative instruments not designated as hedges.

As of June 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 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 157 on their nonfinancial assets and liabilities including fair value measurements under SFAS 142 and SFAS 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 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) classified within level 2 of the valuation hierarchy.

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The Company's financial liabilities that are accounted for at fair value on a recurring basis are presented in the table below:

	Fair Value As of June 30, 2008			
	Level 1	Level 2	Level 3	Total
Other long-term liabilities:				
Interest rate derivatives	\$ --	\$ 145	\$ --	\$ 145
	\$ --	\$ 145	\$ --	\$ 145

10. Other Operating Expenses, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Loss on sale of assets, net	\$ 2	\$ --	\$ 4	\$ 3
Special charges, net	23	1	32	2
	\$ 25	\$ 1	\$ 36	\$ 5

Special charges, net for the three and six months ended June 30, 2008 includes severance charges and 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 six months ended June 30, 2007 primarily represent severance charges.

11. Other Expense, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Loss on extinguishment of debt	\$ --	\$ (12)	\$ --	\$ (13)
Minority interest	(6)	(5)	(12)	(10)
Loss on investments	(1)	(1)	(1)	(1)
Other, net	--	--	(1)	--
	\$ (7)	\$ (18)	\$ (14)	\$ (24)

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 three and six months ended June 30, 2007 of approximately \$12 million and \$13 million, respectively.

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

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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 June 30, 2008 and December 31, 2007, the Company had net deferred income tax liabilities of approximately \$226 million. 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 June 30, 2008 and 2007, the Company recorded no income tax expense and \$1 million of income tax benefit, respectively. During the six months ended June 30, 2008 and 2007, the Company recorded \$2 million and \$1 million of income tax expense, respectively.

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 are subject to the IRS Area Director's approval.

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.

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 six months ended June 30, 2008, Charter has not purchased any units from Digeo Interactive, LLC under these agreements.

14. Contingencies

The Company and its parents 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.

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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 are in active negotiations with the plaintiffs to reach a settlement, which would be subject to the approval of the court. The Company has accrued expected settlement costs associated with the Sjoblom case (see Note 10). If the Company were subjected, in the normal course of business, to the assertion of other similar claims in other jurisdictions, the Company could not 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.

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, 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, subject to meeting performance criteria. During the three and six months ended June 30, 2008, Charter granted 0.7 million and 10.4 million shares of restricted stock, respectively. During the six months ended June 30, 2008, Charter granted 11.5 million performance units and \$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 June 30, 2008 and 2007, respectively, and \$16 million and \$10 million for the six months ended June 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 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 133. SFAS 161 is effective for interim periods and fiscal years beginning after November 15, 2008. The Company will adopt SFAS 161 effective January 1, 2009. The Company is currently assessing the impact of SFAS 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

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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.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner reflecting their nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. FSP APB 14-1 is effective for interim periods and fiscal years beginning after December 15, 2008. The Company will adopt FSP APB 14-1 effective January 1, 2009. The Company is currently assessing the impact of FSP APB 14-1 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 June 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 Holdings, LLC ("Charter Holdings"). Charter Holdings is an indirect subsidiary of Charter Communications, Inc. ("Charter").

We operate broadband communications businesses in the United States with approximately 5.6 million customers at June 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 OnDemand high definition television service, and DVR).

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

	<u>Approximate as of</u>	
	<u>June 30,</u> <u>2008 (a)</u>	<u>June 30,</u> <u>2007 (a)</u>
Video Cable Services:		
Basic Video:		
Residential (non-bulk) basic video customers (b)	4,897,100	5,107,800
Multi-dwelling (bulk) and commercial unit customers (c)	<u>264,900</u>	<u>269,000</u>
Total basic video customers (b)(c)	<u>5,162,000</u>	<u>5,376,800</u>
Digital Video:		
Digital video customers (d)	3,056,900	2,866,000
Non-Video Cable Services:		
Residential high-speed Internet customers (e)	2,787,300	2,583,200
Telephone customers (f)	1,175,500	700,300

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 5,323,800, 2,843,800, 2,577,900, and 701,300, respectively, as of June 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 June 30, 2008 and 2007, "customers" include approximately 34,200 and 31,300 persons whose accounts were over 60 days past due in payment, approximately 5,300 and 3,800 persons whose accounts were over 90 days past due in payment, and approximately 2,600 and 1,500 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 three months ended June 30, 2008 and 2007, our income from operations was \$230 million and \$200 million, respectively, and for the six months ended June 30, 2008 and 2007, our income from operations was \$435 million and \$356 million, respectively. We had operating margins of 14% and 13% for the three months ended June 30, 2008 and 2007, respectively, and 14% and 12% for the six months ended June 30, 2008 and 2007, respectively. The increase in income from operations and operating margins for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 was principally due to an increase in revenue over cash expenses as a result of increased customers for high-speed Internet, digital video, and telephone, as well as overall rate increases.

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 three months ended June 30, 2008 and 2007, and for the six months ended June 30, 2008, however, there can be no assurance that we will continue to do so.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2008 Compared to Six Months Ended June 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):

	Six Months Ended June 30,			
	2008		2007	
REVENUES	\$ 3,187	100%	\$ 2,924	100%
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	1,380	43%	1,278	44%
Selling, general and administrative	687	22%	620	21%
Depreciation and amortization	649	20%	665	23%
Other operating expenses, net	36	1%	5	--
	<u>2,752</u>	<u>86%</u>	<u>2,568</u>	<u>88%</u>
Income from operations	<u>435</u>	14%	<u>356</u>	12%
OTHER INCOME (EXPENSES):				
Interest expense, net	(358)		(340)	
Change in value of derivatives	6		5	
Other expense, net	(14)		(24)	
	<u>(366)</u>		<u>(359)</u>	
Income (loss) before income taxes	69		(3)	
INCOME TAX EXPENSE	<u>(2)</u>		<u>(1)</u>	
Net income (loss)	<u>\$ 67</u>		<u>\$ (4)</u>	

Revenues. Average monthly revenue per basic video customer increased to \$102 for the six months ended June 30, 2008 from \$88 for the six months ended June 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 six months ended June 30, 2008 as compared to the six months ended June 30, 2007 by approximately \$18 million.

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

	Six Months Ended June 30,					
	2008		2007		2008 over 2007	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$ 1,732	54%	\$ 1,697	58%	\$ 35	2%
High-speed Internet	667	21%	602	21%	65	11%
Telephone	255	8%	143	5%	112	78%
Commercial	189	6%	164	6%	25	15%
Advertising sales	143	5%	139	4%	4	3%
Other	201	6%	179	6%	22	12%
	<u>\$ 3,187</u>	<u>100%</u>	<u>\$ 2,924</u>	<u>100%</u>	<u>\$ 263</u>	<u>9%</u>

Video revenues consist primarily of revenues from basic and digital video services provided to our non-commercial customers. Basic video customers decreased by 214,800 customers from June 30, 2007, 53,000 of which was related to asset sales, net of acquisitions, compared to June 30, 2008. Digital video customers increased by 190,900, reduced by the sale, net of acquisitions, of 22,200 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	\$ 51
Increase in digital video customers	33
Decrease in basic video customers	(36)
System sales, net of acquisitions	(13)
	<u>\$ 35</u>

High-speed Internet customers grew by 204,100 customers, reduced by system sales, net of acquisitions, of 5,300 customers, from June 30, 2007 to June 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	\$ 61
Rate adjustments and service upgrades	6
System sales, net of acquisitions	(2)
	<u>\$ 65</u>

Revenues from telephone services increased primarily as a result of an increase of 475,200 telephone customers (1,000 of which was related to system acquisitions, net of sales) from June 30, 2007 to June 30, 2008.

Commercial revenues consist primarily of revenues from services provided to our commercial customers. Commercial revenues increased primarily as a result of increases in commercial high-speed Internet and telephone customers, offset by decreases of \$1 million related to asset sales, net of acquisitions, for the six months ended June 30, 2008.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers, and other vendors. Advertising sales revenues for the six months ended June 30, 2008 increased primarily as a result of an increase in political advertising sales offset by decreased revenues from the automotive and furniture sectors and decreases of \$2 million related to asset sales, net of acquisitions. For the six months ended June 30, 2008 and 2007, we received \$7 million and \$6 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 six months ended June 30, 2008 and 2007, franchise fees represented approximately 47% and 50%, respectively, of total other revenues. The increase in other revenues was primarily the result of increases in franchise and other regulatory fees, wire maintenance fees, and late payment fees.

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

	2008 compared to 2007	
	Increase / (Decrease)	
	<hr/>	
Programming costs	\$	44
Labor costs		30
Regulatory taxes		14
Maintenance costs		9
Franchise costs		5
Other, net		10
System sales, net of acquisitions		<hr/> (10)
	<hr/> \$	<hr/> 102

Programming costs were approximately \$819 million and \$781 million, representing 59% and 61% of total operating expenses for the six months ended June 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 impacted by approximately \$2 million of favorable programming contract settlements in the six months ended June 30, 2007 that did not recur in 2008. Programming costs were also offset by the amortization of payments received from programmers in support of launches of new channels of \$12 million and \$10 million for the six months ended June 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 and telephone deployment.

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

	<u>2008 compared to 2007</u> <u>Increase / (Decrease)</u>	
Employee costs	\$	21
Marketing costs		15
Bad debt and collection costs		11
Billing costs		8
Stock compensation costs		6
Other, net		9
System sales, net of acquisitions		(3)
	<u>\$</u>	<u>67</u>

Depreciation and amortization. Depreciation and amortization expense decreased by \$16 million for the six months ended June 30, 2008 compared to June 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.

Other operating expenses, net. For the six months ended June 30, 2008 compared to June 30, 2007, the increase in other operating expenses, net was primarily attributable to a \$30 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 six months ended June 30, 2008 compared to the six months ended June 30, 2007, net interest expense increased by \$18 million, which was a result of average debt outstanding increasing from \$7.9 billion for the six months ended June 30, 2007 to \$9.2 billion for the six months ended June 30, 2008, offset by a decrease in our average borrowing rate from 7.6% for the six months ended June 30, 2007 to 6.8% for the six months ended June 30, 2008.

Other expense, net (dollars in millions).

	<u>2008 compared to 2007</u>	
Decrease in loss on extinguishment of debt	\$	13
Increase in minority interest		(2)
Other, net		(1)
	<u>\$</u>	<u>10</u>

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

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. The gain from the change in value of interest rate swaps increased from \$5 million for the six months ended June 30, 2007 to \$6 million for the six months ended June 30, 2008.

Income tax expense. Income tax expense was recognized for the six months ended June 30, 2008 and 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 six months ended June 30, 2008, we generated net income of \$67 million compared to net loss of \$4 million for the six months ended June 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 June 30, 2008 totaled \$9.4 billion, consisting of \$7.0 billion of credit facility debt and \$2.4 billion accreted value of high-yield notes. For the remainder of 2008, \$36 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 six months ended June 30, 2008, we generated \$750 million of net cash flows from operating activities after paying cash interest of \$326 million. In addition, we used \$650 million for purchases of property, plant and equipment. Finally, we generated net cash flows from financing activities of \$2 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 \$20.5 billion as of June 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 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 CCH II, LLC ("CCH II") \$1.9 billion of senior notes outstanding at July 2, 2008 that mature in September 2010) and thereafter. 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. A continuation of the recent turmoil in the credit markets and the general economic downturn could adversely impact the terms and/or pricing 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. No assurances can be given that we will not experience liquidity problems if we do not obtain sufficient additional financing on a timely basis as our debt becomes due or because of adverse market conditions, increased competition or other unfavorable events. If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under our credit facilities, 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. As of June 30, 2008, we were in compliance with the covenants under our indentures and credit facilities, and we expect to remain in compliance with those covenants for the next twelve months. As of June 30, 2008, our potential availability under the Charter Operating revolving credit facility totaled approximately \$1.4 billion, 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.

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 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.

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 June 30, 2008, Charter Holdco was owed \$115 million in intercompany loans from Charter Operating, which amounts were available to pay interest and principal on Charter's convertible senior notes. In addition, as long as Charter Holdco continues to hold the \$35 million of Charter Holdings' notes due 2009 and 2010 (as discussed above), Charter Holdco will receive interest and principal payments from Charter Holdings. 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 June 30, 2008, there was no default under any of these indentures or credit facilities and each subsidiary met its applicable leverage ratio tests based on June 30, 2008 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at the time of the contemplated distribution. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of the contemplated distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in the Charter Operating 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 June 30, 2008, there was no default under Charter Holdings' indentures, the other specified tests were met, and Charter Holdings met its leverage ratio test of 8.75 to 1.0 based on June 30, 2008 financial results. Such distributions would be restricted, however, if Charter Holdings fails to meet these tests at the time of the contemplated distribution. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of the contemplated distribution. During periods in which distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that are not restricted payments) in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

Recent Financing Transactions

On March 19, 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.

On March 20, 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 \$62 million in cash and cash equivalents as of June 30, 2008 compared to none as of December 31, 2007.

Operating Activities. Net cash provided by operating activities increased \$54 million, or 8%, from \$696 million for the six months ended June 30, 2007 to \$750 million for the six months ended June 30, 2008, primarily as a result of revenues increasing at a faster rate than cash expenses.

Investing Activities. Net cash used in investing activities was \$690 million and \$587 million for the six months ended June 30, 2008 and 2007, respectively. The increase is primarily due to an increase of \$73 million in cash used for the purchase of property, plant, and equipment.

Financing Activities. Net cash provided by financing activities was \$2 million and net cash used in financing activities was \$108 million for the six months ended June 30, 2008 and 2007, respectively. The increase in cash provided during the six months ended June 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 \$650 million and \$579 million for the six months ended June 30, 2008 and 2007, respectively. Capital expenditures increased as a result of spending on customer premise equipment and support capital to meet increased digital, high-speed Internet, and telephone customer growth. 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 six months ended June 30, 2008 and 2007, our liabilities related to capital expenditures decreased \$41 million and \$39 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 six months ended June 30, 2008 and 2007 (dollars in millions):

	Six Months Ended	
	June 30,	
	2008	2007
Customer premise equipment (a)	\$ 323	\$ 289
Scalable infrastructure (b)	133	100
Line extensions (c)	44	49
Upgrade/Rebuild (d)	29	24
Support capital (e)	121	117
	<hr/>	<hr/>
Total capital expenditures	<u>\$ 650</u>	<u>\$ 579</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.

As of June 30, 2008 and December 31, 2007, our long-term debt totaled approximately \$9.4 billion and \$8.7 billion, respectively. As of June 30, 2008 and December 31, 2007, the weighted average interest rate on the credit facility debt was approximately 6.3% 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 6.9% and 7.2%, respectively. The interest rate on approximately 67% and 66% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate swap agreements, as of June 30, 2008 and December 31, 2007, respectively. The fair value of our high-yield notes was \$2.3 billion and \$1.8 billion at June 30, 2008 and December 31, 2007, respectively. The fair value of our credit facilities was \$6.2 billion and \$6.4 billion at June 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 each of the three and six months ended June 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 three months ended June 30, 2008 and 2007, gains of \$122 million and \$50 million, respectively, and for the six months ended June 30, 2008 and 2007, gains of \$18 million and \$48 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 change in value of derivatives 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 three months ended June 30, 2008 and 2007, change in value of derivatives included gains of \$36 million and \$6 million, respectively, and for the six months ended June 30, 2008 and 2007, gains of \$6 million and \$5 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 June 30, 2008 (dollars in millions):

	2008	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value at June 30, 2008
Debt:									
Fixed Rate	\$ --	\$ --	\$ --	\$ --	\$ 1,100	\$ --	\$ 1,316	\$ 2,416	\$ 2,345
Average Interest Rate	--	--	--	--	8.00%	--	9.41%	8.77%	
Variable Rate	\$ 36	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 6,580	\$ 6,966	\$ 6,173
Average Interest Rate	5.71%	5.80%	6.42%	6.92%	7.05%	7.17%	7.25%	7.21%	
Interest Rate Instruments:									
Variable to Fixed Swaps	\$ --	\$ --	\$ 500	\$ 300	\$ 2,500	\$ 1,000	\$ --	\$ 4,300	\$ (145)
Average Pay Rate	--	--	7.02%	7.20%	7.16%	7.15%	--	7.15%	
Average Receive Rate	--	--	6.60%	6.77%	7.14%	7.13%	--	7.05%	

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 June 30, 2008 including applicable bank spread.

At June 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 Commission'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 June 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 June 30, 2008, our total debt was approximately \$9.4 billion, our member’s equity was approximately \$2.3 billion, and ratio of earnings to cover fixed charges for the six months ended June 30, 2008 was 1.2. On a consolidated basis, we and our parent companies have a significant level of debt, which totaled approximately \$20.5 billion as of June 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. Our and our parent companies’ indentures currently permit us and our parent companies to provide funds to our and their respective parent companies to pay interest on debt or to repay, repurchase, redeem, or defease debt, subject to certain conditions. 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 33% 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 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 slowdown, including the recent significant slowdown 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 there is risk that the economic slowdown 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 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 CCH II \$1.9 billion of senior notes outstanding at July 2, 2008 that mature in September 2010) and thereafter. 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. 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 \$1.4 billion as of June 30, 2008, none of which was limited by covenant restrictions. There can be no assurance that actual availability under our 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 its and its subsidiaries' 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.