

**CCH II, LLC**  
**CCH II Capital Corp.**

**Annual Report**  
**For the year ended December 31, 2009**

**CCH II, LLC**  
**CCH II CAPITAL CORP.**  
**ANNUAL REPORT — FOR THE YEAR ENDED DECEMBER 31, 2009**

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This Annual Report is for the year ended December 31, 2009. In this Annual Report, “we,” “us” and “our” refer to CCH II, LLC and its subsidiaries.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual 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 Part I. Item 1. and in Part II. Item 7. under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this annual 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 in Part I. Item 1A. under the heading "Risk Factors" and in Part II. Item 7. under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this annual report. Many of the forward-looking statements contained in this annual 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 annual report are set forth in this annual report and in other reports or documents, and include, but are not limited to:

- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services to residential and commercial customers, and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition and the difficult economic conditions in the United States;
- the impact of competition from other distributors, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband providers, and digital subscriber line ("DSL") providers and competition from video provided over the Internet;
- general business conditions, economic uncertainty or downturn and the significant downturn in the housing sector and overall economy;
- our ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);
- our ability to adequately deliver customer service;
- the effects of governmental regulation on our business;
- the availability and access, in general, of funds to meet our debt obligations, prior to or when they become due, and to fund our operations and necessary capital expenditures, either through (i) cash on hand, (ii) cash flows from operating activities, (iii) access to the capital or credit markets including through new issuances, exchange offers or otherwise, especially given recent volatility and disruption in the capital and credit markets, or (iv) other sources and our ability to fund debt obligations (by dividend, investment or otherwise) to the applicable obligor of such debt; and
- our ability to comply with all covenants in our indentures and credit facilities, any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions.

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

## PART I

### Item 1. *Business.*

#### Introduction

CCH II, LLC (“CCH II”) is among the largest providers of cable services in the United States, offering a variety of entertainment, information and communications solutions to residential and commercial customers in 27 states. CCH II operates in a heavily regulated industry pursuant to various franchises from local and state governments and licenses granted by state and federal governments including the Federal Communications Commission (the “FCC”). Our infrastructure consists of a hybrid of fiber and coaxial cable plant passing approximately 11.9 million homes, through which we offer our residential and commercial customers traditional video cable programming, high-speed Internet access, advanced broadband cable services (such as high definition television, OnDemand™ (“OnDemand”) video programming and digital video recorder (“DVR”) service) and telephone service.

As of December 31, 2009, we served approximately 5.3 million customers. We served approximately 4.8 million video customers, of which approximately 67% were digital video customers. We also served approximately 3.1 million high-speed Internet customers and we provided telephone service to approximately 1.6 million customers. We sell our cable video programming, high-speed Internet and telephone services primarily on a subscription basis, often in a bundle of two or more services, providing savings and convenience to our customers. Approximately 57% of our customers subscribe to a bundle of services.

Through Charter Business®, we provide scalable, tailored broadband communications solutions to business organizations, such as business-to-business Internet access, data networking, fiber connectivity to cellular towers, video and music entertainment services and business telephone. As of December 31, 2009, we served approximately 224,300 business customers, including small- and medium-sized commercial customers.

CCH II Capital Corp. is a wholly-owned subsidiary of CCH II and was formed and exists solely as a co-issuer of the debt issued with CCH II. We are wholly owned by our parent company, CCH I, LLC (“CCH I”) and indirectly owned by Charter Communications, Inc. (“Charter”). All significant intercompany accounts and transactions among consolidated entities have been eliminated.

We have a history of net losses. 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, impairment of franchises and depreciation expenses resulting from the capital investments we have made and continue to make in our cable properties. As discussed below, we emerged from bankruptcy protection on November 30, 2009 and reduced our debt by approximately \$708 million and our parent companies’ debt by approximately \$7.5 billion, reducing our parent companies’ consolidated interest expense by approximately \$830 million annually.

Our principal executive offices are located at Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131. Our telephone number is (314) 965-0555, and Charter has a website accessible at [www.charter.com](http://www.charter.com). Since January 1, 2002, our annual reports, quarterly reports and current reports on Form 8-K, and all amendments thereto, have been made available on Charter’s website free of charge as soon as reasonably practicable after they have been issued. The information posted on Charter’s website is not incorporated into this annual report.

#### Bankruptcy Proceedings and Recent Events

On March 27, 2009, we, our parent companies and certain affiliates (collectively, the “Debtors”) filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”), to reorganize under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”). The Chapter 11 cases were jointly administered under the caption *In re Charter Communications, Inc., et al.*, Case No. 09-11435. On May 7, 2009, we and our parent companies filed a Joint Plan of Reorganization (the “Plan”) and a related disclosure statement (the “Disclosure Statement”) with the Bankruptcy Court. The Plan was confirmed by order of the Bankruptcy Court on November 17, 2009 (“Confirmation Order”), and became effective on November 30, 2009 (the “Effective Date”), the date on which we and our parent companies emerged from protection under Chapter 11 of the Bankruptcy Code.

As provided in the Plan and the Confirmation Order, (i) the notes and bank debt of Charter Communications Operating, LLC (“Charter Operating”) and CCO Holdings, LLC (“CCO Holdings”) remained outstanding; (ii) holders of approximately \$1.5 billion of notes issued by CCH II received new CCH II notes (the “Notes Exchange”);

(iii) holders of notes issued by CCH I received 21.1 million shares of new Charter Class A common stock; (iv) holders of notes issued by CCH I Holdings, LLC (“CIH”) received 6.4 million warrants to purchase shares of new Charter Class A common stock with an exercise price of \$46.86 per share that expire five years from the date of issuance; (v) holders of notes issued by Charter Communications Holdings, LLC (“Charter Holdings”) received 1.3 million warrants to purchase shares of new Charter Class A common stock with an exercise price of \$51.28 per share that expire five years from the date of issuance; (vi) holders of convertible notes issued by Charter received \$25 million and 5.5 million shares of preferred stock issued by Charter; and (vii) all previously outstanding shares of Charter Class A and Class B common stock were cancelled. In addition, as part of the Plan, the holders of CCH I notes received and transferred to Mr. Paul G. Allen, Charter’s principal stockholder, \$85 million of new CCH II notes.

The consummation of the Plan was funded with cash on hand, the Notes Exchange, and net proceeds of approximately \$1.6 billion of an equity rights offering (the “Rights Offering”) in which holders of CCH I notes purchased new Charter Class A common stock.

In connection with the Plan, Charter, Mr. Allen and Charter Investment, Inc. (“CII”) entered into a separate restructuring agreement (as amended, the “Allen Agreement”), in settlement and compromise of their legal, contractual and equitable rights, claims and remedies against Charter and its subsidiaries. In addition to any amounts received by virtue of CII’s holding other claims against Charter and its subsidiaries, on the Effective Date, CII was issued 2.2 million shares of the new Charter Class B common stock equal to 2% of the equity value of Charter, after giving effect to the Rights Offering, but prior to issuance of warrants and equity-based awards provided for by the Plan and 35% (determined on a fully diluted basis) of the total voting power of all new capital stock of Charter. Each share of new Charter Class B common stock is convertible, at the option of the holder, into one share of new Charter Class A common stock, and is subject to significant restrictions on transfer and conversion. Certain holders of new Charter Class A common stock (and securities convertible into or exercisable or exchangeable therefore) and new Charter Class B common stock received certain customary registration rights with respect to their shares. On the Effective Date, CII received: (i) 4.7 million warrants to purchase shares of new Charter Class A common stock, (ii) \$85 million principal amount of new CCH II notes (transferred from CCH I noteholders), (iii) \$25 million in cash for amounts previously owed to CII under a management agreement, (iv) \$20 million in cash for reimbursement of fees and expenses in connection with the Plan, and (v) an additional \$150 million in cash. The warrants described above have an exercise price of \$19.80 per share and expire seven years after the date of issuance. In addition, on the Effective Date, CII retained a minority equity interest in reorganized Charter Communications Holding Company, LLC (“Charter Holdco”) of 1% and a right to exchange such interest into new Charter Class A common stock. On December 28, 2009, CII exchanged 81% of its interest in Charter Holdco, and on February 8, 2010 the remaining interest was exchanged after which Charter Holdco became 100% owned by Charter (the “Holdco Exchange”) and ownership of CII was transferred to Charter. The warrants and common stock previously issued to CII were transferred to Mr. Allen in connection with the Holdco Exchange and transfer of CII’s ownership to Charter. In connection with the Plan, Mr. Allen transferred his preferred equity interest in CC VIII, LLC (“CC VIII”) to Charter. Mr. Allen has the right to elect up to four of Charter’s eleven board members.

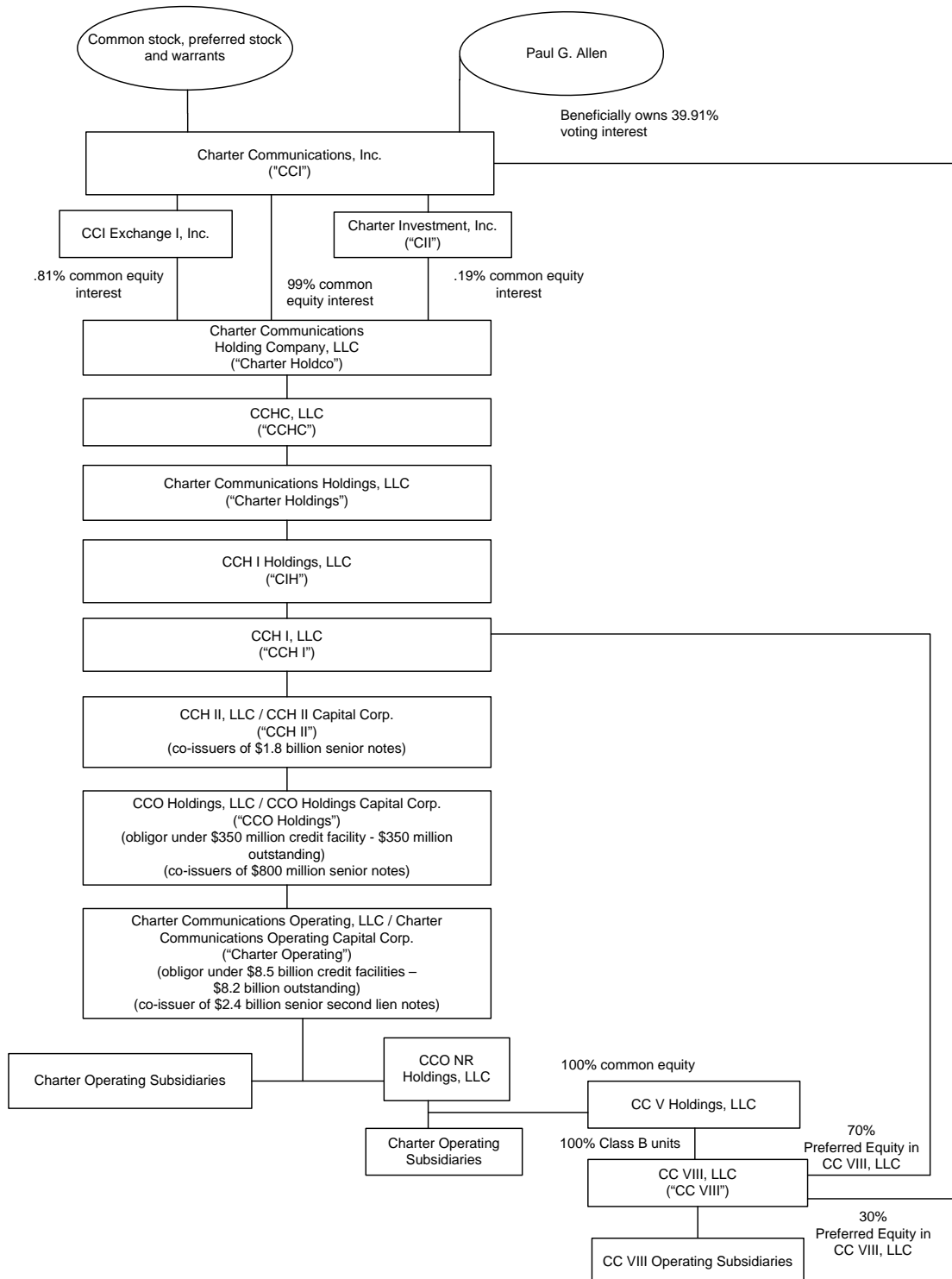
On February 28, 2010, our former President and Chief Executive Officer, Neil Smit, resigned and our Chief Operating Officer, Michael J. Lovett, assumed the additional title of Interim President and Chief Executive Officer.

On March 17, 2010, we announced that Charter Operating had received the required votes from lenders to amend its existing \$8.2 billion senior secured credit facilities to, among other things, allow for the creation of a new revolving facility, the extension of maturities of a portion of the facilities and the amendment of certain other terms and conditions. Upon the closing of these amendments, each of Bank of America, N.A. and JPMorgan Chase Bank, N.A., for itself and on behalf of the lenders under the Charter Operating senior secured credit facilities, has agreed to dismiss the pending appeal of our Confirmation Order pending before the District Court for the Southern District of New York and to waive any objections to our Confirmation Order issued by the United States Bankruptcy Court for the Southern District of New York. We expect to close on these transactions by March 31, 2010, subject to meeting customary conditions.

The terms “CCH II,” “we,” “our” and “us,” when used in this report with respect to the period prior to CCH II’s emergence from bankruptcy, are references to the Debtors (“Predecessor”) and, when used with respect to the period commencing after CCH II’s emergence, are references to CCH II (“Successor”). These references include the parent companies and subsidiaries of Predecessor or Successor, as the case may be, unless otherwise indicated or the context requires otherwise.

## Corporate Entity Structure

The chart below sets forth our entity structure and that of our direct and indirect parent companies and subsidiaries. This chart does not include all of our affiliates and subsidiaries and, in some cases, we have combined separate entities for presentation purposes. The equity ownership and voting percentages shown below are approximations as of February 15, 2010, and do not give effect to any exercise of then outstanding warrants. Indebtedness amounts shown below are principal amounts as of December 31, 2009. See Note 8 to the accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data," which also includes the accreted values of the indebtedness described below.



## **Item 1A. Risk Factors.**

### **Risks Related to Our Emergence From Bankruptcy**

*Our actual financial results may vary significantly from the projections filed with the Bankruptcy Court.*

In connection with the Plan, Charter was required to prepare projected financial information to demonstrate to the Bankruptcy Court the feasibility of the Plan and our ability to continue operations upon emergence from bankruptcy. Charter filed projected financial information with the Bankruptcy Court most recently on May 7, 2009 as part of the Disclosure Statement approved by the Bankruptcy Court. The projections reflect numerous assumptions concerning anticipated future performance and prevailing and anticipated market and economic conditions that were and continue to be beyond our control. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Neither the projections nor any version of the Disclosure Statement should be considered or relied upon. After the date of the Disclosure Statement and during 2009, we recognized an impairment to our franchise values because of the lower than anticipated growth in revenues experienced during the first three quarters of 2009 and an expected reduction of future cash flows as a result of the economic and competitive environment.

*Because our consolidated financial statements reflect fresh start accounting adjustments made upon emergence from bankruptcy, and because of the effects of the transactions that became effective pursuant to the Plan, financial information in the post-emergence financial statements is not comparable to our financial information from prior periods.*

Upon our emergence from bankruptcy, we adopted fresh start accounting pursuant to which our reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets is reflected as goodwill, which is subject to periodic evaluation for impairment. Further, under fresh start accounting, the accumulated losses included in member's deficit were eliminated. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Thus, our balance sheets and statements of operations data are not comparable in many respects to our consolidated balance sheets and consolidated statements of operations data for periods prior to our adoption of fresh start accounting and prior to accounting for the effects of the reorganization.

### **Risks Related to Our Significant Indebtedness**

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

As of September 30, 2009, our total principal amount of debt was approximately \$14.2 billion. The consummation of the Plan on November 30, 2009, resulted in a reduction of the principal amount of our debt of approximately \$708 million and reduction of our parent companies' debt in the principal amount of approximately \$7.5 billion. However, we continue to have a significant amount of debt and may (subject to applicable restrictions in our debt instruments) incur additional debt in the future. As of December 31, 2009, our total principal amount of debt was approximately \$13.5 billion.

Because of our significant indebtedness, our and our parent companies' ability to raise additional capital at reasonable rates, or at all, is uncertain, and our subsidiaries' ability to make distributions or payments to their respective parent companies is subject to availability of funds and restrictions under applicable debt instruments and under applicable law.

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

- make us vulnerable to interest rate increases, because approximately 63% of our borrowings are, and may 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;
- require us to dedicate a significant portion of our cash flow from operating activities to make payments on our 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;
- adversely affect our relationship with customers and suppliers;
- limit our and our parent companies' ability to borrow additional funds in the future, or to access financing at the necessary level of the capital structure, due to applicable financial and restrictive covenants in our debt;
- make it more difficult for us and our parent companies to obtain financing;
- make it more difficult for us to satisfy our obligations to the holders of our notes and for us to satisfy our obligations to the lenders under our 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.

If current debt amounts increase, the related risks that we now face will intensify.

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

Our credit facilities and the indentures governing our debt contain a number of significant covenants that could adversely affect our ability to operate our business, our liquidity, and our results of operations. These covenants restrict, among other things, our ability to:

- incur additional debt;
- repurchase or redeem equity interests and debt;
- issue equity;
- make certain investments or acquisitions;
- pay dividends or make other distributions;
- dispose of assets or merge;
- enter into related party transactions; and
- grant liens and pledge assets.

Additionally, the Charter Operating credit facilities require Charter Operating to comply with a maximum total leverage covenant and a maximum first lien leverage covenant. The breach of any covenants or obligations in our indentures or credit facilities, not otherwise waived or amended, could result in a default under the applicable debt obligations and could trigger 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, the holders of the Charter Operating senior second-lien notes, and the secured lenders under the CCO Holdings credit facility could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under those credit facilities or the indentures governing our debt could adversely affect our growth, our financial condition, our results of operations and our ability to make payments on our notes and credit facilities, and could force us to seek the protection of the bankruptcy laws.

***We depend on generating (and having available to the applicable obligor) sufficient cash flow to fund our debt obligations, capital expenditures, and ongoing operations.***

We are dependent on our cash on hand and cash flows from operating activities to fund our debt obligations, capital expenditures and ongoing operations.

Our ability to service our debt and to fund our planned capital expenditures and ongoing operations will depend on 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:

- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services to residential and commercial customers, and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition and the difficult economic conditions in the United States;



- the impact of competition from other distributors, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband providers and DSL providers and competition from video provided over the Internet;
- general business conditions, economic uncertainty or downturn and the significant downturn in the housing sector and overall economy;
- our ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);
- our ability to adequately deliver customer service; 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 will have on future operations and financial results. The general economic downturn has resulted in reduced spending by customers and advertisers, which has impacted 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 may not be able to service and repay our debt, operate our business, respond to competitive challenges, or fund our and our parent companies' other liquidity and capital needs.

***Restrictions in our and our subsidiaries' debt instruments and under applicable law limit our and their ability to provide funds to the various debt issuers.***

Our primary assets are our equity interests in our subsidiaries. Our operating subsidiaries are separate and distinct legal entities and are not obligated to make funds available to us for payments on our notes or other obligations in the form of loans, distributions, or otherwise. Charter Operating's and CCO Holdings' ability to make distributions to us or the applicable debt issuers to service debt obligations is subject to their compliance with the terms of their credit facilities and indentures, and restrictions under applicable law. See "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Limitations on Distributions" and "— Summary of Restrictive Covenants of Our Notes – Restrictions on Distributions." Under the Delaware Limited Liability Company Act, our subsidiaries may only make distributions if the relevant entity has "surplus" as defined in the act. Under fraudulent transfer laws, our subsidiaries may not pay dividends if the relevant entity is insolvent or is rendered insolvent thereby. The measures of insolvency for purposes of these fraudulent transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an entity would be considered insolvent if:

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

While we believe that Charter Operating and CCO Holdings currently have surplus and are not insolvent, there can otherwise be no assurance that these subsidiaries will not become insolvent or will be permitted to make distributions in the future in compliance with these restrictions in amounts needed to service our indebtedness. Our direct or indirect subsidiaries include the borrowers under the CCO Holdings credit facility and the borrowers and guarantors under the Charter Operating credit facilities. Charter Operating is also an obligor, and its subsidiaries are guarantors under senior second-lien notes, and CCO Holdings is an obligor under its senior notes. As of December 31, 2009, our total principal amount of debt was approximately \$13.5 billion, of which approximately \$11.7 billion was structurally senior to the CCH II notes.

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

- the lenders under CCO Holdings' credit facility and Charter Operating's credit facilities and senior second-lien notes, whose interests are secured by substantially all of our operating assets, and all holders of other debt of CCO Holdings and Charter Operating, will have the right to be paid in full before us from any of our subsidiaries' assets; and
- Charter and CCH I, the holders of preferred membership interests in our subsidiary, CC VIII, would have a claim on a portion of CC VIII's assets that may reduce the amounts available for repayment to holders of

our outstanding notes.

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

We and our parent companies may not have the ability to raise the funds necessary to fulfill our obligations under our notes and our credit facilities following a change of control. Under the indentures governing our notes, upon the occurrence of specified change of control events, the applicable note issuer is required to offer to repurchase all of its outstanding notes. However, we may not have sufficient access to funds at the time of the change of control event to make the required repurchase of the applicable notes, and all of the notes issuers are limited in their ability to make distributions or other payments to their respective parent company to fund any required repurchase. In addition, a change of control under the Charter Operating credit facilities would result in a default under those credit facilities. Because such credit facilities and our subsidiaries' notes are obligations of our subsidiary, the credit facilities and our subsidiaries' notes would have to be repaid by our subsidiaries before their assets could be available to their parent companies to repurchase their notes. Any failure to make or complete a change of control offer would place the applicable note issuer or borrower in default under its notes. The failure of our subsidiaries to make a change of control offer or repay the amounts accelerated under their notes and credit facilities would place them in default.

### **Risks Related to Our Business**

***We operate in a very competitive business environment, which affects our ability to attract and retain customers and can adversely affect our business and operations.***

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

Our principal competitors for video services throughout our territory are DBS providers. The two largest DBS providers are DirecTV and DISH Network. Competition from DBS, including intensive marketing efforts with aggressive pricing, exclusive programming and increased high definition broadcasting has had an adverse impact on our ability to retain customers. DBS has grown rapidly over the last several years. DBS companies have also expanded their activities in the MDU market. The cable industry, including us, has lost a significant number of video customers to DBS competition, and we face serious challenges in this area in the future.

Telephone companies, including two major telephone companies, AT&T and Verizon, offer video and other services in competition with us, and we expect they will increasingly do so in the future. Upgraded portions of these networks carry two-way video, data services and provide digital voice services similar to ours. In the case of Verizon, high-speed data services operate at speeds as high as or higher than ours. In addition, these companies continue to offer their traditional telephone services, as well as service bundles that include wireless voice services provided by affiliated companies. Based on our internal estimates, we believe that AT&T and Verizon are offering video services in areas serving approximately 26% to 31% of our estimated homes passed as of December 31, 2009, and we have experienced increased customer losses in these areas. AT&T and Verizon have also launched campaigns to capture more of the MDU market. Additional upgrades and product launches are expected in markets in which we operate. With respect to our Internet access services, we face competition, including intensive marketing efforts and aggressive pricing, from telephone companies and other providers of DSL. DSL service competes with our high-speed Internet service and is often offered at prices lower than our Internet services, although often at speeds lower than the speeds we offer. In addition, in many of our markets, these companies have entered into co-marketing arrangements with DBS providers to offer service bundles combining video services provided by a DBS provider with DSL and traditional telephone and wireless services offered by the telephone companies and their affiliates. These service bundles offer customers similar pricing and convenience advantages as our bundles. Moreover, as we continue to market our telephone offerings, we will face considerable competition from established telephone companies and other carriers.

The existence of more than one cable system operating in the same territory is referred to as an overbuild. Overbuilds could adversely affect our growth, financial condition, and results of operations, by creating or

increasing competition. Based on internal estimates and excluding telephone companies, as of December 31, 2009, we are aware of traditional overbuild situations impacting approximately 8% to 9% of our estimated homes passed, and potential traditional overbuild situations in areas servicing approximately an additional 1% of our estimated homes passed. Additional overbuild situations may occur in other systems.

In order to attract new customers, from time to time we make promotional offers, including offers of temporarily reduced price or free service. These promotional programs result in significant advertising, programming and operating expenses, and also may require us to make capital expenditures to acquire and install customer premise equipment. Customers who subscribe to our services as a result of these offerings may not remain customers following the end of the promotional period. A failure to retain customers could have a material adverse effect on our business.

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

In addition to the various competitive factors discussed above, our business is subject to risks relating to increasing competition for the leisure and entertainment time of consumers. Our business competes with all other sources of entertainment and information delivery, including broadcast television, movies, live events, radio broadcasts, home video products, console games, print media, and the Internet. Technological advancements, such as video-on-demand, new video formats, and Internet streaming and downloading, have increased the number of entertainment and information delivery choices available to consumers, and intensified the challenges posed by audience fragmentation. The increasing number of choices available to audiences could also negatively impact advertisers' willingness to purchase advertising from us, as well as the price they are willing to pay for advertising. If we do not respond appropriately to further increases in the leisure and entertainment choices available to consumers, our competitive position could deteriorate, and our financial results could suffer.

Our services may not allow us to compete effectively. Additionally, as we expand our offerings to include other telecommunications services, and to introduce new and enhanced services, we will be subject to competition from other providers of the services we offer. Competition may reduce our expected growth of future cash flows which may contribute to future impairments of our franchises and goodwill.

***Economic conditions in the United States may adversely impact the growth of our business.***

We believe that the weakened economic conditions in the United States, including a continued downturn in the housing market over the past year and increases in unemployment, have adversely affected consumer demand for our services, especially premium services, and have contributed to an increase in the number of homes that replace their traditional telephone service with wireless service thereby impacting the growth of our telephone business and also had a negative impact on our advertising revenue. These conditions have affected our net customer additions and revenue growth during 2009 and contributed to the franchise impairment charge incurred in 2009. If these conditions do not improve, we believe the growth of our business and results of operations will be further adversely affected which may contribute to future impairments of our franchises and goodwill.

***We face risks inherent in our telephone and commercial businesses.***

We may encounter unforeseen difficulties as we increase the scale of our service offerings to businesses. We sell video, high-speed data and network and transport services to businesses and have increased our focus on growing this business. In order to grow our commercial business, we expect to increase expenditures on technology, equipment and personnel focused on the commercial business. Commercial business customers often require service level agreements and generally have heightened customer expectations for reliability of services. If our efforts to build the infrastructure to scale the commercial business are not successful, the growth of our commercial services business would be limited. Continued growth in our residential telephone business faces risks. The competitive landscape for residential and commercial telephone services is intense; we face competition from providers of Internet telephone services, as well as incumbent telephone companies. Further, we face increasing competition for residential telephone services as more consumers in the United States are replacing traditional telephone service with wireless service. We depend on interconnection and related services provided by certain third parties for the growth of our commercial business. As a result, our ability to implement changes as the services grow may be limited. If we are unable to meet these service level requirements or expectations, our commercial business could be adversely affected. Finally, we expect advances in communications technology, as well as changes in the marketplace and the regulatory and legislative environment. Consequently, we are unable to predict

the effect that ongoing or future developments in these areas might have on our telephone and commercial businesses and operations.

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

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

In addition, we are susceptible to risks associated with the potential financial instability of the vendors and third parties on which we rely to provide products and services or to which we outsource certain functions. The same economic conditions that may affect our customers, as well as volatility and disruption in the capital and credit markets, also could adversely affect vendors and third parties and lead to significant increases in prices, reduction in output or the bankruptcy of our vendors or third parties upon which we rely. Any interruption in the services provided by our vendors or by third parties could adversely affect our cash flow, results of operation and financial condition.

***We may not have the ability to reduce the high growth rates of, or pass on to our customers, our increasing programming costs, which would adversely affect our cash flow and operating margins.***

Programming has been, and is expected to continue to be, our largest operating expense item. In recent years, the cable industry has experienced a rapid escalation in the cost of programming. We expect programming costs to continue to increase, and at a higher rate than in 2009, because of a variety of factors including amounts paid for retransmission consent, annual increases imposed by programmers and additional programming, including high definition and OnDemand programming, being provided to customers. The inability to fully pass these programming cost increases on to our customers has had an adverse impact on our cash flow and operating margins associated with the video product. We have programming contracts that have expired and others that will expire at or before the end of 2010. There can be no assurance that these agreements will be renewed on favorable or comparable terms. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable we may be forced to remove such programming channels from our line-up, which could result in a further loss of customers.

Increased demands by owners of some broadcast stations for carriage of other services or payments to those broadcasters for retransmission consent are likely to further increase our programming costs. Federal law allows commercial television broadcast stations to make an election between “must-carry” rights and an alternative “retransmission-consent” regime. When a station opts for the latter, cable operators are not allowed to carry the station’s signal without the station’s permission. In some cases, we carry stations under short-term arrangements while we attempt to negotiate new long-term retransmission agreements. If negotiations with these programmers prove unsuccessful, they could require us to cease carrying their signals, possibly for an indefinite period. Any loss of stations could make our video service less attractive to customers, which could result in less subscription and advertising revenue. In retransmission-consent negotiations, broadcasters often condition consent with respect to one station on carriage of one or more other stations or programming services in which they or their affiliates have an interest. Carriage of these other services, as well as increased fees for retransmission rights, may increase our programming expenses and diminish the amount of capacity we have available to introduce new services, which could have an adverse effect on our business and financial results.

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

Our business is characterized by rapid technological change and the introduction of new products and services, some of which are bandwidth-intensive. We may not be able to fund the capital expenditures necessary to keep pace with technological developments, or anticipate the demand of our customers for products and services requiring new technology or bandwidth. Our inability to maintain and expand our upgraded systems and provide advanced services in a timely manner, or to anticipate the demands of the marketplace, could materially adversely affect our

ability to attract and retain customers. Consequently, our growth, financial condition and results of operations could suffer materially.

***We depend on third party service providers, suppliers and licensors; thus, if we are unable to procure the necessary services, equipment, software or licenses on reasonable terms and on a timely basis, our ability to offer services could be impaired, and our growth, operations, business, financial results and financial condition could be materially adversely affected.***

We depend on third party service providers, suppliers and licensors to supply some of the services, hardware, software and operational support necessary to provide some of our services. We obtain these materials from a limited number of vendors, some of which do not have a long operating history or which may not be able to continue to supply the equipment and services we desire. Some of our hardware, software and operational support vendors, and service providers represent our sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. If demand exceeds these vendors' capacity or if these vendors experience operating or financial difficulties, or are otherwise unable to provide the equipment or services we need in a timely manner and at reasonable prices, our ability to provide some services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials or services might delay our ability to serve our customers. These events could materially and adversely affect our ability to retain and attract customers, and have a material negative impact on our operations, business, financial results and financial condition. A limited number of vendors of key technologies can lead to less product innovation and higher costs. For these reasons, we generally endeavor to establish alternative vendors for materials we consider critical, but may not be able to establish these relationships or be able to obtain required materials on favorable terms.

In that regard, we currently purchase set-top boxes from a limited number of vendors, because each of our cable systems use one or two proprietary conditional access security schemes, which allows us to regulate subscriber access to some services, such as premium channels. We believe that the proprietary nature of these conditional access schemes makes other manufacturers reluctant to produce set-top boxes. Future innovation in set-top boxes may be restricted until these issues are resolved. In addition, we believe that the general lack of compatibility among set-top box operating systems has slowed the industry's development and deployment of digital set-top box applications.

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

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

***For tax purposes, Charter experienced a deemed ownership change upon emergence from Chapter 11 bankruptcy, resulting in an annual limitation on Charter's ability to use its existing net operating loss carryforwards. Charter could experience another deemed ownership change in the future that could further limit its ability to use its net operating loss carryforwards.***

As of December 31, 2009, Charter had approximately \$6.3 billion of federal tax net operating losses, resulting in a gross deferred tax asset of approximately \$2.2 billion, expiring in the years 2014 through 2028. These losses resulted from the operations of Charter Holdco and its subsidiaries. In addition, as of December 31, 2009, Charter had state tax net operating losses, resulting in a gross deferred tax asset (net of federal tax benefit) of approximately \$209 million, generally expiring in years 2010 through 2028. Due to uncertainties in projected future taxable income, valuation allowances have been established against the gross deferred tax assets for book accounting purposes, except for deferred benefits available to offset certain deferred tax liabilities. Such tax net operating losses can accumulate and be used to offset our future taxable income. The consummation of the Plan generated an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, Charter is subject to an annual limitation on the use of its net operating losses. Further, Charter's net operating loss carryforwards have been reduced by the amount of the cancellation of debt income resulting from the Plan that was allocable to Charter. The limitation on Charter's ability to use its net operating losses, in conjunction

with the net operating loss expiration provisions, could reduce Charter's ability to use a portion of its net operating losses to offset future taxable income which could result in Charter being required to make material cash tax payments. Charter's ability to make such income tax payments, if any, will depend at such time on Charter's liquidity or Charter's ability to raise additional capital, and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries, including us.

If Charter were to experience a second ownership change in the future, Charter's ability to use its net operating losses could become subject to further limitations. In accordance with the Plan, Charter's common stock is subject to certain transfer restrictions contained in our amended and restated certificate of incorporation. These restrictions, which are designed to minimize the likelihood of an ownership change occurring and thereby preserve Charter's ability to utilize its net operating losses, are not currently operative but could become operative in the future if certain events occur and the restrictions are imposed by Charter's board of directors. However, there can be no assurance that Charter's board of directors would choose to impose these restrictions or that such restrictions, if imposed, would prevent an ownership change from occurring.

***If we are unable to attract new key employees, the ability of our parent companies to manage our business could be adversely affected.***

Our operational results during the recent prolonged economic downturn and our bankruptcy have depended, and our future results will depend, upon the retention and continued performance of our management team. Our former President and Chief Executive Officer, Neil Smit, resigned effective February 28, 2010 and our Chief Operating Officer, Michael J. Lovett, assumed the additional title of Interim President and Chief Executive Officer at that time. Our parent companies' ability to hire new key employees for management positions could be impacted adversely by the competitive environment for management talent in the telecommunications industry. The loss of the services of key members of management and the inability to hire new key employees could adversely affect our ability to manage our business and our future operational and financial results.

#### **Risks Related to Ownership Positions of Charter's Principal Shareholders**

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

The Charter Operating credit facilities provide that the failure by (a) Mr. Allen, (b) his estate, spouse, immediate family members and heirs and (c) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners or other owners of which consist exclusively of Mr. Allen or such other persons referred to in (b) above or a combination thereof to maintain a 35% direct or indirect voting interest in the applicable borrower would result in a change of control default. Such a default could result in the acceleration of repayment of our indebtedness, including borrowings under the Charter Operating credit facilities. See "—Risks Related to Our Significant Indebtedness — All of our outstanding debt is subject to change of control provisions. We and our parent companies may not have the ability to raise the funds necessary to fulfill our obligations under our indebtedness following a change of control, which would place us in default under the applicable debt instruments."

Pursuant to the Plan, on November 30, 2009, Charter, CII and Mr. Allen entered into a lock up agreement (the "Lock-Up Agreement") pursuant to which Mr. Allen and any permitted affiliate of Mr. Allen that will hold shares of new Charter Class B common stock, from and after the Effective Date to, but not including, the earliest to occur of (i) September 15, 2014, (ii) the repayment, replacement, refinancing or substantial modification, including any waiver, to the change of control provisions of the Charter Operating credit facility and (iii) a Change of Control (as defined in the Lock-Up Agreement), Mr. Allen and/or any such permitted affiliate shall not transfer or sell shares of new Charter Class B common stock received by such person under the Plan or convert shares of new Charter Class B common stock received by such person under the Plan into new Charter Class A common stock except to Mr. Allen and/or such permitted affiliates.

***Mr. Allen maintains a substantial voting interest in us and may have interests that conflict with the interests of the holders of our notes; Charter's principal stockholders, other than Mr. Allen, own a significant amount of Charter's common stock, giving them influence over corporate transactions and other matters.***

As of December 31, 2009, Mr. Allen beneficially owned approximately 40% of the voting power of the capital stock of Charter, and he has the right to elect four of Charter's eleven board members. Mr. Allen thus has the ability to influence fundamental corporate transactions requiring equity holder approval, including, but not limited to, the election of Charter's directors, approval of merger transactions involving Charter and the sale of all or substantially

all of Charter's assets. Charter's other principal stockholders have appointed members to Charter's board of directors in accordance with the Plan, including Messrs. Zinterhofer and Glatt, who are employees of Apollo Management, L.P., and Mr. Karsh, who was appointed by Oaktree Opportunities Investments, L.P. and is the president of Oaktree Capital Management, L.P. Funds affiliated with AP Charter Holdings, L.P. beneficially hold approximately 31% of the Class A common stock of Charter representing approximately 20% of the vote. Oaktree Opportunities Investments, L.P. and certain affiliated funds beneficially hold approximately 18% of the Class A common stock of Charter representing approximately 11% of the vote. Funds advised by Franklin Advisers, Inc. beneficially hold approximately 19% of the Class A common stock of Charter representing approximately 12% of the vote. Charter's principal stockholders may be able to exercise substantial influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate action, such as mergers and other business combination transactions should these stockholders retain a significant ownership interest in us.

Charter's principal stockholders are not restricted from investing in, and have invested in, and engaged in, other businesses involving or related to the operation of cable television systems, video programming, high-speed Internet service, telephone or business and financial transactions conducted through broadband interactivity and Internet services. The principal stockholders may also engage in other businesses that compete or may in the future compete with us.

The principal stockholders' substantial influence over our management and affairs could create conflicts of interest if any of them were faced with decisions that could have different implications for them and us.

### **Risks Related to Regulatory and Legislative Matters**

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

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

- rules governing the provision of cable equipment and compatibility with new digital technologies;
- rules and regulations relating to subscriber and employee privacy;
- limited rate regulation;
- rules governing the copyright royalties that must be paid for retransmitting broadcast signals;
- requirements governing when a cable system must carry a particular broadcast station and when it must first obtain consent to carry a broadcast station;
- requirements governing the provision of channel capacity to unaffiliated commercial leased access programmers;
- rules limiting our ability to enter into exclusive agreements with multiple dwelling unit complexes and control our inside wiring;
- rules, regulations, and regulatory policies relating to provision of voice communications and high-speed Internet service;
- rules for franchise renewals and transfers; and
- other requirements covering a variety of operational areas such as equal employment opportunity, technical standards, and customer service requirements.

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

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

Our cable systems generally operate pursuant to franchises, permits, and similar authorizations issued by a state or local governmental authority controlling the public rights-of-way. Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with significant provisions set

forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms and must be periodically renewed. Franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate. Franchise authorities often demand concessions or other commitments as a condition to renewal. In some instances, local franchises have not been renewed at expiration, and we have operated and are operating under either temporary operating agreements or without a franchise while negotiating renewal terms with the local franchising authorities.

The traditional cable franchising regime is currently undergoing significant change as a result of various federal and state actions. Some of the new state franchising laws do not allow us to immediately opt into statewide franchising until (i) we have completed the term of the local franchise, in good standing, (ii) a competitor has entered the market, or (iii) in limited instances, where the local franchise allows the state franchise license to apply. In many cases, state franchising laws, and their varying application to us and new video providers, will result in less franchise imposed requirements for our competitors who are new entrants than for us until we are able to opt into the applicable state franchise.

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

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

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

In a series of recent rulemakings, the FCC adopted new rules that streamline entry for new competitors (particularly those affiliated with telephone companies) and reduce franchising burdens for these new entrants. At the same time, a substantial number of states recently have adopted new franchising laws. Again, these new laws were principally designed to streamline entry for new competitors, and they often provide advantages for these new entrants that are not immediately available to existing operators. As a result of these new franchising laws and regulations, we have seen an increase in the number of competitive cable franchises or operating certificates being issued, and we anticipate that trend to continue.

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

In addition to the franchise agreement, cable authorities in some jurisdictions have adopted cable regulatory ordinances that further regulate the operation of cable systems. This additional regulation increases the cost of operating our business. Local franchising authorities may impose new and more restrictive requirements. Local franchising authorities who are certified to regulate rates in the communities where they operate generally have the power to reduce rates and order refunds on the rates charged for basic service and equipment.

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

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



There has been legislative and regulatory interest in requiring cable operators to offer historically combined programming services on an à la carte basis. It is possible that new marketing restrictions could be adopted in the future. Such restrictions could adversely affect our operations.

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

Pole attachments are cable wires that are attached to utility poles. Cable system attachments to public utility poles historically have been regulated at the federal or state level, generally resulting in favorable pole attachment rates for attachments used to provide cable service. The FCC previously determined that the lower cable rate was applicable to the mixed use of a pole attachment for the provision of both cable and Internet access services. However, in late 2007, the FCC issued a *Notice of Proposed Rulemaking* (“NPRM”), in which it “tentatively concludes” that this approach should be modified. The change could affect the pole attachment rates we pay when we offer either data or voice services over our broadband facility. Any changes in the FCC approach could result in a substantial increase in our pole attachment costs.

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

There has been continued advocacy by certain Internet content providers and consumer groups for new federal laws or regulations to adopt so-called “net neutrality” principles limiting the ability of broadband network owners (like us) to manage and control their own networks. In August 2005, the FCC issued a nonbinding policy statement identifying four principles to guide its policymaking regarding high-speed Internet and related services. These principles provide that consumers are entitled to: (i) access lawful Internet content of their choice; (ii) run applications and services of their choice, subject to the needs of law enforcement; (iii) connect their choice of legal devices that do not harm the network; and (iv) enjoy competition among network providers, application and service providers, and content providers. In August 2008, the FCC issued an order concerning one Internet network management practice in use by another cable operator, effectively treating the four principles as rules and ordering a change in network management practices. This decision is on appeal. In October 2009, the FCC released a NPRM seeking additional comment on draft rules to codify these principles and to consider further network neutrality requirements. This Rulemaking and additional proposals for new legislation could impose additional obligations on high-speed Internet providers. Any such rules or statutes could limit our ability to manage our cable systems (including use for other services), to obtain value for use of our cable systems and respond to competitive competitions.

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

Cable operators also face significant regulation of their channel carriage. We can be required to devote substantial capacity to the carriage of programming that we might not carry voluntarily, including certain local broadcast signals; local public, educational and government access (“PEG”) programming; and unaffiliated, commercial leased access programming (required channel capacity for use by persons unaffiliated with the cable operator who desire to distribute programming over a cable system). The FCC adopted a plan in 2007 addressing the cable industry’s broadcast carriage obligations once the broadcast industry migration from analog to digital transmission is completed, which occurred in June 2009. Under the FCC’s plan, most cable systems are required to offer both an analog and digital version of local broadcast signals for three years after the June 12, 2009 digital transition date. This burden could increase further if we are required to carry multiple programming streams included within a single digital broadcast transmission (multicast carriage) or if our broadcast carriage obligations are otherwise expanded. The FCC also adopted new commercial leased access rules which dramatically reduce the rate we can charge for leasing this capacity and dramatically increase our associated administrative burdens. These regulatory changes could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity, and limit our ability to offer services that would maximize our revenue potential. It is possible that other legal restraints will be adopted limiting our discretion over programming decisions.

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

We offer voice communications services over our broadband network and continue to develop and deploy voice over Internet protocol (“VoIP”) services. The FCC has declared that certain VoIP services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of state and local regulation of VoIP services is not yet clear. Expanding our offering of these services may require us to obtain certain authorizations, including federal and state licenses. We may not be able to obtain such authorizations in a timely

manner, or conditions could be imposed upon such licenses or authorizations that may not be favorable to us. The FCC has extended certain traditional telecommunications requirements, such as E911, Universal Service fund collection, CALEA, Customer Proprietary Network Information and telephone relay requirements to many VoIP providers such as us. Telecommunications companies generally are subject to other significant regulation which could also be extended to VoIP providers. If additional telecommunications regulations are applied to our VoIP service, it could cause us to incur additional costs.

## **Item 2. *Properties.***

Our principal physical assets consist of cable distribution plant and equipment, including signal receiving, encoding and decoding devices, headend reception facilities, distribution systems, and customer premise equipment for each of our cable systems.

Our cable plant and related equipment are generally attached to utility poles under pole rental agreements with local public utilities and telephone companies, and in certain locations are buried in underground ducts or trenches. We own or lease real property for signal reception sites, and own most of our service vehicles.

Our subsidiaries generally lease space for business offices throughout our operating divisions. Our headend and tower locations are located on owned or leased parcels of land, and we generally own the towers on which our equipment is located. Charter Holdco owns the land and building for our principal executive office.

The physical components of our cable systems require maintenance as well as periodic upgrades to support the new services and products we introduce. We believe that our properties are generally in good operating condition and are suitable for our business operations.

## **Item 3. *Legal Proceedings.***

### *Patent Litigation*

*Ronald A. Katz Technology Licensing, L.P. v. Charter Communications, Inc. et. al.* On September 5, 2006, Ronald A. Katz Technology Licensing, L.P. served a lawsuit on Charter and a group of other companies in the U. S. District Court for the District of Delaware alleging that Charter and the other defendants have infringed its interactive telephone patents. Charter denied the allegations raised in the complaint. On March 20, 2007, the Judicial Panel on Multi-District Litigation transferred this case, along with 24 others, to the U.S. District Court for the Central District of California for coordinated and consolidated pretrial proceedings. Charter is vigorously contesting this matter.

*Rembrandt Patent Litigation.* On June 6, 2006, Rembrandt Technologies, LP sued Charter and several other cable companies in the U.S. District Court for the Eastern District of Texas, alleging that each defendant's high-speed data service infringes three patents owned by Rembrandt and that Charter's receipt and retransmission of ATSC digital terrestrial broadcast signals infringes a fourth patent owned by Rembrandt (*Rembrandt I*). On November 30, 2006, Rembrandt Technologies, LP again filed suit against Charter and another cable company in the U.S. District Court for the Eastern District of Texas, alleging patent infringement of an additional five patents allegedly related to high-speed Internet over cable (*Rembrandt II*). Charter has denied all of Rembrandt's allegations. On June 18, 2007, the *Rembrandt I* and *Rembrandt II* cases were combined in a multi-district litigation proceeding in the U.S. District Court for the District of Delaware. On November 21, 2007, certain vendors of the equipment that is the subject of *Rembrandt I* and *Rembrandt II* cases filed an action against Rembrandt in U.S. District Court for the District of Delaware seeking a declaration of non-infringement and invalidity on all but one of the patents at issue in those cases. On January 16, 2008 Rembrandt filed an answer in that case and a third party counterclaim against Charter and the other MSOs for infringement of all but one of the patents already at issue in *Rembrandt I* and *Rembrandt II* cases. On February 7, 2008, Charter filed an answer to Rembrandt's counterclaims and added a counter-counterclaim against Rembrandt for a declaration of non-infringement on the remaining patent. On October 28, 2009, Rembrandt filed a Supplemental Covenant Not to Sue promising not to sue Charter and the other defendants on eight of the contested patents. One patent remains in litigation, and Charter is vigorously contesting Rembrandt's claims regarding it.

*Verizon Patent Litigation.* On February 5, 2008, four Verizon entities sued Charter and two other Charter subsidiaries in the U.S. District Court for the Eastern District of Texas, alleging that the provision of telephone service by Charter infringes eight patents owned by the Verizon entities (*Verizon I*). On December 31, 2008, forty-four Charter entities filed a complaint in the U.S. District Court for the Eastern District of Virginia alleging that Verizon and two of its subsidiaries infringe four patents related to television transmission technology (*Verizon II*).

On February 6, 2009, Verizon responded to the complaint by denying Charter's allegations, asserting counterclaims for non-infringement and invalidity of Charter's patents and asserting counterclaims against Charter for infringement of eight patents. On January 15, 2009, Charter filed a complaint in the U.S. District Court for the Southern District of New York seeking a declaration of non-infringement on two patents owned by Verizon (*Verizon III*). On March 1, 2010, Charter and Verizon settled Verizon I, Verizon II, and Verizon III, and both parties withdrew their respective claims.

We and our parent companies are also defendants or co-defendants in several other unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. Other industry participants are also defendants in certain of these cases, and, in many cases including those described above, we expect that any potential liability would be the responsibility of our equipment vendors pursuant to applicable contractual indemnification provisions.

In the event that a court ultimately determines that we or our parent companies infringe on any intellectual property rights, we may be subject to substantial damages and/or an injunction that could require us or our vendors to modify certain products and services we offer to our subscribers, as well as negotiate royalty or license agreements with respect to the patents at issue. While we believe the lawsuits are without merit and intend to defend the actions vigorously, all of these patent lawsuits could be material to our consolidated results of operations of any one period, and no assurance can be given that any adverse outcome would not be material to our consolidated financial condition, results of operations, or liquidity.

#### Employment Litigation

On August 28, 2008, a lawsuit was filed against Charter and Charter Communications, LLC ("Charter LLC") in the United States District Court for the Western District of Wisconsin (now entitled, *Marc Goodell et al. v. Charter Communications, LLC and Charter Communications, Inc.*). The plaintiffs seek to represent a class of current and former broadband, system and other types of technicians who are or were employed by Charter or Charter LLC in the states of Michigan, Minnesota, Missouri or California. Plaintiffs allege that Charter and Charter LLC violated certain wage and hour statutes of those four states by failing to pay technicians for all hours worked. Although Charter and Charter LLC continue to deny all liability and believe that they have substantial defenses, on March 16, 2010, the parties tentatively settled this dispute subject to court approval. We have been subjected, in the normal course of business, to the assertion of other wage and hour claims and could be subjected to additional such claims in the future. We cannot predict the outcome of any such claims.

#### Bankruptcy Proceedings

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

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

Six appeals were filed relating to confirmation of the Plan. The parties initially pursuing appeals were: (i) JPMorgan; (ii) Wilmington Trust Company ("Wilmington Trust") (as indenture trustee for the holders of the 8% Senior Second Lien Notes due 2012 and 8.375% senior second lien notes due 2014 issued by and among Charter Operating and Charter Communications Operating Capital Corp. and the 10.875% senior second lien notes due 2014 issued by and among Charter Operating and Charter Communications Operating Capital Corp.); (iii) Wells Fargo Bank, N.A. ("Wells Fargo") (in its capacities as successor Administrative Agent and successor Collateral Agent for the third lien prepetition secured lenders to CCO Holdings under the CCO Holdings credit facility); (iv) Law Debenture Trust Company of New York ("Law Debenture Trust") (as the Trustee with respect to the \$479 million in aggregate principal amount of 6.50% convertible senior notes due 2027 issued by Charter which are no longer

outstanding following consummation of the Plan); (v) R2 Investments, LDC (“R2 Investments”) (an equity interest holder in Charter); and (vi) certain plaintiffs representing a putative class in a securities action against three Charter officers or directors filed in the United States District Court for the Eastern District of Arkansas (Iron Workers Local No. 25 Pension Fund, Indiana Laborers Pension Fund, and Iron Workers District Council of Western New York and Vicinity Pension Fund, in the action styled *Iron Workers Local No. 25 Pension Fund v. Allen, et al.*, Case No. 4:09-cv-00405-JLH (E.D. Ark.)).

Charter Operating is in the process of amending its senior secured credit facilities which it expects to close by March 31, 2010 and upon the closing of these amendments, each of Bank of America, N.A. and JPMorgan, for itself and on behalf of the lenders under the Charter Operating senior secured credit facilities, has agreed to dismiss the pending appeal of our Confirmation Order pending before the District Court for the Southern District of New York and to waive any objections to our Confirmation Order issued by the United States Bankruptcy Court for the Southern District of New York. On December 3, 2009, Wilmington Trust withdrew its notice of appeal. On March 26, 2010, we were informed by counsel for Wells Fargo that Wells Fargo intends to dismiss its appeal on behalf of the lenders under the CCO Holdings credit facility. Law Debenture Trust and R2 Investments have filed their appeal briefs. The schedule for the securities plaintiffs to file their appeal briefs has not yet been established. We cannot predict the ultimate outcome of the appeals.

#### Other Proceedings

In March 2009, Gerald Paul Bodet, Jr. filed a putative class action against Charter and Charter Holdco (*Gerald Paul Bodet, Jr. v. Charter Communications, Inc. and Charter Communications Holding Company, LLC*) in the U.S. District Court for the Eastern District of Louisiana. In January 2010, plaintiff filed a Second Amended Complaint which also named Charter Communications, LLC as a defendant. In the Second Amended Complaint, plaintiff alleges that the defendants violated the Sherman Act, the Communications Act of 1934, and the Louisiana Unfair Trade Practices Act by forcing subscribers to rent a set top box in order to subscribe to cable video services which are not available to subscribers by simply plugging a cable into a cable-ready television. Defendants’ response to the Second Amended Complaint is currently due on April 2, 2010. In June 2009, Derrick Lebryk and Nichols Gladson filed a putative class action against Charter, Charter Communications Holding Company, LLC, CCHC, LLC and Charter Communications Holding, LLC (*Derrick Lebryk and Nicholas Gladson v. Charter Communications, Inc., Charter Communications Holding Company, LLC, CCHC, LLC and Charter Communications Holding, LLC*) in the U.S. District Court for the Southern District of Illinois. The plaintiffs allege that the defendants violated the Sherman Act based on similar allegations as those alleged in *Bodet v. Charter, et al.* We understand similar claims have been made against other MSOs. The Charter defendants deny any liability and plan to vigorously contest these cases.

We are also aware of three suits filed by holders of securities issued by us or our subsidiaries. *Key Colony Fund, LP. v. Charter Communications, Inc. and Paul W. Allen* (sic), was filed in February 2009 in the Circuit Court of Pulaski County, Arkansas and asserts violations of the Arkansas Deceptive Trade Practices Act and fraud claims. Key Colony alleges that it purchased certain senior notes based on representations of Charter and agents and representatives of Paul Allen as part of a scheme to defraud certain Charter noteholders. *Clifford James Smith v. Charter Communications, Inc. and Paul Allen*, was filed in May 2009 in the United States District Court for the Central District of California. Mr. Smith alleges that he purchased Charter common stock based on statements by Charter and Mr. Allen and that Charter’s bankruptcy filing was not necessary. The defendants’ response to the Complaint was given in February 2010. *Herb Lair, Iron Workers Local No. 25 Pension Fund et al. v. Neil Smit, Eloise Schmitz, and Paul G. Allen* (“*Iron Workers Local No. 25*”), was filed in the United States District Court for the Eastern District of Arkansas on June 1, 2009. Mr. Smit was the Chief Executive Officer and Ms. Schmitz is the Chief Financial Officer of Charter. The plaintiffs, who seek to represent a class of plaintiffs who acquired Charter stock between October 23, 2006 and February 12, 2009, allege that they and others similarly situated were misled by statements by Ms. Schmitz, Mr. Smit, Mr. Allen and/or in Charter SEC filings. The plaintiffs assert violations of the Securities Exchange Act of 1934. In February 2010, the United States Bankruptcy Court for the Southern District of New York held that these plaintiffs’ causes of action were released by the Third Party Release and Injunction under Charter’s Plan of Reorganization. Charter denies the allegations made by the plaintiffs in these matters, believes all of the claims asserted in these cases were released through the Plan and intends to seek dismissal of these cases and otherwise vigorously contest these cases.

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

could have in the aggregate a material adverse effect on our consolidated financial condition, results of operations, or liquidity. Whether or not we ultimately prevail in any particular lawsuit or claim, litigation can be time consuming and costly and injure our reputation.

## PART II

### Item 5. *Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

#### (A) Market Information

Our membership interests are not publicly traded.

#### (B) Holders

All of the membership interests of CCH II are owned by CCH I and indirectly by Charter. All of the outstanding capital stock of CCH II Capital Corp. is owned by CCH II.

#### (C) Dividends

None.

#### (D) Securities Authorized for Issuance Under Equity Compensation Plans

All shares issued or granted by Charter and not yet vested were cancelled on November 30, 2009 along with the 2001 Stock Incentive Plan. The 2009 Stock Incentive Plan was adopted by Charter's board of directors.

The following information is provided as of December 31, 2009 with respect to equity compensation plans of Charter:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans approved by security holders	--	\$ --	--
Equity compensation plans not approved by security holders	<u>          -- (1)</u>	\$ --	<u>          5,776,560 (1)</u>
<b>TOTAL</b>	<u>          -- (1)</u>	\$ --	<u>          5,776,560 (1)</u>

(1) This total does not include 1,920,226 shares issued pursuant to restricted stock grants made under Charter's 2009 Stock Incentive Plan, which are subject to vesting based on continued employment.

For information regarding securities issued under Charter's equity compensation plans, see Note 18 to our accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Reference is made to "Part I. Item 1A. Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements," which describe important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto of CCH II and subsidiaries included in "Item 8. Financial Statements and Supplementary Data."

### **Emergence from Reorganization Proceedings and Related Events**

On March 27, 2009, the Debtors filed voluntary petitions in the Bankruptcy Court seeking relief under the Bankruptcy Code. On November 17, 2009, the Bankruptcy Court entered the Confirmation Order confirming our Plan and, on the Effective Date, the Plan was consummated and we emerged from bankruptcy.

Upon our emergence from bankruptcy, we adopted fresh start accounting. In accordance with accounting principles generally accepted in the United States ("GAAP"), the accompanying consolidated statements of operations and cash flows contained in "Item 8. Financial Statements and Supplementary Data" present the results of operations and the sources and uses of cash for (i) the eleven months ended November 30, 2009 of the Predecessor and (ii) the one month ended December 31, 2009 of the Successor. However, for purposes of management's discussion and analysis of the results of operations and the sources and uses of cash in this Annual Report, we have combined the current year results of operations for the Predecessor and the Successor. The results of operations of the Predecessor and Successor are not comparable due to the change in basis resulting from the emergence from bankruptcy. This combined presentation is being made solely to explain the changes in results of operations for the periods presented in the financial statements. We also compare the combined results of operations and the sources and uses of cash for the twelve months ended December 31, 2009 with the corresponding period in the prior years.

We believe the combined results of operations for the twelve months ended December 31, 2009 provide management and investors with a more meaningful perspective on our ongoing financial and operational performance and trends than if we did not combine the results of operations of the Predecessor and the Successor in this manner.

### **Overview**

We are a broadband communications company operating in the United States with approximately 5.3 million customers at December 31, 2009. We offer our customers traditional cable video programming (basic and digital, which we refer to as "video" service), high-speed Internet access, and telephone services, as well as advanced broadband services (such as OnDemand, high definition television service and DVR).

Approximately 88% and 86% of our revenues for the years ended December 31, 2009 and 2008, respectively, are attributable to monthly subscription fees charged to customers for our video, high-speed Internet, telephone, and commercial services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 12% and 14% of revenue for fiscal years 2009 and 2008, respectively, is derived primarily from advertising revenues, franchise fee revenues (which are collected by us but then paid to local franchising authorities), pay-per-view and OnDemand programming, installation or reconnection fees charged to customers to commence or reinstate service, and commissions related to the sale of merchandise by home shopping services.

We believe that the weakened economic conditions in the United States, including a continued downturn in the housing market over the past year and increases in unemployment, and continued competition have adversely affected consumer demand for our services, especially premium services, and have contributed to an increase in the number of homes that replace their traditional telephone service with wireless service thereby impacting the growth of our telephone business and also had a negative impact on our advertising revenue. These conditions have affected our net customer additions and revenue growth during 2009. If these conditions do not improve, we believe the growth of our business and results of operations will be further adversely affected which may contribute to future impairments of our franchises and goodwill.

Our most significant competitors are DBS providers and certain telephone companies that offer services that provide features and functions similar to our video, high-speed Internet, and telephone services, including in some cases wireless services and they also offer these services in bundles similar to ours. In the recent past, we have grown revenues by offsetting video customer losses with price increases and sales of incremental services such as high-

speed Internet, OnDemand, DVR, high definition television, and telephone. We expect to continue to grow revenues in this manner and in addition, we expect to increase revenues by expanding the sales of our services to our commercial customers. However, we do not expect that we will be able to grow revenues at recent historical rates.

Our expenses primarily consist of operating costs, selling, general and administrative expenses, depreciation and amortization expense, impairment of franchise intangibles and interest expense. Operating costs primarily include programming costs, the cost of our workforce, cable service related expenses, advertising sales costs and franchise fees. Selling, general and administrative expenses primarily include salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense, and property taxes. We control our costs of operations by maintaining strict controls on expenditures. More specifically, we are focused on managing our cost structure by improving workforce productivity, and leveraging our scale, and increasing the effectiveness of our purchasing activities.

For the years ended December 31, 2009, 2008 and 2007, adjusted earnings (loss) before interest expense, income taxes, depreciation and amortization (“Adjusted EBITDA”) was \$2.5 billion, \$2.3 billion and \$2.1 billion, respectively. See “—Use of Adjusted EBITDA” for further information on Adjusted EBITDA. The increase in Adjusted EBITDA is principally due to increased sales of our bundled services and improved cost efficiencies. For the years ended December 31, 2009 and 2008, our loss from operations was \$979 million and \$614 million, respectively. The increase in the loss from operations for the year ended December 31, 2009 as compared to the year ended December 31, 2008 is a result of the increase in the impairment of franchises from \$1.5 billion in 2008 to \$2.2 billion in 2009 offset by increases in Adjusted EBITDA as discussed above and favorable litigation settlements in 2009. Income from operations was \$548 million for the year ended December 31, 2007 which was not as significantly impacted by impairment of franchises.

We have a history of net losses. 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, impairment of franchises and depreciation expenses resulting from the capital investments we have made and continue to make in our cable properties.

Beginning in 2004 and continuing through 2009, we sold several cable systems to divest geographically non-strategic assets and allow for more efficient operations, while also reducing debt and increasing our liquidity. In 2007, 2008, and 2009, we closed the sale of certain cable systems representing a total of approximately 85,100, 14,100, and 13,200 video customers, respectively. As a result of these sales we have improved our geographic footprint by reducing our number of headends, increasing the number of customers per headend, and reducing the number of states in which the majority of our customers reside. We also made certain geographically strategic acquisitions in 2007 and 2009, adding 25,500 and 1,900 video customers, respectively.

### **Critical Accounting Policies and Estimates**

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

- Property, plant and equipment
  - Capitalization of labor and overhead costs
  - Impairment
  - Valuation for fresh start accounting
  - Useful lives of property, plant and equipment
- Intangible assets
  - Impairment of franchises
  - Valuation for fresh start accounting
  - Sensitivity
- Income Taxes
- Litigation



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

### ***Property, plant and equipment***

The cable industry is capital intensive, and a large portion of our resources are spent on capital activities associated with extending, rebuilding, and upgrading our cable network. As of December 31, 2009 and 2008, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$6.8 billion (representing 42% of total assets) and \$5.0 billion (representing 36% of total assets), respectively. Total capital expenditures for the years ended December 31, 2009, 2008, and 2007 were approximately \$1.1 billion, \$1.2 billion, and \$1.2 billion, respectively. Effective December 1, 2009, we applied fresh start accounting, which requires assets and liabilities to be reflected at fair value. Upon application of fresh start accounting, we adjusted our property, plant and equipment to reflect fair value. These fresh start adjustments resulted in a \$2.0 billion increase to total property, plant and equipment.

***Capitalization of labor and overhead costs.*** Costs associated with network construction, initial customer installations (including initial installations of new or additional advanced services), installation refurbishments, and the addition of network equipment necessary to provide new or advanced services, are capitalized. While our capitalization is based on specific activities, once capitalized, we track these costs by fixed asset category at the cable system level, and not on a specific asset basis. For assets that are sold or retired, we remove the estimated applicable cost and accumulated depreciation. Costs capitalized as part of initial customer installations include materials, direct labor, and certain indirect costs. These indirect costs are associated with the activities of personnel who assist in connecting and activating the new service, and consist of compensation and overhead costs associated with these support functions. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. As our service offerings mature and our reconnect activity increases, our capitalizable installations will continue to decrease and therefore our service expenses will increase. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement, including replacement of certain components, and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

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

Labor costs directly associated with capital projects are capitalized. Capitalizable activities performed in connection with customer installations include such activities as:

- Dispatching a "truck roll" to the customer's dwelling for service connection;
- Verification of serviceability to the customer's dwelling (i.e., determining whether the customer's dwelling is capable of receiving service by our cable network and/or receiving advanced or Internet services);
- Customer premise activities performed by in-house field technicians and third-party contractors in connection with customer installations, installation of network equipment in connection with the installation of expanded services, and equipment replacement and betterment; and
- Verifying the integrity of the customer's network connection by initiating test signals downstream from the headend to the customer's digital set-top box.

Judgment is required to determine the extent to which overhead costs incurred result from specific capital activities, and therefore should be capitalized. The primary costs that are included in the determination of the overhead rate are (i) employee benefits and payroll taxes associated with capitalized direct labor, (ii) direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, (iii) the cost of support personnel, such as dispatchers, who directly assist with capitalizable installation activities, and (iv) indirect costs directly attributable to capitalizable activities.

While we believe our existing capitalization policies are appropriate, a significant change in the nature or extent of our system activities could affect management's judgment about the extent to which we should capitalize direct labor or overhead in the future. We monitor the appropriateness of our capitalization policies, and perform updates to our internal studies on an ongoing basis to determine whether facts or circumstances warrant a change to our capitalization policies. We capitalized internal direct labor and overhead of \$199 million, \$199 million, and \$194 million, respectively, for the years ended December 31, 2009, 2008, and 2007.

**Impairment.** We evaluate the recoverability of our property, plant and equipment upon the occurrence of events or changes in circumstances indicating that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as the impairment of our indefinite-life franchises, changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions, or a deterioration of current or expected future operating results. A long-lived asset is deemed impaired when the carrying amount of the asset exceeds the projected undiscounted future cash flows associated with the asset. No impairments of long-lived assets to be held and used were recorded in the years ended December 31, 2009, 2008 and 2007. However, approximately \$56 million of impairment on assets held for sale were recorded for the year ended December 31, 2007.

**Fresh start accounting.** As discussed above, effective December 1, 2009, we applied fresh start accounting resulting in an approximately \$2.0 billion increase to total property, plant and equipment. The cost approach was the primary method used to establish fair value for our property, plant and equipment in connection with the application of fresh start accounting. The cost approach considers the amount required to replace an asset by constructing or purchasing a new asset with similar utility, then adjusts the value in consideration of all forms of depreciation as of the appraisal date as follows.

- Physical depreciation — the loss in value or usefulness attributable solely to use of the asset and physical causes such as wear and tear and exposure to the elements.
- Functional obsolescence — a loss in value is due to factors inherent in the asset itself and due to changes in technology, design or process resulting in inadequacy, overcapacity, lack of functional utility or excess operating costs.
- Economic obsolescence — loss in value by unfavorable external conditions such as economics of the industry or geographic area, or change in ordinances.

The cost approach relies on management's assumptions regarding current material and labor costs required to rebuild and repurchase significant components of our property, plant and equipment along with assumptions regarding the age and estimated useful lives of our property, plant and equipment. For illustrative purposes only, the impact of a one-year change in our estimated remaining useful life (holding all other assumptions unchanged) to the fair value of our property, plant and equipment would be approximately \$800 million.

**Useful lives of property, plant and equipment.** We evaluate the appropriateness of estimated useful lives assigned to our property, plant and equipment, based on annual analyses of such useful lives, and revise such lives to the extent warranted by changing facts and circumstances. Any changes in estimated useful lives as a result of these analyses are reflected prospectively beginning in the period in which the study is completed. In connection with the application of fresh start accounting as of December 1, 2009, management made assumptions regarding remaining useful lives of our existing property, plant and equipment and evaluated the appropriateness of useful lives to be applied to future additions of property, plant and equipment. The effect of a one-year decrease in the weighted average remaining useful life of our property, plant and equipment as of December 31, 2009 would be an increase in annual depreciation expense of approximately \$196 million. The effect of a one-year increase in the weighted average remaining useful life of our property, plant and equipment as of December 31, 2009 would be a decrease in annual depreciation expense of approximately \$222 million.

Depreciation expense related to property, plant and equipment totaled \$1.3 billion for each of the years ended December 31, 2009, 2008, and 2007, representing approximately 17%, 18%, and 24% of costs and expenses, respectively. Depreciation is recorded using the straight-line composite method over management's estimate of the useful lives of the related assets as listed below:

Cable distribution systems.....	7-20 years
Customer equipment and installations.....	4-8 years
Vehicles and equipment.....	1-6 years
Buildings and leasehold improvements.....	15-40 years
Furniture, fixtures and equipment.....	6-10 years

### ***Intangible assets***

We have recorded a significant amount of cost related to franchises, pursuant to which we are granted the right to operate our cable distribution network throughout our service areas. The net carrying value of franchises as of December 31, 2009 and 2008 was approximately \$5.3 billion (representing 32% of total assets) and \$7.4 billion (representing 54% of total assets), respectively. Effective December 1, 2009, we applied fresh start accounting and as such adjusted our franchises, customer relationships and goodwill to reflect fair value and also established any previously unrecorded intangible assets at their fair values. As such, the value of customer relationships and goodwill increased to \$2.3 billion (representing 14% of total assets) and \$951 million (representing 6% of total assets) at December 31, 2009, respectively. The net carrying amount of customer relationships and goodwill was \$9 million and \$68 million, respectively, as of December 31, 2008.

***Impairment of franchises.*** Franchise intangible assets that meet specified indefinite-life criteria must be tested for impairment annually, or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite-life, we considered the likelihood of franchise renewals, the expected costs of franchise renewals, and the technological state of the associated cable systems, with a view to whether or not we are in compliance with any technology upgrading requirements specified in a franchise agreement. We have concluded that as of December 31, 2009 and 2008 substantially all of our franchises qualify for indefinite-life treatment.

Costs associated with franchise renewals are amortized on a straight-line basis over 10 years, which represents management's best estimate of the average term of the franchises. Franchise amortization expense for the years ended December 31, 2009, 2008 and 2007 was approximately \$2 million, \$2 million, and \$3 million, respectively. Other intangible assets amortization expense, including customer relationships, for the years ended December 31, 2009, 2008 and 2007 was approximately \$34 million, \$5 million, and \$4 million, respectively.

Franchise rights represent the value attributed to agreements or authorizations with local and state authorities that allow access to homes in cable service areas. Franchises are tested for impairment annually, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable units of accounting to conduct the valuations. The units of accounting generally represent geographical clustering of our cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

As a result of the continued economic pressure on our customers from the recent economic downturn along with increased competition, we determined that our projected future growth would be lower than previously anticipated in our annual impairment testing in December 2008. Accordingly, we determined that sufficient indicators existed to require us to perform an interim franchise impairment analysis as of September 30, 2009. As of the date of the filing of Charter's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, we determined that an impairment of franchises was probable and could be reasonably estimated. Accordingly, for the quarter ended September 30, 2009, we recorded a preliminary non-cash franchise impairment charge of \$2.9 billion which represented our best estimate of the impairment of our franchise assets. We finalized our franchise impairment analysis during the quarter ended December 31, 2009, and recorded a reduction of the non-cash franchise impairment charge of \$691 million.

We recorded non-cash franchise impairment charges of \$1.5 billion and \$178 million for the years ended December 31, 2008 and 2007, respectively. The impairment charge recorded in 2008 was primarily the result of the impact of the economic downturn along with increased competition while the impairment charge recorded in 2007 was primarily the result of an increase in competition.

**Fresh start accounting.** On the Effective Date, we applied fresh start accounting and adjusted our franchise, goodwill, and other intangible assets including customer relationships to reflect fair value. Our valuations, which are based on the present value of projected after tax cash flows, resulted in a value for property, plant and equipment, franchises and customer relationships for each unit of accounting. As a result of applying fresh start accounting, we recorded goodwill of \$951 million which represents the excess of reorganization value over amounts assigned to the other assets. For more information, see Note 2 to the accompanying consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

We determined the estimated fair value of each unit of accounting utilizing an income approach model based on the present value of the estimated discrete future cash flows attributable to each of the intangible assets identified for each unit assuming a discount rate. This approach makes use of unobservable factors such as projected revenues, expenses, capital expenditures, and a discount rate applied to the estimated cash flows. The determination of the discount rate was based on a weighted average cost of capital approach, which uses a market participant’s cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows.

We estimated discounted future cash flows using reasonable and appropriate assumptions including among others, penetration rates for basic and digital video, high-speed Internet, and telephone; revenue growth rates; operating margins; and capital expenditures. The assumptions are derived based on Charter’s and its peers’ historical operating performance adjusted for current and expected competitive and economic factors surrounding the cable industry. The estimates and assumptions made in our valuations are inherently subject to significant uncertainties, many of which are beyond our control, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would significantly affect the measurement value include the assumptions regarding revenue growth, programming expense growth rates, the amount and timing of capital expenditures and the discount rate utilized. The assumptions used are consistent with current internal forecasts, some of which differ from the assumptions used for the annual impairment testing in December 2008 as a result of the economic and competitive environment discussed previously. The change in assumptions reflects the lower than anticipated growth in revenues experienced during 2009 and the expected reduction of future cash flows as compared to those used in the December 2008 valuations.

Franchises, for valuation purposes, are defined as the future economic benefits of the right to solicit and service potential customers (customer marketing rights), and the right to deploy and market new services, such as interactivity and telephone, to potential customers (service marketing rights). Fair value is determined based on estimated discrete discounted future cash flows using assumptions consistent with internal forecasts. The franchise after-tax cash flow is calculated as the after-tax cash flow generated by the potential customers obtained (less the anticipated customer churn), and the new services added to those customers in future periods. The sum of the present value of the franchises’ after-tax cash flow in years 1 through 10 and the continuing value of the after-tax cash flow beyond year 10 yields the fair value of the franchises. Franchises increased \$62 million as a result of the application of fresh start accounting. Subsequent to finalization of the franchise impairment charge and fresh start accounting, franchises are recorded at fair value of \$5.3 billion. Franchises are expected to generate cash flows indefinitely and as such will continue to be tested for impairment annually.

Customer relationships, for valuation purposes, represent the value of the business relationship with existing customers (less the anticipated customer churn), and are calculated by projecting the discrete future after-tax cash flows from these customers, including the right to deploy and market additional services to these customers. The present value of these after-tax cash flows yields the fair value of the customer relationships. We recorded \$2.4 billion of customer relationships in connection with the application of fresh start accounting on the Effective Date. Customer relationships will be amortized on an accelerated method over useful lives of 11-15 years based on the period over which current customers are expected to generate cash flows.

**Sensitivity.** As a result of the impairment of franchises taken in 2009 and the application of fresh start accounting, the carrying values of franchises and other intangible assets were re-set to their estimated fair values as of November 30, 2009. Consequently, any decline in the estimated fair values of intangible assets would result in additional impairments. It is possible that such impairments, if required, could be material and may need to be recorded prior to the fourth quarter of 2010 (i.e., during an interim period) if our results of operations or other factors require such assets to be tested for impairment at an interim date. Management has no reason to believe that any one unit of accounting is more likely than any other to incur further impairments of its intangible assets.

While economic conditions applicable at the time of the valuations indicate the combination of assumptions utilized in the valuations are reasonable, as market conditions change so will the assumptions, with a resulting impact on the valuations and consequently the fair value of intangible assets. For illustrative purposes only, had we used a

discount rate in assessing the fair value of our intangible assets at November 30, 2009 that was 1% higher across all units of accounting (holding all other assumptions unchanged) the fair value of our franchises and customer relationships would have decreased by approximately \$1.1 billion and \$280 million, respectively. Had we used a discount rate that was 1% lower, the fair value of our franchises and customer relationships would have increased by approximately \$1.5 billion and \$321 million, respectively.

### *Income Taxes*

All operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are generally limited liability companies that are not subject to income tax. However, certain of these limited liability companies are subject to state income tax. In addition, the subsidiaries that are corporations are subject to federal and state income tax. All of the remaining taxable income, gains, losses, deductions and credits of Charter Holdco pass through to its members.

The LLC agreement that governed Charter Holdco prior to its emergence from bankruptcy contained special loss and income allocation provisions. Pursuant to the operation of these provisions and applicable U.S. federal income tax law, the cumulative amount of losses of Charter Holdco allocated to Vulcan Cable III, Inc., an entity owned by Mr. Allen and subsequently merged into CII, and CII was in excess of the amount that would have been allocated to such entities if the losses of Charter Holdco had been allocated among its members in proportion to their respective percentage ownership of Charter Holdco common membership units.

Effective with Charter's emergence from bankruptcy on November 30, 2009, Charter Holdco's LLC Agreement was amended such that section 704(b) book income and loss are to be allocated among the members of Charter Holdco such that the members' capital accounts are adjusted as nearly as possible to reflect the amount that each member would have received if Charter Holdco were liquidated at section 704(b) book values. The allocation of taxable income and loss should follow the section 704(b) book allocations and generally reflect the member's respective percentage ownership of Charter Holdco common membership interests, except to the extent of certain required allocations pursuant to section 704(c) of the Internal Revenue Code.

In connection with the Plan, Charter, CII, Mr. Allen and Charter Holdco entered into an exchange agreement (the "Exchange Agreement"), pursuant to which CII had the right to require Charter to (i) exchange all or a portion of CII's membership interest in Charter Holdco or 100% of CII for \$1,000 in cash and shares of Charter's Class A common stock in a taxable transaction, or (ii) merge CII with and into Charter, or a wholly-owned subsidiary of Charter, in a tax-free transaction (or undertake a tax-free transaction similar to the taxable transaction in subclause (i)), subject to CII meeting certain conditions. In addition, Charter had the right, under certain circumstances involving a change of control of Charter to require CII to effect an exchange transaction of the type elected by CII from subclauses (i) or (ii) above, which election is subject to certain limitations.

On December 28, 2009, CII exercised its right, under the Exchange Agreement with Charter, to exchange 81% of its common membership interest in Charter Holdco for \$1,000 in cash and 907,698 shares of Charter's Class A common stock in a fully taxable transaction. Charter's deferred tax liability increased by \$100 million as a result of the transaction. Charter also received a step-up in tax basis in Charter Holdco's assets, under section 743 of the Code, relative to the interest in Charter Holdco it acquired from CII. Based upon the taxable exchange which occurred on December 28, 2009, CII fulfilled the conditions necessary to allow it to elect a tax-free transaction at any time during the remaining term of the Exchange Agreement. On February 8, 2010, the remaining interest was exchanged after which Charter Holdco became 100% owned by Charter and ownership of CII was transferred to Charter. As a result, in the first quarter of 2010, Charter's deferred tax liabilities will be increased relative to the taxable gain inherent in CII's previous .19% Charter Holdco interest.

As of December 31, 2009, Charter had approximately \$6.3 billion of federal tax net operating losses, resulting in a gross deferred tax asset of approximately \$2.2 billion, expiring in the years 2014 through 2028. These losses arose from the operation of Charter Holdco and its subsidiaries. In addition, as of December 31, 2009, Charter had state tax net operating losses, resulting in a gross deferred tax asset (net of federal tax benefit) of approximately \$209 million, generally expiring in years 2010 through 2028. Due to uncertainties in projected future taxable income, valuation allowances have been established against the gross deferred tax assets for book accounting purposes, except for deferred benefits available to offset certain deferred tax liabilities. Such tax net operating losses can accumulate and be used to offset Charter's future taxable income. The consummation of the Plan generated an "ownership change" as defined in Section 382 of the Code. As a result, Charter is subject to an annual limitation on the use of its net operating losses. Further, Charter's net operating loss carryforwards have been reduced by the amount of the cancellation of debt income resulting from the Plan that was allocable to Charter. The limitation on

Charter's ability to use its net operating losses, in conjunction with the net operating loss expiration provisions, could reduce its ability to use a portion of Charter's net operating losses to offset future taxable income which could result in Charter being required to make material cash tax payments. Charter's ability to make such income tax payments, if any, will depend at such time on its liquidity or its ability to raise additional capital, and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries, including us.

As of December 31, 2009 and 2008, CCH II has recorded net deferred income tax liabilities of \$213 million and \$179 million, respectively. As part of our net liability, on December 31, 2009 and 2008, we had deferred tax assets of \$121 million and \$99 million, respectively, which primarily relate to financial and tax losses generated by our indirect corporate subsidiaries. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Due to our history of losses, we were unable to assume future taxable income in our analysis and accordingly valuation allowances have been established except for deferred benefits available to offset certain deferred tax liabilities that will reverse over time. Accordingly, our deferred tax assets have been offset with a corresponding valuation allowance of \$31 million and \$60 million at December 31, 2009 and 2008, respectively.

No tax years for Charter or Charter Holdco, our indirect parent companies, are currently under examination by the Internal Revenue Service. Tax years ending 2006 through 2009 remain subject to examination and assessment. Years prior to 2006 remain open solely for purposes of examination of Charter's net operating loss and credit carryforwards.

### ***Litigation***

Legal contingencies have a high degree of uncertainty. When a loss from a contingency becomes estimable and probable, a reserve is established. The reserve reflects management's best estimate of the probable cost of ultimate resolution of the matter and is revised as facts and circumstances change. A reserve is released when a matter is ultimately brought to closure or the statute of limitations lapses. We have established reserves for certain matters. If any of these matters are resolved unfavorably, resulting in payment obligations in excess of management's best estimate of the outcome, such resolution could have a material adverse effect on our consolidated financial condition, results of operations, or our liquidity.

## Results of Operations

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

	<u>Combined</u>		<u>Predecessor</u>		<u>Predecessor</u>	
	<u>2009</u>		<u>2008</u>		<u>2007</u>	
Revenues	\$ 6,755	100%	\$ 6,479	100%	\$ 6,002	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization)	2,895	43%	2,792	43%	2,620	44%
Selling, general and administrative	1,394	21%	1,401	22%	1,289	21%
Depreciation and amortization	1,316	19%	1,310	20%	1,328	22%
Impairment of franchises	2,163	32%	1,521	23%	178	3%
Asset impairment charges	--	--	--	--	56	1%
Other operating (income) expenses, net	(34)	(1%)	69	1%	(17)	--
	<u>7,734</u>	<u>114%</u>	<u>7,093</u>	<u>109%</u>	<u>5,454</u>	<u>91%</u>
Income (loss) from operations	(979)	(14%)	(614)	(9%)	548	9%
Interest expense, net	(884)		(1,064)		(1,014)	
Change in value of derivatives	(4)		(62)		(46)	
Loss due to Plan effects	(353)		--		--	
Gain due to fresh start accounting adjustments	5,501		--		--	
Reorganization items, net	(591)		--		--	
Other income (expense), net	2		(10)		(34)	
Income (loss) before income taxes	2,692		(1,750)		(546)	
Income tax benefit (expense)	(43)		40		(20)	
Consolidated net income (loss)	2,649		(1,710)		(566)	
Less: Net (income) loss – noncontrolling interest	23		(13)		(22)	
Net Income (loss) – CCH II member	<u>\$ 2,672</u>		<u>\$ (1,723)</u>		<u>\$ (588)</u>	

**Revenues.** Average monthly revenue per basic video customer, measured on an annual basis, has increased from \$93 in 2007 to \$105 in 2008 and \$114 in 2009. Average monthly revenue per video customer represents total annual revenue, divided by twelve, 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. Asset sales, net of acquisitions, in 2007, 2008, and 2009 reduced the increase in revenues in 2009 as compared to 2008 by approximately \$17 million and in 2008 as compared to 2007 by approximately \$31 million.

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

	<u>Combined</u>		<u>Predecessor</u>		<u>Predecessor</u>		<u>2009 over 2008</u>		<u>2008 over 2007</u>	
	<u>2009</u>	<u>% of</u>	<u>2008</u>	<u>% of</u>	<u>2007</u>	<u>% of</u>	<u>Change</u>	<u>%</u>	<u>Change</u>	<u>%</u>
	<u>Revenues</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>
Video	\$ 3,468	51%	\$ 3,463	53%	\$ 3,392	56%	\$ 5	--	\$ 71	2%
High-speed Internet	1,476	22%	1,356	21%	1,243	21%	120	9%	113	9%
Telephone	713	10%	555	9%	345	6%	158	28%	210	61%
Commercial	446	7%	392	6%	341	6%	54	14%	51	15%
Advertising sales	249	4%	308	5%	298	5%	(59)	(19%)	10	3%
Other	403	6%	405	6%	383	6%	(2)	--	22	6%
	<u>\$ 6,755</u>	<u>100%</u>	<u>\$ 6,479</u>	<u>100%</u>	<u>\$ 6,002</u>	<u>100%</u>	<u>\$ 276</u>	<u>4%</u>	<u>\$ 477</u>	<u>8%</u>

Video revenues consist primarily of revenues from basic and digital video services provided to our non-commercial customers. Basic video customers decreased by 212,400 and 174,200 customers in 2009 and 2008, respectively, of which 12,400 in 2009 and 16,700 in 2008 were related to asset sales, net of acquisitions. Digital video customers increased by 84,700 and 213,000 customers in 2009 and 2008, respectively. The increase in 2009 and 2008 was reduced by asset sales, net of acquisitions, of 1,200 and 7,600 digital customers, respectively. The increases in video revenues are attributable to the following (dollars in millions):

	<u>2009 compared to 2008</u>	<u>2008 compared to 2007</u>
Incremental video services and rate adjustments	\$ 71	\$ 87
Increase in digital video customers	42	77
Decrease in basic video customers	(97)	(72)
Asset sales, net of acquisitions	<u>(11)</u>	<u>(21)</u>
	<u>\$ 5</u>	<u>\$ 71</u>

Residential high-speed Internet customers grew by 187,100 and 192,700 customers in 2009 and 2008, respectively. The increase in 2008 was reduced by asset sales, net of acquisitions, of 5,600 high-speed Internet customers and the increase in 2009 included asset acquisitions, net of sales of 400 high-speed Internet customers. The increases in high-speed Internet revenues from our residential customers are attributable to the following (dollars in millions):

	<u>2009 compared to 2008</u>	<u>2008 compared to 2007</u>
Increase in high-speed Internet customers	\$ 88	\$ 113
Rate adjustments and service upgrades	34	3
Asset sales, net of acquisitions	<u>(2)</u>	<u>(3)</u>
	<u>\$ 120</u>	<u>\$ 113</u>

Revenues from telephone services increased by \$158 million and \$220 million in 2009 and 2008, respectively, as a result of an increase of 247,100 and 389,500 telephone customers in 2009 and 2008, respectively, including an increase of \$1 million in 2009 related to higher average rates and offset by a decrease of \$10 million in 2008 related to lower average rates.

Commercial revenues consist primarily of revenues from services provided to our commercial customers. Commercial revenues increased primarily as a result of increased sales of the Charter Business Bundle® primarily to small and medium-sized businesses. The increases were reduced by approximately \$1 million in 2009 and \$2 million in 2008 as a result of asset sales.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. In 2009, advertising sales revenues decreased primarily as a result of significant decreases in revenues from the political, automotive and retail sectors coupled with a decrease of \$2 million related to asset sales. In 2008, advertising sales revenues increased primarily as a result of increases in political advertising sales and advertising sales to vendors offset by significant decreases in revenues from the automotive and furniture sectors, and a decrease of \$2 million related to asset sales. For the years ended December 31, 2009, 2008, and 2007, we received \$41 million, \$39 million, and \$15 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 years ended December 31, 2009, 2008, and 2007, franchise fees represented approximately 45%, 46%, and 46%, respectively, of total other revenues. The decrease in other revenues in 2009 was primarily the result of decreases in home shopping. The increase in other revenues in 2008 was primarily the result of increases in franchise and other regulatory fees and wire maintenance fees. The increases were reduced by approximately \$1 million in 2009 and \$3 million in 2008 as a result of asset sales.



**Operating expenses.** The increases in our operating expenses are attributable to the following (dollars in millions):

	<u>2009 compared to 2008</u>	<u>2008 compared to 2007</u>
Programming costs	\$ 96	\$ 90
Maintenance costs	17	19
Labor costs	14	44
Franchise and regulatory fees	10	23
Vehicle costs	(12)	9
Other, net	(15)	9
Asset sales, net of acquisitions	<u>(7)</u>	<u>(22)</u>
	<u>\$ 103</u>	<u>\$ 172</u>

Programming costs were approximately \$1.7 billion, \$1.6 billion, and \$1.6 billion, representing 60%, 59%, and 60% of total operating expenses for the years ended December 31, 2009, 2008, and 2007, respectively. Programming costs consist primarily of costs paid to programmers for basic, premium, digital, OnDemand, and pay-per-view programming. The increases in programming costs are primarily a result of annual contractual rate adjustments, offset in part by asset sales and customer losses. Programming costs were also offset by the amortization of payments received from programmers of \$26 million, \$33 million, and \$25 million in 2009, 2008, and 2007, respectively. We expect programming expenses to continue to increase, and at a higher rate than in 2009, due to a variety of factors, including amounts paid for retransmission consent, annual increases imposed by programmers, and additional programming, including high-definition, OnDemand, and pay-per-view programming, being provided to our customers.

**Selling, general and administrative expenses.** The increases (decreases) in selling, general and administrative expenses are attributable to the following (dollars in millions):

	<u>2009 compared to 2008</u>	<u>2008 compared to 2007</u>
Marketing costs	\$ 5	\$ 32
Bad debt and collection costs	9	17
Stock compensation costs	(6)	14
Employee costs	(6)	7
Customer care costs	(4)	23
Other, net	(1)	24
Asset sales, net of acquisitions	<u>(4)</u>	<u>(5)</u>
	<u>\$ (7)</u>	<u>\$ 112</u>

**Depreciation and amortization.** Depreciation and amortization expense increased by \$6 million and decreased by \$18 million in 2009 and 2008, respectively. During 2009, the increase was primarily the result of increased amortization associated with the increase in customer relationships as a part of applying fresh start accounting. During 2008, the decrease in depreciation was primarily the result of asset sales, certain assets becoming fully depreciated, and an \$81 million decrease due to the impact of changes in the useful lives of certain assets during 2007, offset by depreciation on capital expenditures.

**Impairment of franchises.** We recorded impairment of \$2.2 billion, \$1.5 billion and \$178 million for the years ended December 31, 2009, 2008 and 2007, respectively. The impairments recorded in 2009 and 2008 were largely driven by lower expected revenue growth resulting from the current economic downturn and increased competition. The impairment recorded in 2007 was largely driven by increased competition.

**Asset impairment charges.** Asset impairment charges for the year ended December 31, 2007 represent the write-down of cable systems meeting the criteria of assets held for sale to fair value less costs to sell.

**Other operating (income) expenses, net.** The changes in other operating (income) expenses, net are attributable to the following (dollars in millions):

	<u>2009 compared to 2008</u>	<u>2008 compared to 2007</u>
Increases (decreases) in losses on sales of assets	\$ (6)	\$ 16
Increases (decreases) in special charges, net	<u>(97)</u>	<u>70</u>
	<u>\$ (103)</u>	<u>\$ 86</u>

The decrease in special charges in 2009 as compared to 2008 is the result of favorable litigation settlements in 2009 as compared to unfavorable litigation settlements in 2008. For more information, see Note 15 to the accompanying consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

**Interest expense, net.** Net interest expense decreased by \$180 million in 2009 from 2008 and increased by \$50 million in 2008 from 2007. The decrease in 2009 compared to 2008 is due to a decrease in the weighted average interest rate from 7.5% in 2008 to 7.4% in 2009, excluding the effect of interest being calculated at a prime rate compared to LIBOR and 2% penalty interest, the incremental cost of which is being recorded in reorganization items, net. The increase in net interest expense from 2007 to 2008 was a result of average debt outstanding increasing from \$11.9 billion in 2007 to \$12.8 billion in 2008, offset by a decrease in our average borrowing rate from 8.1% in 2007 to 7.5% in 2008.

**Change in value of derivatives.** Interest rate swaps were held to manage our interest costs and reduce our exposure to increases in floating interest rates. We expensed the change in fair value of derivatives that did not qualify for hedge accounting and cash flow hedge ineffectiveness on interest rate swap agreements. Upon filing for Chapter 11 bankruptcy, the counterparties to the interest rate swap agreements terminated the underlying contracts and, upon emergence from bankruptcy, received payment for the market value of the interest rate swap agreement as measured on the date the counterparties terminated. The loss from the change in value of derivatives increased from \$4 million in 2007 to \$62 million in 2008 and decreased to \$4 million in 2009.

**Loss due to Plan effects.** Loss due to Plan effects represents the loss recorded as a result of the consummation of the Plan. For more information, see Note 2 to the accompanying condensed consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

**Gain due to fresh start accounting adjustments.** Upon our emergence from bankruptcy, the Company applied fresh start accounting. Gain due to fresh start accounting adjustments represents the net gains recognized as a result of adjusting all assets and liabilities to fair value. For more information, see Note 2 to the accompanying condensed consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

**Reorganizations items, net.** Reorganization items, net of \$591 million for the year ended December 31, 2009 represent items of income, expense, gain or loss that we realized or incurred because we were in reorganization under Chapter 11 of the Bankruptcy Code. For more information, see Note 16 to the accompanying condensed consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

**Other income (expense), net.** The changes in other income (expense), net are attributable to the following (dollars in millions):

	<u>2009 compared to 2008</u>	<u>2008 compared to 2007</u>
Change in loss on extinguishment of debt	\$ 4	\$ 28
Change in investment income	2	1
Other, net	<u>6</u>	<u>(5)</u>
	<u>\$ 12</u>	<u>\$ 24</u>

For more information, see Note 17 to the accompanying consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data.”

***Income tax benefit (expense).*** Income tax expense for the year ended December 31, 2009 was realized as a result of increases in certain deferred tax liabilities of certain of our indirect subsidiaries. These increases are primarily attributable to fresh start accounting adjustments for financial statement purposes and not for tax purposes offset in part by \$71 million of deferred tax benefit related to impairment of franchises. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results. Income tax benefit for the year ended December 31, 2008 included \$32 million of deferred tax benefit related to the impairment of franchises and \$3 million of deferred tax benefit related to asset acquisitions and sales occurring in 2008. Income tax expense in 2007 was recognized through increases in deferred tax liabilities and current federal and state income tax expenses of certain of our indirect subsidiaries. Income tax expense for the year ended December 31, 2007 includes \$18 million of income tax expense previously recorded at our indirect parent company.

***Net (income) loss – noncontrolling interest.*** Noncontrolling interest includes the 2% accretion of the preferred membership interests in CC VIII plus approximately 18.6% of CC VIII's income, net of accretion.

***Net income (loss).*** The impact to net income (loss) as a result of impairment charges, reorganization items, gains due to Plan effects and fresh start accounting, and extinguishment of debt, net of tax, was to increase net income by approximately \$2.4 billion in 2009, and to increase net loss by approximately \$1.5 billion and \$264 million in 2008 and 2007, respectively.

### **Use of Adjusted EBITDA**

We use certain measures that are not defined by GAAP to evaluate various aspects of our business. Adjusted EBITDA is a non-GAAP financial measure and should be considered in addition to, not as a substitute for, net income (loss) reported in accordance with GAAP. This term, as defined by us, may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA is reconciled to consolidated net income (loss) below.

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

We believe that Adjusted EBITDA provides information useful to investors in assessing our performance and our ability to service our debt, fund operations and make additional investments with internally generated funds. In addition, Adjusted EBITDA generally correlates to the leverage ratio calculation under our credit facilities or outstanding notes to determine compliance with the covenants contained in the facilities and notes (all such documents have been previously filed with the United States Securities and Exchange Commission). Adjusted EBITDA includes management fee expenses in the amount of \$136 million, \$131 million and \$129 million for the years ended December 31, 2009, 2008 and 2007, respectively, which expense amounts are excluded for the purposes of calculating compliance with leverage covenants.

	<b>Combined</b>	<b>Predecessor</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Consolidated net income (loss)	\$ 2,649	\$ (1,710)	\$ (566)
Plus: Interest expense, net	884	1,064	1,014
Income tax (benefit) expense	43	(40)	20
Depreciation and amortization	1,316	1,310	1,328
Impairment of franchises and asset impairment charges	2,163	1,521	234
Stock compensation expense	27	33	18
Gain due to bankruptcy related items	(4,557)	--	--
Other, net	(32)	141	63
Adjusted EBITDA	<u>\$ 2,493</u>	<u>\$ 2,319</u>	<u>\$ 2,111</u>

## **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.

### ***Overview of Our Debt and Liquidity***

We have significant amounts of debt. Our business requires significant cash to fund principal and interest payments on our debt. As of December 31, 2009, \$70 million of our long-term debt matures in each of 2010 and 2011, \$1.2 billion in 2012, \$2.2 billion in 2013, \$8.2 billion in 2014 and \$1.8 billion in 2016. We continue to monitor the capital markets, and we expect to undertake refinancing transactions and utilize cash flows from operating activities and cash on hand to further extend or reduce the maturities of our principal obligations which are currently concentrated in 2014. The timing and terms of any refinancing transactions will be subject to market conditions. Our business also requires significant cash to fund capital expenditures and ongoing operations. Our projected cash needs and projected sources of liquidity depend upon, among other things, our actual results, and the timing and amount of our expenditures.

Prior to our bankruptcy filing, we funded our cash requirements through cash flows from operating activities, borrowings under our credit facilities, proceeds from sales of assets, issuances of debt and equity securities, and cash on hand. Upon filing bankruptcy and continuing under the Plan as consummated, Charter Operating no longer has access to the revolving feature of its revolving credit facility (which \$1.4 billion of the \$1.5 billion facility had been utilized) and will rely on cash on hand and cash flows from operating activities to fund our projected operating cash needs. We believe we have sufficient liquidity from these sources to fund our projected operating cash needs through 2011.

As of December 31, 2009, the accreted value of our total debt was approximately \$13.3 billion, as summarized below (dollars in millions):

	<u>December 31, 2009</u>		<u>Semi-Annual Interest Payment Dates</u>	<u>Maturity Date (b)</u>
	<u>Principal Amount</u>	<u>Accreted Value (a)</u>		
<b>CCH II, LLC:</b>				
13.5% senior notes due 2016	\$ 1,766	\$ 2,092	2/15 & 8/15	11/30/16
<b>CCO Holdings, LLC:</b>				
8 3/4% senior notes due 2013	800	812	5/15 & 11/15	11/15/13
Credit facility	350	304		9/6/14
<b>Charter Communications Operating, LLC:</b>				
8.000% senior second-lien notes due 2012	1,100	1,120	4/30 & 10/30	4/30/12
8 3/8% senior second-lien notes due 2014	770	779	4/30 & 10/30	4/30/14
10.875% senior second-lien notes due 2014	546	601	3/15 & 9/15	9/15/14
Credit facilities	<u>8,177</u>	<u>7,614</u>		Varies (c)
	<u>\$ 13,509</u>	<u>\$ 13,322</u>		

- (a) Upon the effectiveness of our Plan, we applied fresh start accounting and as such adjusted our debt to reflect fair value. Therefore, as of December 31, 2009, the accreted values presented above represent the fair value of the notes as of the Effective Date, plus the accretion to the balance sheet date. However, the amount that is currently payable if the debt becomes immediately due is equal to the principal amount of notes.
- (b) In general, the obligors have the right to redeem all of the notes set forth in the above table in whole or in part at their option, beginning at various times prior to their stated maturity dates, subject to certain conditions, upon the payment of the outstanding principal amount (plus a specified redemption premium) and all accrued and unpaid interest. For additional information see Note 8 to the accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."
- (c) Includes \$6.9 billion principal amount of term loans repayable in equal quarterly installments and aggregating in each loan year to 1% of the original amount of the term loan, with the remaining balance due at final maturity on March 6, 2014, and \$1.3 billion principal amount credit facility with a maturity date on March 6, 2013.

The following table summarizes our payment obligations as of December 31, 2009 under our long-term debt and certain other contractual obligations and commitments (dollars in millions.)

	<u>Payments by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
<b>Contractual Obligations</b>					
Long-Term Debt Principal Payments (1)	\$ 13,509	\$ 70	\$ 1,240	\$ 10,433	\$ 1,766
Long-Term Debt Interest Payments (2)	4,470	746	1,823	1,355	546
Capital and Operating Lease Obligations (3)	98	22	37	25	14
Programming Minimum Commitments (4)	371	101	214	56	--
Other (5)	<u>350</u>	<u>325</u>	<u>21</u>	<u>4</u>	<u>--</u>
Total	<u>\$ 18,798</u>	<u>\$ 1,264</u>	<u>\$ 3,335</u>	<u>\$ 11,873</u>	<u>\$ 2,326</u>

- (1) The table presents maturities of long-term debt outstanding as of December 31, 2009. Refer to Notes 8 and 21 to our accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for a description of our long-term debt and other contractual obligations and commitments.
- (2) Interest payments on variable debt are estimated using amounts outstanding at December 31, 2009 and the average implied forward London Interbank Offering Rate (LIBOR) rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2009. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.

- (3) We lease certain facilities and equipment under noncancelable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2009, 2008, and 2007, were \$25 million, \$24 million, and \$23 million, respectively.
- (4) We pay programming fees under multi-year contracts ranging from three to ten years, typically based on a flat fee per customer, which may be fixed for the term, or may in some cases escalate over the term. Programming costs included in the accompanying statement of operations were approximately \$1.7 billion, \$1.6 billion, and \$1.6 billion, for the years ended December 31, 2009, 2008, and 2007, respectively. Certain of our programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the aggregate guaranteed minimum commitments under our programming contracts.
- (5) “Other” represents other guaranteed minimum commitments, which consist primarily of commitments to our billing services vendors.

The following items are not included in the contractual obligations table because the obligations are not fixed and/or determinable due to various factors discussed below. However, we incur these costs as part of our operations:

- We rent utility poles used in our operations. Generally, pole rentals are cancelable on short notice, but we anticipate that such rentals will recur. Rent expense incurred for pole rental attachments for each of the years ended December 31, 2009, 2008, and 2007, was \$47 million.
- We pay franchise fees under multi-year franchise agreements based on a percentage of revenues generated from video service per year. We also pay other franchise related costs, such as public education grants, under multi-year agreements. Franchise fees and other franchise-related costs included in the accompanying statement of operations were \$176 million, \$179 million, and \$172 million for the years ended December 31, 2009, 2008, and 2007, respectively.
- We also have \$124 million in letters of credit, primarily to our various worker’s compensation, property and casualty, and general liability carriers, as collateral for reimbursement of claims.

### ***Limitations on Distributions***

Distributions by Charter’s subsidiaries to a parent company for payment of principal on parent company notes are restricted under indentures and credit facilities governing our indebtedness, unless there is no default under the applicable indenture and credit facilities, and unless each applicable subsidiary’s leverage ratio test is met at the time of such distribution. As of December 31, 2009, there was no default under any of these indentures or credit facilities. However, certain of our subsidiaries did not meet their applicable leverage ratio tests based on December 31, 2009 financial results. As a result, distributions from certain of Charter’s subsidiaries to their parent companies would have been restricted at such time and will continue to be restricted unless those tests are met. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities.

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

In addition to the limitation on distributions under the various indentures discussed above, distributions by our subsidiaries may be limited by applicable law, including the Delaware Limited Liability Company Act, under which our subsidiaries may only make distributions if they have “surplus” as defined in the act. See “Part I. Item 1A. Risk Factors —Restrictions in our and our subsidiaries’ debt instruments and under applicable law limit our and their ability to provide funds to the various debt issuers.”

### ***Historical Operating, Investing, and Financing Activities***

***Cash and Cash Equivalents.*** We held \$539 million in cash and cash equivalents, including restricted cash, as of December 31, 2009 compared to \$953 million as of December 31, 2008.

***Operating Activities.*** Net cash provided by operating activities decreased \$461 million from \$1.2 billion for the year ended December 31, 2008 to \$757 million for the year ended December 31, 2009, primarily as a result of cash reorganization items of \$477 million and changes in operating assets and liabilities that used \$444 million more cash

during the period, offset by a decrease of \$186 million in cash paid for interest, and revenues increasing at a faster rate than cash expenses.

Net cash provided by operating activities increased \$96 million from \$1.1 billion for the year ended December 31, 2007 to \$1.2 billion for the year ended December 31, 2008, primarily as a result of revenue growth from high-speed Internet and telephone driven by bundled services, as well as improved cost efficiencies, offset by an increase of \$43 million in interest on cash pay obligations and changes in operating assets and liabilities that provided \$29 million less cash during the same period.

**Investing Activities.** Net cash used in investing activities was primarily used to purchase property, plant and equipment and was \$1.2 billion for each of the years ended December 31, 2009, 2008 and 2007.

**Financing Activities.** Net cash used in financing activities was \$17 million for the year ended December 31, 2009. Net cash provided by financing activities was \$938 million for the year ended December 31, 2008. The decrease in cash provided during the year ended December 31, 2009 compared to the corresponding period in 2008 was primarily the result of no borrowings of long-term debt in 2009.

Net cash provided by financing activities was \$938 million and \$26 million for the years ended December 31, 2008 and 2007, respectively. The increase in cash provided during the year ended December 31, 2008 compared to the corresponding period in 2007 was primarily the result of an increase in the amount by which borrowings exceeded repayments of long-term debt.

### **Capital Expenditures**

We have significant ongoing capital expenditure requirements. Capital expenditures were \$1.1 billion, \$1.2 billion, and \$1.2 billion for the years ended December 31, 2009, 2008, and 2007, respectively. See the table below for more details.

Our capital expenditures are funded primarily from cash flows from operating activities and the issuance of debt. In addition, our liabilities related to capital expenditures decreased by \$10 million, \$39 million and \$2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

During 2010, 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. 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 years ended December 31, 2009, 2008, and 2007 (dollars in millions):

	<b>Combined</b>	<b>Predecessor</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Customer premise equipment (a)	\$ 593	\$ 595	\$ 578
Scalable infrastructure (b)	216	251	232
Line extensions (c)	70	80	105
Upgrade/rebuild (d)	28	40	52
Support capital (e)	227	236	277
Total capital expenditures	<u>\$ 1,134</u>	<u>\$ 1,202</u>	<u>\$ 1,244</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 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).

## **Description of Our Outstanding Debt**

### ***Overview***

As of December 31, 2009 and 2008, the blended weighted average interest rate on our debt was 5.5% and 7.0%, respectively. The interest rate on approximately 37% and 70% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements, if any, as of December 31, 2009 and 2008, respectively. The fair value of our high-yield notes was \$5.4 billion and \$3.5 billion at December 31, 2009 and 2008, respectively. The fair value of our credit facilities was \$8.0 billion and \$6.2 billion at December 31, 2009 and 2008, respectively. The fair value of our high-yield notes and credit facilities were based on quoted market prices.

The following description is a summary of certain provisions of our credit facilities and our notes (the “Debt Agreements”). The summary does not restate the terms of the Debt Agreements in their entirety, nor does it describe all terms of the Debt Agreements. The agreements and instruments governing each of the Debt Agreements are complicated and you should consult such agreements and instruments for more detailed information regarding the Debt Agreements.

### **Credit Facilities – General**

#### ***Charter Operating Credit Facilities***

On the Effective Date, the Charter Operating credit facilities remain outstanding although the revolving line of credit is no longer available for new borrowings and remains substantially drawn with the same maturity and interest terms. The Charter Operating credit facilities have outstanding principal amount of \$8.2 billion at December 31, 2009 as follows:

- a term loan with a remaining principal amount of \$6.4 billion, which is repayable in equal quarterly installments and aggregating in each loan year to 1% of the original amount of the term loan, with the remaining balance due at final maturity on March 6, 2014;
- an incremental term loan with a remaining principal amount of \$491 million which is payable on of March 6, 2014 and prior to that date will amortize in quarterly principal installments totaling 1% annually; and
- a revolving credit facility of \$1.3 billion, with a maturity date on March 6, 2013.

The Charter Operating credit facilities also allow us to enter into incremental term loans in the future with an aggregate amount of up to an additional \$500 million, with amortization as set forth in the notices establishing such term loans, but with no amortization greater than 1% prior to the final maturity of the existing term loan. Although the Charter Operating credit facilities allow for the incurrence of up to an additional \$500 million in incremental term loans, no assurance can be given that we could obtain additional incremental term loans in the future if Charter Operating sought to do so.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating’s election, at a base rate or LIBOR, as defined, plus a margin for LIBOR loans of 2.00% for the revolving credit facility and for the term loan. The current incremental term loan bears interest at LIBOR plus 5.0%, with a LIBOR floor of 3.5% or at Charter Operating’s election, a base rate plus a margin of 4.00%. Charter Operating has currently elected the base rate for the incremental term loan.



The obligations of Charter Operating under the Charter Operating credit facilities (the “Obligations”) are guaranteed by Charter Operating’s immediate parent company, CCO Holdings, and subsidiaries of Charter Operating, except for certain subsidiaries, including immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of the provisions of other indebtedness to which they are subject (the “non-guarantor subsidiaries”). The Obligations are also secured by (i) a lien on substantially all of the assets of Charter Operating and its subsidiaries (other than assets of the non-guarantor subsidiaries), to the extent such lien can be perfected under the Uniform Commercial Code by the filing of a financing statement, and (ii) a pledge by CCO Holdings of the equity interests owned by it in Charter Operating or any of Charter Operating’s subsidiaries, as well as intercompany obligations owing to it by any of such entities.

### ***CCO Holdings Credit Facility***

In March 2007, CCO Holdings entered into a credit agreement (the “CCO Holdings credit facility”) which consists of a \$350 million term loan facility. The facility matures in September 2014. The CCO Holdings credit facility also allows us to enter into incremental term loans in the future, maturing on the dates set forth in the notices establishing such term loans, but no earlier than the maturity date of the existing term loans. However, no assurance can be given that we could obtain such incremental term loans if CCO Holdings sought to do so. Borrowings under the CCO Holdings credit facility bear interest at a variable interest rate based on either LIBOR or a base rate plus, in either case, an applicable margin. The applicable margin for LIBOR term loans, other than incremental loans, is 2.50% above LIBOR. If an event of default were to occur, CCO Holdings would not be able to elect LIBOR and would have to pay interest at the base rate plus the applicable margin. The applicable margin with respect to incremental loans is to be agreed upon by CCO Holdings and the lenders when the incremental loans are established. The CCO Holdings credit facility is secured by the equity interests of Charter Operating, and all proceeds thereof.

## **Credit Facilities — Restrictive Covenants**

### ***Charter Operating Credit Facilities***

The Charter Operating credit facilities contain representations and warranties, and affirmative and negative covenants customary for financings of this type. The financial covenants measure performance against standards set for leverage to be tested as of the end of each quarter. Additionally, the Charter Operating credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including in connection with certain sales of assets, so long as the proceeds have not been reinvested in the business. The Charter Operating credit facilities permit Charter Operating and its subsidiaries to make distributions to pay interest on the subordinated and parent company indebtedness, provided that, among other things, no default has occurred and is continuing under the credit facilities.

The events of default under the Charter Operating credit facilities include among other things:

- the failure to make payments when due or within the applicable grace period;
- the failure to comply with specified covenants, including, but not limited to, a covenant to deliver audited financial statements for Charter Operating with an unqualified opinion from our independent accountants and without a “going concern” or like qualification or exception;
- the failure to pay or the occurrence of events that cause or permit the acceleration of other indebtedness owing by CCO Holdings, Charter Operating, or Charter Operating’s subsidiaries in amounts in excess of \$100 million in aggregate principal amount;
- the failure to pay or the occurrence of events that result in the acceleration of other indebtedness owing by certain of CCO Holdings’ direct and indirect parent companies in amounts in excess of \$200 million in aggregate principal amount;
- Mr. Allen and/or certain of his family members and/or their exclusively owned entities (collectively, the “Paul Allen Group”) ceasing to have the power, directly or indirectly, to vote at least 35% of the ordinary voting power for the management of Charter Operating on a fully diluted basis;
- the consummation of any transaction resulting in any person or group (other than the Paul Allen Group) having power, directly or indirectly, to vote more than 35% of the ordinary voting power for the management of Charter Operating on a fully diluted basis, unless the Paul Allen Group holds a greater share of ordinary voting power for the management of Charter Operating; and
- Charter Operating ceasing to be a wholly-owned direct subsidiary of CCO Holdings, except in certain very limited circumstances.

### ***CCO Holdings Credit Facility***

The CCO Holdings credit facility contains covenants that are substantially similar to the restrictive covenants for the CCO Holdings notes except that the leverage ratio is 5.50 to 1.0. See “—Summary of Restricted Covenants of Our Notes.” The CCO Holdings credit facility contains provisions requiring mandatory loan prepayments under specific circumstances, including in connection with certain sales of assets, so long as the proceeds have not been reinvested in the business. The CCO Holdings credit facility permits CCO Holdings and its subsidiaries to make distributions to pay interest on the CCH II notes, the CCO Holdings notes, the Charter Operating credit facilities and the Charter Operating second-lien notes, provided that, among other things, no default has occurred and is continuing under the CCO Holdings credit facility.

### **Notes**

Provided below is a brief description of the notes issued by CCH II, CCO Holdings and Charter Operating.

#### ***CCH II Notes***

On November 30, 2009, CCH II and CCH II Capital Corp. issued approximately \$1.8 billion in total principal amount of new 13.5% senior notes. The New CCH II Notes pay interest in cash semi-annually in arrears at the rate of 13.5% per annum and are unsecured. The New CCH II Notes will mature on November 30, 2016. The New CCH II Notes are structurally subordinated to all obligations of the subsidiaries of CCH II, including the CCO Holdings notes and credit facility and the Charter operating notes and credit facilities.

#### ***CCO Holdings Notes***

In November 2003 and August 2005, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$500 million and \$300 million, respectively, total principal amount of 8<sup>3</sup>/<sub>4</sub>% senior notes due 2013 (the “CCOH 2013 Notes”). The CCOH 2013 Notes are senior debt obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current and future unsecured, unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCOH 2013 Notes are structurally subordinated to all obligations of subsidiaries of CCO Holdings, including the Charter Operating notes and the Charter Operating credit facilities.

#### ***Charter Operating Notes***

As of December 31, 2009, Charter Operating had \$1.1 billion principal amount of 8.0% senior second-lien notes due 2012, \$770 million principal amount of 8 <sup>3</sup>/<sub>8</sub>% senior second-lien notes due 2014, and \$546 million principal amount of 10.875% senior second-lien notes due 2014.

Subject to specified limitations, CCO Holdings and those subsidiaries of Charter Operating that are guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations are required to guarantee the Charter Operating notes. The note guarantee of each such guarantor is:

- a senior obligation of such guarantor;
- structurally senior to the outstanding CCO Holdings notes (except in the case of CCO Holdings’ note guarantee, which is structurally *pari passu* with such senior notes), and the outstanding CCH II notes;
- senior in right of payment to any future subordinated indebtedness of such guarantor; and
- effectively senior to the relevant subsidiary’s unsecured indebtedness, to the extent of the value of the collateral but subject to the prior lien of the credit facilities.

The Charter Operating notes and related note guarantees are secured by a second-priority lien on all of Charter Operating’s and its subsidiaries’ assets that secure the obligations of Charter Operating or any subsidiary of Charter Operating with respect to the Charter Operating credit facilities and the related obligations. The collateral currently consists of the capital stock of Charter Operating held by CCO Holdings, all of the intercompany obligations owing to CCO Holdings by Charter Operating or any subsidiary of Charter Operating, and substantially all of Charter Operating’s and the guarantors’ assets (other than the assets of CCO Holdings) in which security interests may be perfected under the Uniform Commercial Code by filing a financing statement (including capital stock and intercompany obligations), including, but not limited to:

- with certain exceptions, all capital stock (limited in the case of capital stock of foreign subsidiaries, if any, to 66% of the capital stock of first tier foreign Subsidiaries) held by Charter Operating or any guarantor; and
- with certain exceptions, all intercompany obligations owing to Charter Operating or any guarantor.

In the event that additional liens are granted by Charter Operating or its subsidiaries to secure obligations under the Charter Operating credit facilities or the related obligations, second priority liens on the same assets will be granted to secure the Charter Operating notes, which liens will be subject to the provisions of an intercreditor agreement (to which none of Charter Operating or its affiliates are parties). Notwithstanding the foregoing sentence, no such second priority liens need be provided if the time such lien would otherwise be granted is not during a guarantee and pledge availability period (when the Leverage Condition is satisfied), but such second priority liens will be required to be provided in accordance with the foregoing sentence on or prior to the fifth business day of the commencement of the next succeeding guarantee and pledge availability period.

The Charter Operating notes are senior debt obligations of Charter Operating and Charter Communications Operating Capital Corp. To the extent of the value of the collateral (but subject to the prior lien of the credit facilities), they rank effectively senior to all of Charter Operating's future unsecured senior indebtedness.

### Redemption Provisions of Our Notes

Our various notes included in the table may be redeemed in accordance with the following table or are not redeemable until maturity as indicated:

Note Series	Redemption Dates	Percentage of Principal
<b>CCH II:</b>		
13.5% senior notes due 2016	December 1, 2012 – November 30, 2013	106.75%
	December 1, 2103 – November 30, 2014	103.375%
	December 1, 2014 – November 30, 2015	101.6875%
	Thereafter	100.000%
<b>CCO Holdings:</b>		
8 3/4% senior notes due 2013	November 15, 2009 – November 14, 2010	102.917%
	November 15, 2010 – November 14, 2011	101.458%
	Thereafter	100.000%
<b>Charter Operating:</b>		
8% senior second-lien notes due 2012	At any time	*
8 3/8% senior second-lien notes due 2014	April 30, 2009 – April 29, 2010	104.188%
	April 30, 2010 – April 29, 2011	102.792%
	April 30, 2011 – April 29, 2012	101.396%
	Thereafter	100.000%
10.875% senior second-lien notes due 2014	At any time	**

\* Charter Operating may, at any time and from time to time, at their option, redeem the outstanding 8% second lien notes due 2012, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date, 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 an 8% senior second-lien notes due 2012 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.

\*\* Charter Operating may redeem the outstanding 10.875% senior second-lien notes due 2014, at their option, 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 that a specified change of control event occurs, each of the respective issuers of the notes must offer to repurchase any then outstanding notes at 101% of their principal amount or accrued value, as applicable, plus accrued and unpaid interest, if any.

### **Summary of Restrictive Covenants of Our Notes**

The following description is a summary of certain restrictions of our Debt Agreements that remain outstanding following the effectiveness of the Plan. The summary does not restate the terms of the Debt Agreements in their entirety, nor does it describe all restrictions of the Debt Agreements. The agreements and instruments governing each of the Debt Agreements are complicated and you should consult such agreements and instruments for more detailed information regarding the Debt Agreements.

The notes issued by certain of our subsidiaries (together, the “note issuers”) were issued pursuant to indentures that contain covenants that restrict the ability of the note issuers and their subsidiaries to, among other things:

- incur indebtedness;
- pay dividends or make distributions in respect of capital stock and other restricted payments;
- issue equity;
- make investments;
- create liens;
- sell assets;
- consolidate, merge, or sell all or substantially all assets;
- enter into sale leaseback transactions;
- create restrictions on the ability of restricted subsidiaries to make certain payments; or
- enter into transactions with affiliates.

However, such covenants are subject to a number of important qualifications and exceptions. Below we set forth a brief summary of certain of the restrictive covenants.

### ***Restrictions on Additional Debt***

The limitations on incurrence of debt and issuance of preferred stock contained in various indentures permit each of the respective notes issuers and its restricted subsidiaries to incur additional debt or issue preferred stock, so long as, after giving pro forma effect to the incurrence, the leverage ratio would be below a specified level for each of the note issuers. The leverage ratios for CCH II, CCO Holdings and Charter Operating are as follows:

<u>Issuer</u>	<u>Leverage Ratio</u>
CCH II	5.75 to 1
CCO Holdings	4.5 to 1
Charter Operating	4.25 to 1

In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, each issuer and their restricted subsidiaries are permitted to issue among other permitted indebtedness:

- up to an amount of debt under credit facilities not otherwise allocated as indicated below:
  - CCH II: \$1 billion
  - CCO Holdings: \$9.75 billion
  - Charter Operating: \$6.8 billion
- up to \$75 million of debt incurred to finance the purchase or capital lease of new assets;
- up to \$300 million of additional debt for any purpose; and
- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

Indebtedness under a single facility or agreement may be incurred in part under one of the categories listed above and in part under another, and generally may also later be reclassified into another category including as debt incurred under the leverage ratio. Accordingly, indebtedness under our credit facilities is incurred under a

combination of the categories of permitted indebtedness listed above. The restricted subsidiaries of note issuers are generally not permitted to issue subordinated debt securities.

### ***Restrictions on Distributions***

Generally, under the various indentures each of the note issuers and their respective restricted subsidiaries are permitted to pay dividends on or repurchase equity interests, or make other specified restricted payments, only if the applicable issuer can incur \$1.00 of new debt under the applicable leverage ratio test after giving effect to the transaction and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments may be made in a total amount of up to the following amounts for the applicable issuer as indicated below:

- CCH II: the sum of 100% of CCH II's Consolidated EBITDA, as defined, minus 1.3 times its Consolidated Interest Expense, as defined, cumulatively from October 1, 2009 plus 100% of new cash and appraised non-cash equity proceeds received by CCH II and not allocated to certain investments, cumulatively from November 30, 2009;
- CCO Holdings: the sum of 100% of CCO Holdings' Consolidated EBITDA, as defined, minus 1.3 times its Consolidated Interest Expense, as defined, plus 100% of new cash and appraised non-cash equity proceeds received by CCO Holdings and not allocated to certain investments, cumulatively from October 1, 2003, plus \$100 million; and
- Charter Operating: the sum of 100% of Charter Operating's Consolidated EBITDA, as defined, minus 1.3 times its Consolidated Interest Expense, as defined, plus 100% of new cash and appraised non-cash equity proceeds received by Charter Operating and not allocated to certain investments, cumulatively from April 1, 2004, plus \$100 million.

In addition, each of the note issuers may make distributions or restricted payments, so long as no default exists or would be caused by transactions among other distributions or restricted payments:

- to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;
- regardless of the existence of any default, to pay pass-through tax liabilities in respect of ownership of equity interests in the applicable issuer or its restricted subsidiaries; or
- to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

Each of CCO Holdings and Charter Operating and their respective restricted subsidiaries may make distributions or restricted payments: (i) so long as certain defaults do not exist and even if the applicable leverage test referred to above is not met, to enable certain of its parents to pay interest on certain of their indebtedness or (ii) so long as the applicable issuer could incur \$1.00 of indebtedness under the applicable leverage ratio test referred to above, to enable certain of its parents to purchase, redeem or refinance certain indebtedness.

### ***Restrictions on Investments***

Each of the note issuers and their respective restricted subsidiaries may not make investments except (i) permitted investments or (ii) if, after giving effect to the transaction, their leverage would be above the applicable leverage ratio.

Permitted investments include, among others:

- investments in and generally among restricted subsidiaries or by restricted subsidiaries in the applicable issuer;
- For CCH II:
  - investments aggregating up to \$650 million at any time outstanding;
  - investments aggregating up to 100% of new cash equity proceeds received by CCH II since November 30, 2009 to the extent the proceeds have not been allocated to the restricted payments covenant;
- For CCO Holdings:
  - investments aggregating up to \$750 million at any time outstanding;

- investments aggregating up to 100% of new cash equity proceeds received by CCO Holdings since November 10, 2003 to the extent the proceeds have not been allocated to the restricted payments covenant;
- For Charter Operating:
  - investments aggregating up to \$750 million at any time outstanding;
  - investments aggregating up to 100% of new cash equity proceeds received by CCO Holdings since April 27, 2004 to the extent the proceeds have not been allocated to the restricted payments covenant.

### ***Restrictions on Liens***

Charter Operating and its restricted subsidiaries are not permitted to grant liens senior to the liens securing the Charter Operating notes, other than permitted liens, on their assets to secure indebtedness or other obligations, if, after giving effect to such incurrence, the senior secured leverage ratio (generally, the ratio of obligations secured by first priority liens to four times EBITDA, as defined, for the most recent fiscal quarter for which internal financial reports are available) would exceed 3.75 to 1.0. The restrictions on liens for each of the other note issuers only applies to liens on assets of the issuers themselves and does not restrict liens on assets of subsidiaries. With respect to all of the note issuers, permitted liens include liens securing indebtedness and other obligations under credit facilities (subject to specified limitations in the case of Charter Operating), liens securing the purchase price of financed new assets, liens securing indebtedness of up to \$50 million and other specified liens.

### ***Restrictions on the Sale of Assets; Mergers***

The note issuers are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless after giving effect to the transaction, leverage would be below the applicable leverage ratio for the applicable issuer, no default exists, and the surviving entity is a U.S. entity that assumes the applicable notes.

The note issuers and their restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, in excess of \$100 million unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days, or productive assets. The note issuers and their restricted subsidiaries are then required within 365 days after any asset sale either to use or commit to use the net cash proceeds over a specified threshold to acquire assets used or useful in their businesses or use the net cash proceeds to repay specified debt, or to offer to repurchase the issuer's notes with any remaining proceeds.

### ***Restrictions on Sale and Leaseback Transactions***

The note issuers and their restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, the applicable issuer could have incurred secured indebtedness under its leverage ratio test in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

### ***Prohibitions on Restricting Dividends***

The note issuers' restricted subsidiaries may generally not enter into arrangements involving restrictions on their ability to make dividends or distributions or transfer assets to the applicable note issuer unless those restrictions with respect to financing arrangements are on terms that are no more restrictive than those governing the credit facilities existing when they entered into the applicable indentures or are not materially more restrictive than customary terms in comparable financings and will not materially impair the applicable note issuers' ability to make payments on the notes.

### ***Affiliate Transactions***

The indentures also restrict the ability of the note issuers and their restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors of the applicable note issuer that the transaction complies with this covenant, or transactions with affiliates involving over \$50 million without receiving an opinion as to the fairness to the holders of such transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

## Cross Acceleration

Our indentures include various events of default, including cross acceleration provisions. Under these provisions, a failure by any of the issuers or any of their restricted subsidiaries to pay at the final maturity thereof the principal amount of other indebtedness having a principal amount of \$100 million or more (or any other default under any such indebtedness resulting in its acceleration) would result in an event of default under the indenture governing the applicable notes. As a result, an event of default related to the failure to repay principal at maturity or the acceleration of the indebtedness under the CCH II notes, CCO Holdings notes, CCO Holdings credit facility, Charter Operating notes or the Charter Operating credit facilities could cause cross-defaults under our indentures.

## Recently Issued Accounting Standards

In October 2009, the FASB issued guidance included in ASC 605-25, *Revenue Recognition – Multiple-Element Arrangements* (“ASC 605-25”), which requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This guidance included in ASC 605-25 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We will adopt this guidance included in ASC 605-25 effective January 1, 2011. We do not expect the adoption of this guidance included in ASC 605-25 will have a material impact on our financial statements.

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

## Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

### Interest Rate Risk

We are exposed to various market risks, including fluctuations in interest rates. We have used interest rate swap agreements to manage our interest costs and reduce our exposure to increases in floating interest rates. 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.

Upon filing for Chapter 11 bankruptcy, the counterparties to the interest rate swap agreements terminated the underlying contracts and, upon emergence from bankruptcy, received payment of \$495 million for the market value of the interest rate swap agreements as measured on the date the counterparties terminated plus accrued interest. We do not hold any derivative financial instruments as of December 31, 2009.

As of December 31, 2009 and 2008, our total debt was approximately \$13.3 billion and \$14.2 billion, respectively. As of December 31, 2009 and 2008, the weighted average interest rate on the credit facility debt was approximately 2.6% and 5.5%, respectively, and the weighted average interest rate on the high-yield notes was approximately 10.4% and 9.4%, respectively, resulting in a blended weighted average interest rate of 5.5% and 7.0%, respectively. The interest rate on approximately 37% and 70% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements, as of December 31, 2009 and 2008, respectively.

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 December 31, 2009 (dollars in millions):

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value at December 31, 2009</u>
Debt								
Fixed Rate	\$ --	\$ --	\$ 1,100	\$ 800	\$ 1,316	\$ 1,766	\$ 4,982	\$ 5,429
Average Interest Rate	--	--	8.00%	8.75%	9.41%	13.50%	10.44%	
Variable Rate	\$ 70	\$ 70	\$ 70	\$ 1,385	\$ 6,932	\$ --	\$ 8,527	\$ 8,000
Average Interest Rate	3.45%	4.27%	5.59%	6.15%	6.86%	--	6.68%	

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 December 31, 2009 including applicable bank spread.

At December 31, 2008, we had outstanding \$4.3 billion in notional amounts of interest rate swap agreements outstanding. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged were determined by reference to the notional amount and the other terms of the contracts.

**Item 8. *Financial Statements and Supplementary Data.***

Our consolidated financial statements, the related notes thereto, and the reports of independent accountants are included in this annual report beginning on page F-1.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Interim Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this annual 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 Interim 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 issue is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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

There was no change in our internal control over financial reporting during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Charter's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) for us. Our internal control system was designed to provide reasonable assurance to Charter's management and board of directors regarding the preparation and fair presentation of published financial statements.

Charter's management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control — Integrated Framework*. Based on management's assessment utilizing these criteria we believe that, as of December 31, 2009, our internal control over financial reporting was effective.

**Item 9B. *Other Information.***

None.



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## Report of Independent Registered Public Accounting Firm

The Manager and the Member of  
CCH II, LLC:

We have audited the accompanying consolidated balance sheets of CCH II, LLC and subsidiaries as of December 31, 2009 (Successor Company) and 2008 (Predecessor Company), (collectively, the Company) and the related consolidated statements of operations, changes in member's equity (deficit), and cash flows for the one month ended December 31, 2009 (Successor Company), the eleven months ended November 30, 2009 (Predecessor Company), and for each of the years in the two-year period ended December 31, 2008 (Predecessor Company). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCH II, LLC and subsidiaries as of December 31, 2009 (Successor Company) and 2008 (Predecessor Company), and the results of their operations and their cash flows for the one month ended December 31, 2009 (Successor Company), the eleven months ended November 30, 2009 (Predecessor Company), and for each of the years in the two-year period ended December 31, 2008 (Predecessor Company), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, CCH II, LLC's ultimate parent, Charter Communications, Inc. and its subsidiaries, including CCH II, LLC (collectively, Charter), filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code on March 27, 2009. Charter's plan of reorganization became effective and Charter emerged from bankruptcy protection on November 30, 2009. In connection with its emergence from bankruptcy, Charter adopted fresh-start accounting in conformity with AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (included in FASB ASC Topic 852, *Reorganizations*), effective as of November 30, 2009. Accordingly, the Company's consolidated financial statements prior to November 30, 2009 are not comparable to its consolidated financial statements for periods after November 30, 2009.

As discussed in Note 11 to the consolidated financial statements, effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51* (included in FASB ASC Topic 810, *Consolidations*).

/s/ KPMG LLP

St. Louis, Missouri  
March 29, 2010

**CCH II, LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in millions)

	<b>Successor December 31, 2009</b>	<b>Predecessor December 31, 2008</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 512	\$ 953
Restricted cash and cash equivalents	27	--
Accounts receivable, less allowance for doubtful accounts of \$11 and \$18, respectively	247	221
Prepaid expenses and other current assets	45	23
Total current assets	831	1,197
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net of accumulated depreciation of \$94 and \$7,191, respectively	6,797	4,959
Franchises, net	5,272	7,384
Customer relationships, net	2,335	9
Goodwill	951	68
Total investment in cable properties, net	15,355	12,420
<b>OTHER NONCURRENT ASSETS</b>	38	147
Total assets	\$ 16,224	\$ 13,764
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 756	\$ 980
Payables to related party	219	232
Current portion of long-term debt	70	70
Total current liabilities	1,045	1,282
<b>LONG-TERM DEBT</b>	13,252	14,174
<b>LOANS PAYABLE – RELATED PARTY</b>	13	13
<b>DEFERRED MANAGEMENT FEES – RELATED PARTY</b>	--	14
<b>OTHER LONG-TERM LIABILITIES</b>	275	695
<b>TEMPORARY EQUITY</b>	--	203
<b>MEMBER'S EQUITY (DEFICIT):</b>		
Accumulated other comprehensive loss	--	(303)
Member's equity (deficit)	1,414	(2,787)
Total CCH II member's equity (deficit)	1,414	(3,090)
Noncontrolling interest	225	473
Total member's equity (deficit)	1,639	(2,617)
Total liabilities and member's equity (deficit)	\$ 16,224	\$ 13,764

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

**CCH II, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(dollars in millions)

	<b>Year Ended December 31, 2009</b>			
	<b>Successor One Month Ended December 31, 2009</b>	<b>Predecessor Eleven Months Ended November 30, 2009</b>	<b>Predecessor Year Ended December 31,</b>	
			<b>2008</b>	<b>2007</b>
REVENUES	\$ 572	\$ 6,183	\$ 6,479	\$ 6,002
<b>COSTS AND EXPENSES:</b>				
Operating (excluding depreciation and amortization)	244	2,651	2,792	2,620
Selling, general and administrative	118	1,276	1,401	1,289
Depreciation and amortization	122	1,194	1,310	1,328
Impairment of franchises	--	2,163	1,521	178
Asset impairment charges	--	--	--	56
Other operating (income) expenses, net	4	(38)	69	(17)
	<u>488</u>	<u>7,246</u>	<u>7,093</u>	<u>5,454</u>
Income (loss) from operations	<u>84</u>	<u>(1,063)</u>	<u>(614)</u>	<u>548</u>
<b>OTHER INCOME AND EXPENSES:</b>				
Interest expense, net	(68)	(816)	(1,064)	(1,014)
Change in value of derivatives	--	(4)	(62)	(46)
Loss due to Plan effects	--	(353)	--	--
Gain due to fresh start accounting adjustments	--	5,501	--	--
Reorganization items, net	(3)	(588)	--	--
Other income (expense), net	--	2	(10)	(34)
	<u>(71)</u>	<u>3,742</u>	<u>(1,136)</u>	<u>(1,094)</u>
Income (loss) before income taxes	13	2,679	(1,750)	(546)
Income tax benefit (expense)	(4)	(39)	40	(20)
Consolidated net income (loss)	9	2,640	(1,710)	(566)
Less: Net (income) loss – noncontrolling interest	(3)	26	(13)	(22)
Net income (loss) – CCH II member	<u>\$ 6</u>	<u>\$ 2,666</u>	<u>\$ (1,723)</u>	<u>\$ (588)</u>

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

**CCH II, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY (DEFICIT)**  
(dollars in millions)

	<u>Member's Equity (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total CCH II Member's Equity (Deficit)</u>	<u>Noncontrolling Interest</u>	<u>Total Member's Equity (Deficit)</u>
<b>PREDECESSOR:</b>					
BALANCE, December 31, 2006, Predecessor	\$ 1,552	\$ 1	\$ 1,553	\$ 449	\$ 2,002
Distributions to parent company	(1,195)	--	(1,195)	--	(1,195)
Changes in fair value of interest rate agreements	--	(123)	(123)	--	(123)
Other	(14)	(1)	(15)	--	(15)
Net income (loss)	(588)	--	(588)	15	(573)
BALANCE, December 31, 2007, Predecessor	(245)	(123)	(368)	464	96
Distributions to parent company	(819)	--	(819)	--	(819)
Changes in fair value of interest rate agreements	--	(180)	(180)	--	(180)
Net income (loss)	(1,723)	--	(1,723)	9	(1,714)
BALANCE, December 31, 2008, Predecessor	(2,787)	(303)	(3,090)	473	(2,617)
Changes in fair value of interest rate agreements	--	(9)	(9)	--	(9)
Net income (loss)	2,666	--	2,666	(26)	2,640
Amortization of accumulated other comprehensive loss related to interest rate agreements	--	61	61	--	61
Elimination of Predecessor member's deficit and accumulated other comprehensive income (loss)	121	251	372	(447)	(75)
BALANCE, November 30, 2009, Predecessor	--	--	--	--	--
<b>SUCCESSOR:</b>					
Issuance of new equity	1,408	--	1,408	222	1,630
BALANCE, November 30, 2009, Successor	1,408	--	1,408	222	1,630
Net income	6	--	6	3	9
BALANCE, December 31, 2009, Successor	<u>\$ 1,414</u>	<u>\$ --</u>	<u>\$ 1,414</u>	<u>\$ 225</u>	<u>\$ 1,639</u>

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

**CCH II, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in millions)

	Year Ended December 31, 2009			
	Successor One Month Ended December 31, 2009	Predecessor Eleven Months Ended November 30, 2009	Predecessor Year Ended December 31,	
			2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss) – CCH II member	\$ 6	\$ 2,666	\$ (1,723)	\$ (588)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Depreciation and amortization	122	1,194	1,310	1,328
Impairment of franchises	--	2,163	1,521	178
Asset impairment charges	--	--	--	56
Noncash interest expense	5	31	30	23
Change in value of derivatives	--	4	62	46
Loss due to effects of Plan	--	353	--	--
Gain due to fresh start accounting adjustments	--	(5,501)	--	--
Noncash reorganizations items, net	--	114	--	--
Deferred income taxes	3	32	(47)	12
Noncontrolling interest	3	(26)	13	22
Other, net	--	32	52	16
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:				
Accounts receivable	26	(52)	(1)	(33)
Prepaid expenses and other assets	2	(24)	--	(5)
Accounts payable, accrued expenses and other	46	(385)	(21)	29
Receivables from and payables to related party, including deferred management fees	(18)	(39)	22	38
Net cash flows from operating activities	<u>195</u>	<u>562</u>	<u>1,218</u>	<u>1,122</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of property, plant and equipment	(108)	(1,026)	(1,202)	(1,244)
Change in accrued expenses related to capital expenditures	--	(10)	(39)	(2)
Other, net	(3)	(7)	31	73
Net cash flows from investing activities	<u>(111)</u>	<u>(1,043)</u>	<u>(1,210)</u>	<u>(1,173)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings of long-term debt	--	--	3,105	7,877
Repayments of long-term debt	(17)	(53)	(1,179)	(6,628)
Repayments to related parties	--	--	(115)	--
Payments for debt issuance costs	--	--	(42)	(33)
Contributions	--	51	--	--
Distributions	--	--	(819)	(1,195)
Other, net	--	2	(12)	5
Net cash flows from financing activities	<u>(17)</u>	<u>--</u>	<u>938</u>	<u>26</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67	(481)	946	(25)
CASH AND CASH EQUIVALENTS, beginning of period	472	953	7	32
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 539</u>	<u>\$ 472</u>	<u>\$ 953</u>	<u>\$ 7</u>
CASH PAID FOR INTEREST	<u>\$ 4</u>	<u>\$ 887</u>	<u>\$ 1,027</u>	<u>\$ 980</u>
Noncash contributions from parent company related to exchange of CCH II notes	\$ --	\$ 1,151	\$ --	\$ --
Distribution of new CCH II notes to CCH I	\$ --	\$ (101)	\$ --	\$ --

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

**CCH II, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009, 2008 AND 2007**  
**(dollars in millions, except where indicated)**

## **1. Organization and Basis of Presentation**

### ***Organization***

CCH II, LLC (“CCH II”) is a holding company whose principal assets at December 31, 2009 are the equity interests in its operating subsidiaries. CCH II is a direct subsidiary of CCH I, LLC (“CCH I”), which is an indirect subsidiary of Charter Communications, Inc. (“Charter”). The consolidated financial statements include the accounts of CCH II and all of its subsidiaries where the underlying operations reside, which are collectively referred to herein as the “Company.” All significant intercompany accounts and transactions among consolidated entities have been eliminated.

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

### ***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). Effective December 1, 2009, the Company applied fresh start accounting which requires assets and liabilities to be reflected at fair value. The financial information set forth in this report, unless otherwise expressly set forth or as the context otherwise indicates, reflects the consolidated results of operations and financial condition of CCH II and its subsidiaries for the period following November 30, 2009 (“Successor”), and of CCH II and its subsidiaries for the periods through November 30, 2009 (“Predecessor”).

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

Certain prior year amounts have been reclassified to conform with the 2009 presentation.

## **2. Emergence from Reorganization Proceedings and Related Events**

On March 27, 2009, the Company, its parent companies, and certain affiliates (collectively, the “Debtors”) filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) to reorganize under Chapter 11 of the United States Code (the “Bankruptcy Code”). The Chapter 11 cases were jointly administered under the caption In re Charter Communications, Inc., et al., Case No. 09-11435. On May 7, 2009, the Company filed a Joint Plan of Reorganization (the “Plan”) and a related disclosure statement (the “Disclosure Statement”) with the Bankruptcy Court. The Plan was confirmed by order of the Bankruptcy Court on November 17, 2009 (“Confirmation Order”), and became effective on November 30, 2009 (the “Effective Date”), the date on which the Company and its parent companies emerged from protection under Chapter 11 of the Bankruptcy Code.

As provided in the Plan and the Confirmation Order, (i) the notes and bank debt of Charter Communications Operating, LLC (“Charter Operating”) and CCO Holdings, LLC (“CCO Holdings”) remained outstanding; (ii) holders of approximately \$1.5 billion of notes issued by CCH II received new CCH II notes (the “Notes Exchange”); (iii) holders of notes issued by CCH I received 21.1 million shares of new Charter Class A common stock; (iv) holders of notes issued by CCH I Holdings, LLC (“CIH”) received 6.4 million warrants to purchase shares of new Charter Class A common stock with an exercise price of \$46.86 per share that expire five years from the date of

**CCH II, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009, 2008, AND 2007**  
**(dollars in millions, except where indicated)**

issuance; (v) holders of notes issued by Charter Communications Holdings, LLC (“Charter Holdings”) received 1.3 million warrants to purchase shares of new Charter Class A common stock with an exercise price of \$51.28 per share that expire five years from the date of issuance; (vi) holders of convertible notes issued by Charter received \$25 million and 5.5 million shares of preferred stock issued by Charter; and (vii) all previously outstanding shares of Charter Class A and Class B common stock were cancelled. In addition, as part of the Plan, the holders of CCH I notes received and transferred to Mr. Paul G. Allen, Charter’s principal stockholder, \$85 million of new CCH II notes. The Plan resulted in the reduction of the principal amount of the Company’s debt by approximately \$708 million and its parent companies’ debt by approximately \$7.5 billion, reducing the Company’s parent companies’ consolidated interest expense by approximately \$830 million annually.

The consummation of the Plan was funded with cash on hand, the Notes Exchange, and net proceeds of approximately \$1.6 billion of an equity rights offering (the “Rights Offering”) in which holders of CCH I notes purchased new Charter Class A common stock.

In connection with the Plan, Charter, Mr. Allen and Charter Investment, Inc. (“CII”) entered into a separate restructuring agreement (as amended, the “Allen Agreement”), in settlement and compromise of their legal, contractual and equitable rights, claims and remedies against Charter and its subsidiaries. In addition to any amounts received by virtue of CII’s holding other claims against Charter and its subsidiaries, on the Effective Date, CII was issued 2.2 million shares of the new Charter Class B common stock equal to 2% of the equity value of Charter, after giving effect to the Rights Offering, but prior to issuance of warrants and equity-based awards provided for by the Plan and 35% (determined on a fully diluted basis) of the total voting power of all new capital stock of Charter. Each share of new Charter Class B common stock is convertible, at the option of the holder, into one share of new Charter Class A common stock, and is subject to significant restrictions on transfer and conversion. Certain holders of new Charter Class A common stock (and securities convertible into or exercisable or exchangeable therefore) and new Charter Class B common stock received certain customary registration rights with respect to their shares. On the Effective Date, CII received: (i) 4.7 million warrants to purchase shares of new Charter Class A common stock, (ii) \$85 million principal amount of new CCH II notes (transferred from CCH I noteholders), (iii) \$25 million in cash for amounts previously owed to CII under a management agreement, (iv) \$20 million in cash for reimbursement of fees and expenses in connection with the Plan, and (v) an additional \$150 million in cash. The warrants described above have an exercise price of \$19.80 per share and expire seven years after the date of issuance. In addition, on the Effective Date, CII retained a minority equity interest in reorganized Charter Holdco of 1% and a right to exchange such interest into new Charter Class A common stock. On December 28, 2009, CII exchanged 81% of its interest in Charter Holdco, and on February 8, 2010 the remaining interest was exchanged after which Charter Holdco became 100% owned by Charter (the “Holdco Exchange”) and ownership of CII was transferred to Charter. The warrants and common stock previously issued to CII were transferred to Mr. Allen in connection with the Holdco Exchange and transfer of CII’s ownership to Charter. In connection with the Plan, Mr. Allen transferred his preferred equity interest in CC VIII, LLC (“CC VIII”) to Charter. Mr. Allen has the right to elect up to four of Charter’s eleven board members.

*Fresh Start Accounting* — Upon the Company’s emergence from bankruptcy, the Company adopted fresh start accounting. This resulted in the Company becoming a new entity on December 1, 2009, with a new capital structure, a new accounting basis in the identifiable assets and liabilities assumed and no retained earnings or accumulated losses. Accordingly, the consolidated financial statements on or after December 1, 2009 are not comparable to the consolidated financial statements prior to that date. The financial statements for the periods ended prior to November 30, 2009 do not include the effect of any changes in the Company’s capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting.

The Company selected December 1, 2009 for adoption of fresh start accounting. Accordingly, the results of operations of the Company for the eleven months ended November 30, 2009 include reorganization items of \$588 million and a pre-emergence loss of \$353 million primarily resulting from the exchange of \$1.5 billion of old CCH II notes for new CCH II notes in accordance with the Plan. In addition, the Company recorded a pre-tax credit to earnings of \$5.5 billion resulting from the aggregate changes to the net carrying value of its pre-emergence assets and liabilities to record their fair values under fresh start accounting.



**CCH II, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009, 2008, AND 2007**  
**(dollars in millions, except where indicated)**

Fresh start accounting provides, among other things, for a determination of the value to be assigned to the equity of the emerging company as of a date selected for financial reporting purposes. In the disclosure statement related to the Plan, the reorganization value of Charter was set forth as approximately \$14.1 billion to \$16.6 billion, with a midpoint estimate of \$15.4 billion. Reorganization value represents the amount of resources available for the satisfaction of post-petition liabilities and allowed claims, as negotiated between the Debtors and their creditors. Reorganization value, along with other terms of the Plan, was determined after extensive arms-length negotiations with the Company's and its parent companies' creditors. The value was based upon expected future cash flows of the business after emergence from Chapter 11, discounted at rates reflecting perceived business and financial risks (the discounted cash flows). This valuation and a valuation using market value multiples for peer companies were blended to arrive at the reorganization value. Reorganization value is intended to approximate the amount a willing buyer would pay for the assets of Charter immediately after the reorganization.

The valuation analysis relied predominantly on the discounted cash flows ("DCF") analysis and the comparable company analysis. While a precedent transaction analysis was performed, the reliance on such methodology for purposes of determining the reorganization value was minimal. The precedent transaction analysis is based on the enterprise values of companies involved in public merger and acquisition transactions that have operating and financial characteristics similar to Charter. Due to factors including, (i) the market environment is not identical for transactions occurring at different periods, and (ii) circumstances pertaining to the financial position of the company may have an impact on the resulting purchase price, less reliance is applied to the precedent transaction analysis. A more detailed explanation of the DCF analysis and comparable company analysis is discussed below.

The basis for the DCF analysis was the projections published in the Plan. These five-year projections were based on management's assumptions including among others, penetration rates for basic and digital video, high-speed Internet, and telephone; revenue growth rates; operating margins; and capital expenditures. The assumptions are derived based on Charter's and its peers' historical operating performance adjusted for current and expected competitive and economic factors surrounding the cable industry. The DCF analysis was completed using discount rates ranging from 10.5% to 11.5% based on Charter's cost of equity and after-tax cost of debt and perpetuity growth rates of 2.5% - 3.5%. The reorganization value and the resulting equity value are highly dependent on the achievement of the future financial results contemplated in the projections that were published in the Plan. The estimates and assumptions made in the valuation are inherently subject to significant uncertainties, many of which are beyond its control, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would have significantly affected the reorganization value include the assumptions regarding revenue growth, programming expense growth rates, the amount and timing of capital expenditures and the discount rate utilized.

The valuation also utilized a comparable companies methodology which identified a group of publicly traded companies whose financial and operating characteristics were similar to those of Charter as a whole; examined the trading prices for the equity securities of such companies in the public markets; added the aggregate amount of outstanding net debt for such companies (at book value and at current market values); and noncontrolling interest less the market value of unconsolidated investments. A range of valuation multiples was then applied to the projections to derive a range of implied enterprise values for Charter as a whole. The multiples ranged from 5.0 to 6.0 depending on the comparable company.

Based on conditions in the cable industry and general economic conditions, the mid-point of the range of valuations was used to determine the reorganization value. Under fresh start accounting, this reorganization value, as adjusted for assets owned by its parent companies, was allocated to the Company's assets based on their respective fair values. The reorganization value, after adjustments for working capital, is reduced by the fair value of debt and other noncurrent liabilities with the remainder representing the value to the member.

The significant assumptions related to the valuations of the Company's assets in connection with fresh start accounting include the following:

*Property, plant and equipment* — Property, plant and equipment was valued at fair value of \$6.8 billion as of November 30, 2009. In establishing fair value for the vast majority of the Company's property, plant and equipment, the cost approach was utilized. The cost approach considers the amount required to replace an asset by

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constructing or purchasing a new asset with similar utility, then adjusts the value in consideration of all forms of depreciation as of the appraisal date as described below:

- Physical depreciation — the loss in value or usefulness attributable solely to use of the asset and physical causes such as wear and tear and exposure to the elements.
- Functional obsolescence — a loss in value is due to factors inherent in the asset itself and due to changes in technology, design or process resulting in inadequacy, overcapacity, lack of functional utility or excess operating costs.
- Economic obsolescence — loss in value by unfavorable external conditions such as economics of the industry or geographic area, or change in ordinances.

The cost approach relies on management's assumptions regarding current material and labor costs required to rebuild and repurchase significant components of the Company's property, plant and equipment along with assumptions regarding the age and estimated useful lives of the Company's property, plant and equipment.

*Intangible Assets* — The Company identified the following intangible assets to be valued: (i) franchise marketing rights and (ii) customer relationships.

Franchise marketing rights and customer relationships were valued using an income approach and were valued at \$5.3 billion and \$2.4 billion, respectively, as of November 30, 2009. See Note 6 to the consolidated financial statements for a description of the methods used to value intangible assets.

*Long-Term Debt* — Long-term debt was valued at fair value using quoted market prices.

The adjustments presented below are to the Company's November 30, 2009 balance sheet. The balance sheet reorganization adjustments presented below summarize the impact of the Plan and the adoption of fresh start accounting as of the Effective Date.

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**REORGANIZED CONDENSED CONSOLIDATED BALANCE SHEET**

ASSETS	November 30, 2009				
	Predecessor	Reorganization Adjustments	(1)	Fresh Start Adjustments	Successor
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 1,034	\$ (588)	(2)	\$ --	\$ 446
Restricted cash and cash equivalents	--	26	(2)	--	26
Accounts receivable, less allowance for doubtful accounts	272	--		--	272
Prepaid expenses and other current assets	47	--		--	47
Total current assets	1,353	(562)		--	791
<b>INVESTMENT IN CABLE PROPERTIES:</b>					
Property, plant and equipment, net of accumulated depreciation	4,788	--		1,996 (10)	6,784
Franchises, net	5,210	--		62 (10)	5,272
Customer relationships, net	8	--		2,355 (10)	2,363
Goodwill	68	--		883 (10)	951
Total investment in cable properties, net	10,074	--		5,296	15,370
<b>OTHER NONCURRENT ASSETS</b>	128	--		(91) (10)	37
Total assets	\$ 11,555	\$ (562)		\$ 5,205	\$ 16,198
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>					
<b>LIABILITIES NOT SUBJECT TO COMPROMISE:</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable and accrued expenses	\$ 1,287	\$ (579)	(3)	\$ (1) (10)	\$ 707
Payables to related party	246	2		(12) (10)	236
Current portion of long-term debt	11,741	(11,671)	(4)	--	70
Total current liabilities	13,274	(12,248)		(13)	1,013
<b>LONG-TERM DEBT</b>	--	13,765	(4)	(502) (10)	13,263
<b>LOANS PAYABLE – RELATED PARTY</b>	13	--		--	13
<b>OTHER LONG-TERM LIABILITIES</b>	177	36	(5)	66 (10)	279
<b>LIABILITIES SUBJECT TO COMPROMISE (INCLUDING AMOUNTS DUE TO RELATED PARTY OF \$25)</b>					
	2,863	(2,863)	(6)	--	--
<b>TEMPORARY EQUITY</b>	195	(195)	(7)	--	--
<b>MEMBER'S EQUITY (DEFICIT):</b>					
Member's equity (deficit)	(5,171)	877	(9)	5,702 (11)	1,408 (8)
Accumulated other comprehensive loss	(251)	--		251 (12)	--
Total CCH II member's equity (deficit)	(5,422)	877		5,953	1,408
Noncontrolling interest	455	66	(7)	(299) (11)	222
Total member's equity (deficit)	(4,967)	943		5,654	1,630
Total liabilities and member's equity (deficit)	\$ 11,555	\$ (562)		\$ 5,205	\$ 16,198

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Explanatory Notes

(1) Represents amounts recorded on the Effective Date for the implementation of the Plan, including the settlement of liabilities subject to compromise and related payments, the issuance of new debt and repayment of old debt, distributions of cash and the cancellation of Predecessor's membership units.

(2) Cash effects of the Plan:

Contribution from parent	\$	51
Payment of Charter Operating interest rate swap termination liability		(495)
Payment to CII		(25)
Payment of accrued interest on reinstated debt		(93)
Escrow amounts reclassified to restricted cash		<u>(26)</u>
 Net change in cash and cash equivalents	 \$	 <u>(588)</u>

This entry records contributions from the Company's parent company and the payment of certain bankruptcy obligations on November 30, 2009. Cash of \$26 million reclassified to restricted cash represents amounts held in escrow accounts pending final resolution from the Bankruptcy Court.

(3) Represents payment of the Charter Operating interest rate swap termination liability and accrued interest on reinstated debt and the reclassification of \$9 million of certain other liabilities previously classified as subject to compromise.

(4) Represents the reclassification of \$11.7 billion of debt from current to long-term as part of the reinstatement of the debt and new CCH II notes issued in connection with the following:

	Principal Amount	Fair Value
New CCH II notes issued in exchange for old CCH II notes and accrued interest	\$ 1,681	\$ 1,993
New CCH II notes issued to CCH I noteholders (subsequently transferred to Mr. Allen)	<u>85</u>	<u>101</u>
 New CCH II notes issued	 \$ <u>1,766</u>	 \$ <u>2,094</u>

(5) Represents the reclassification of \$36 million of other long-term liabilities previously classified as subject to compromise.

(6) Represents the disposition of liabilities subject to compromise paid or reinstated at emergence:

Accrued interest (\$136 paid, \$214 exchanged)	\$	350
Other accrued expenses (reinstated)		45
Deferred management fees—related party (paid)		25
CCH II notes repaid		976
CCH II notes exchanged		<u>1,467</u>
	\$	<u>2,863</u>

(7) Represents the transfer of Mr. Allen's preferred equity interest in CC VIII to noncontrolling interest at fair value.

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(8) Reconciliation of reorganization value to determination of equity:

Total reorganization value	\$ 15,400
Less: Assets owned by parent companies	<u>(204)</u>
Total reorganization value – CCH II	15,196
Less: Working capital deficit (excluding debt)	(152)
Other long term liabilities (excluding taxes)	(68)
Loans payable – related party	(13)
Fair value of debt	<u>(13,333)</u>
Member’s equity	1,630
Less: Noncontrolling interest	<u>(222)</u>
Total CCH II member’s equity	<u>\$ 1,408</u>

(9) As a result of the Plan, the following adjustments were recorded to members’ equity.

Loss due to Plan effects	\$ (353)
Noncash contributions from parent company related to exchange of CCH II notes	1,151
Distribution of new CCH II notes to CCH I	(101)
Cash contribution from parent company	51
CC VIII preferred equity adjustment (see explanatory note 7)	<u>129</u>
	<u>\$ 877</u>

(10) The following table summarizes the allocation of the reorganization value to CCH II’s assets at the date of emergence as shown in the reorganized consolidated balance sheet as of November 30, 2009:

Reorganization value – CCH II	\$ 15,196
Less fair value of:	
Property, plant and equipment	(6,784)
Franchises	(5,272)
Customer relationships	(2,363)
Other noncurrent assets	<u>(37)</u>
	<u>(14,456)</u>
Excess of reorganization value over assets	740
Deferred income taxes resulting from allocation	<u>211</u>
Reorganization value of CCH II assets in excess of fair value (goodwill)	<u>\$ 951</u>

Liabilities were also adjusted to fair value in the application of fresh start accounting resulting in the reduction of long-term debt by \$502 million based on market values of CCH II’s reinstated debt instruments as of November 30, 2009. See Note 8 to the consolidated financial statements. In addition, deferred tax liabilities of \$211 million were recorded in accordance with accounting guidance regarding reorganizations and income taxes.

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- (11) The adjustments required to report assets and liabilities at fair value under fresh start accounting resulted in a pre-tax gain of \$5.5 billion, which was reported as gain due to fresh start accounting adjustments in the consolidated statement of operations for the eleven months ended November 30, 2009. The following is a summary of the adjustments to member's equity as a result of fresh start accounting adjustments.

Gain due to fresh start accounting adjustments	\$	5,501
Income tax expense		(98)
CC VIII preferred equity held by CCH I fair value adjustment		299
	\$	5,702

- (12) Represents the elimination of accumulated other comprehensive loss.

**3. Summary of Significant Accounting Policies**

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with maturities at purchase of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value. Cash and cash equivalents consist primarily of money market funds and commercial paper.

***Property, Plant and Equipment***

Additions to property, plant and equipment are recorded at cost, including all material, labor and certain indirect costs associated with the construction of cable transmission and distribution facilities. While the Company's capitalization is based on specific activities, once capitalized, costs are tracked by fixed asset category at the cable system level and not on a specific asset basis. For assets that are sold or retired, the estimated historical cost and related accumulated depreciation is removed. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor, and certain indirect costs. Indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service and consist of compensation and indirect costs associated with these support functions. Indirect costs primarily include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while plant and equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

Depreciation is recorded using the straight-line composite method over management's estimate of the useful lives of the related assets as follows:

Cable distribution systems	7-20 years
Customer equipment and installations	4-8 years
Vehicles and equipment	1-6 years
Buildings and leasehold improvements	15-40 years
Furniture, fixtures and equipment	6-10 years

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***Asset Retirement Obligations***

Certain of the Company's franchise agreements and leases contain provisions requiring the Company to restore facilities or remove equipment in the event that the franchise or lease agreement is not renewed. The Company expects to continually renew its franchise agreements and has concluded that substantially all of the related franchise rights are indefinite lived intangible assets. Accordingly, the possibility is remote that the Company would be required to incur significant restoration or removal costs related to these franchise agreements in the foreseeable future. A liability is required to be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company has not recorded an estimate for potential franchise related obligations, but would record an estimated liability in the unlikely event a franchise agreement containing such a provision were no longer expected to be renewed. The Company also expects to renew many of its lease agreements related to the continued operation of its cable business in the franchise areas. For the Company's lease agreements, the estimated liabilities related to the removal provisions, where applicable, have been recorded and are not significant to the financial statements.

***Franchises***

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. All franchises that qualify for indefinite-life treatment are tested for impairment annually or more frequently as warranted by events or changes in circumstances (see Note 6). The Company concluded that substantially all of its franchises qualify for indefinite-life treatment.

***Customer Relationships***

Customer relationships represent the value attributable to the Company's business relationships with its current customers including the right to deploy and market additional services to these customers. Customer relationships are amortized on an accelerated basis over the period the relationships are expected to generate cash flows.

***Goodwill***

The Company assesses the recoverability of its goodwill annually, or more frequently whenever events or changes in circumstances indicate that the asset might be impaired. The Company performs the assessment of its goodwill one level below the operating segment level, which is represented by geographical groupings of cable systems by which such systems are managed.

***Other Noncurrent Assets***

Other noncurrent assets primarily include other intangible assets as of December 31, 2009 and deferred financing costs and other intangible assets as of December 31, 2008. Costs related to borrowings are deferred and amortized to interest expense over the terms of the related borrowings. All prior deferred financing costs were eliminated as part of fresh start accounting.

***Valuation of Long-Lived Assets***

The Company evaluates the recoverability of long-lived assets to be held and used for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as impairment of the Company's indefinite life assets, changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or a deterioration of operating results. If a review indicates that the carrying value of such asset is not recoverable from estimated undiscounted cash flows, the carrying value of such asset is reduced to its estimated fair value. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its evaluations of asset recoverability. No impairments of long-lived assets to be held and used were recorded in 2009,

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2008, and 2007; however, approximately \$56 million of impairment on assets held for sale related to cable systems meeting the criteria of assets held for sale was recorded for the year ended December 31, 2007.

***Derivative Financial Instruments***

Gains or losses related to derivative financial instruments which qualify as hedging activities were recorded in accumulated other comprehensive income (loss). For all other derivative instruments, the related gains or losses were recorded in the statements of operations. The Company used interest rate swap agreements to manage its interest costs and reduce the Company's exposure to increases in floating interest rates. The Company's policy is to manage its 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 agreed to exchange, at specified intervals through 2013, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts. At the banks' option, certain interest rate swap agreements could have been extended through 2014. The Company does not hold or issue any derivative financial instruments for trading purposes. Upon filing for Chapter 11 bankruptcy, the counterparties to the interest rate swap agreements terminated the underlying contracts and upon emergence from bankruptcy, received payment for the market value of the interest rate swap as measured on the date the counterparties terminated. The Company does not hold any derivative financial instruments as of December 31, 2009.

***Revenue Recognition***

Revenues from residential and commercial video, high-speed Internet and telephone services are recognized when the related services are provided. Advertising sales are recognized at estimated realizable values in the period that the advertisements are broadcast. Franchise fees imposed by local governmental authorities are collected on a monthly basis from the Company's customers and are periodically remitted to local franchise authorities. Franchise fees of \$15 million, \$166 million, \$187 million, and \$177 million for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively, are reported in other revenues, on a gross basis with a corresponding operating expense. Sales taxes collected and remitted to state and local authorities are recorded on a net basis.

The Company's revenues by product line are as follows:

	<b>Year Ended December 31, 2009</b>			
	<b>Successor One Month Ended December 31, 2009</b>	<b>Predecessor Eleven Months Ended November 30, 2009</b>	<b>Predecessor Year Ended December 31,</b>	
			<b>2008</b>	<b>2007</b>
Video	\$ 288	\$ 3,180	\$ 3,463	\$ 3,392
High-speed Internet	127	1,349	1,356	1,243
Telephone	61	652	555	345
Commercial	39	407	392	341
Advertising sales	22	227	308	298
Other	35	368	405	383
	<u>\$ 572</u>	<u>\$ 6,183</u>	<u>\$ 6,479</u>	<u>\$ 6,002</u>

***Programming Costs***

The Company has various contracts to obtain basic, digital and premium video programming from program suppliers whose compensation is typically based on a flat fee per customer. The cost of the right to exhibit network programming under such arrangements is recorded in operating expenses in the month the programming is available for exhibition. Programming costs are paid each month based on calculations performed by the Company and are



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subject to periodic audits performed by the programmers. Certain programming contracts contain incentives to be paid by the programmers. The Company receives these payments and recognizes the incentives on a straight-line basis over the life of the programming agreement as a reduction of programming expense. This offset to programming expense was \$2 million, \$24 million, \$33 million, and \$25 million for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively. As of December 31, 2009 and 2008, the deferred amounts of such economic consideration, included in other long-term liabilities, were \$36 million and \$61 million, respectively. Programming costs included in the accompanying statements of operations were \$146 million, \$1.6 billion, \$1.6 billion, and \$1.6 billion for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively.

***Advertising Costs***

Advertising costs associated with marketing the Company's products and services are generally expensed as costs are incurred. Such advertising expense was \$20 million, \$230 million, \$229 million, and \$187 million for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively.

***Multiple-Element Transactions***

In the normal course of business, the Company enters into multiple-element transactions where it is simultaneously both a customer and a vendor with the same counterparty or in which it purchases multiple products and/or services, or settles outstanding items contemporaneous with the purchase of a product or service from a single counterparty. Transactions, although negotiated contemporaneously, may be documented in one or more contracts. The Company's policy for accounting for each transaction negotiated contemporaneously is to record each element of the transaction based on the respective estimated fair values of the products or services purchased and the products or services sold. In determining the fair value of the respective elements, the Company refers to quoted market prices (where available), historical transactions or comparable cash transactions.

***Stock-Based Compensation***

The Company recorded \$1 million, \$26 million, \$33 million, and \$18 million of option compensation expense which is included in general and administrative expenses for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the years ended December 31, 2008, and 2007, respectively; risk-free interest rates of 3.5% and 4.6%; expected volatility of 88.1% and 70.3% based on historical volatility; and expected lives of 6.3 years and 6.3 years, respectively. The valuations assume no dividends are paid. The Company did not grant stock options in 2009.

***Income Taxes***

CCH II is a single member limited liability company not subject to income tax. CCH II holds all operations through indirect subsidiaries. The majority of these indirect subsidiaries are limited liability companies that are also not subject to income tax. However, certain of CCH II's indirect subsidiaries are corporations that are subject to income tax. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of these indirect subsidiaries' assets and liabilities and expected benefits of utilizing net operating loss carryforwards. The impact on deferred taxes of changes in tax rates and tax law, if any, applied to the years during which temporary differences are expected to be settled, are reflected in the consolidated financial statements in the period of enactment (see Note 19).

Charter, the Company's indirect parent company, is subject to income taxes. Accordingly, in addition to the Company's deferred tax liabilities, Charter has recorded net deferred tax liabilities of approximately \$93 million related to their investment in Charter Holdco which is not reflected at the Company.

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**Segments**

The Company's operations are managed on the basis of geographic operating segments. The Company has evaluated the criteria for aggregation of the geographic operating segments and believes it meets each of the respective criteria set forth. The Company delivers similar products and services within each of its geographic operations. Each geographic service area utilizes similar means for delivering the programming of the Company's services; have similarity in the type or class of customer receiving the products and services; distributes the Company's services over a unified network; and operates within a consistent regulatory environment. In addition, each of the geographic operating segments has similar economic characteristics. In light of the Company's similar services, means for delivery, similarity in type of customers, the use of a unified network and other considerations across its geographic operating structure, management has determined that the Company has one reportable segment, broadband services.

**4. Allowance for Doubtful Accounts**

Activity in the allowance for doubtful accounts is summarized as follows for the years presented:

	<b>Year Ended December 31, 2009</b>			
	<b>Successor One Month Ended December 31, 2009</b>	<b>Predecessor Eleven Months Ended November 30, 2009</b>	<b>Predecessor Year Ended December 31,</b>	
			<b>2008</b>	<b>2007</b>
Balance, beginning of period	\$ --	\$ 18	\$ 18	\$ 16
Charged to expense	10	120	122	107
Uncollected balances written off, net of recoveries	1	(116)	(122)	(105)
Fresh start accounting adjustments	--	(22)	--	--
Balance, end of period	<u>\$ 11</u>	<u>\$ --</u>	<u>\$ 18</u>	<u>\$ 18</u>

On the Effective Date, the Company applied fresh start accounting and as such adjusted its accounts receivable to reflect fair value. Therefore, the allowance for doubtful accounts was eliminated at November 30, 2009.

**5. Property, Plant and Equipment**

Property, plant and equipment consists of the following as of December 31, 2009 and 2008:

	<b>Successor December 31, 2009</b>	<b>Predecessor December 31, 2008</b>
Cable distribution systems	\$ 4,762	\$ 7,008
Customer equipment and installations	1,597	4,057
Vehicles and equipment	91	256
Buildings and leasehold improvements	273	439
Furniture, fixtures and equipment	168	390
	6,891	12,150
Less: accumulated depreciation	(94)	(7,191)
	<u>\$ 6,797</u>	<u>\$ 4,959</u>

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The Company periodically evaluates the estimated useful lives used to depreciate its assets and the estimated amount of assets that will be abandoned or have minimal use in the future. A significant change in assumptions about the extent or timing of future asset retirements, or in the Company's use of new technology and upgrade programs, could materially affect future depreciation expense. In 2007, the Company changed the useful lives of certain property, plant, and equipment based on technological changes. The change in useful lives reduced depreciation expense by approximately \$81 million and \$8 million during 2008 and 2007, respectively. On the Effective Date, the Company applied fresh start accounting and as such adjusted its property, plant and equipment to reflect fair value and adjusted remaining useful lives for existing property, plant and equipment and for future purchases.

Depreciation expense for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007 was \$94 million, \$1.2 billion, \$1.3 billion, and \$1.3 billion, respectively.

## **6. Franchises, Goodwill and Other Intangible Assets**

Franchise rights represent the value attributed to agreements or authorizations with local and state authorities that allow access to homes in cable service areas. Franchises are tested for impairment annually, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable units of accounting to conduct the valuations. The units of accounting 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 a result of the continued economic pressure on the Company's customers from the recent economic downturn along with increased competition, the Company determined that its projected future growth would be lower than previously anticipated in its annual impairment testing in December 2008. Accordingly, the Company determined that sufficient indicators existed to require it to perform an interim franchise impairment analysis as of September 30, 2009. As of the date of the filing of its parent companies' Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, the Company determined that an impairment of franchises was probable and could be reasonably estimated. Accordingly, for the quarter ended September 30, 2009, the Company recorded a preliminary non-cash franchise impairment charge of \$2.9 billion which represented the Company's best estimate of the impairment of its franchise assets. The Company finalized its franchise impairment analysis during the two months ended November 30, 2009, and recorded a reduction of the non-cash franchise impairment charge of \$691 million.

The Company recorded non-cash franchise impairment charges of \$1.5 billion and \$178 million for the years ended December 31, 2008 and 2007, respectively. The impairment charge recorded in 2008 was primarily the result of the impact of the economic downturn along with increased competition while the impairment charge recorded in 2007 was primarily the result of an increase in competition.

On the Effective Date, the Company applied fresh start accounting and adjusted its franchise, goodwill, and other intangible assets including customer relationships to reflect fair value. The Company's valuations, which are based on the present value of projected after tax cash flows, resulted in a value for property, plant and equipment, franchises, and customer relationships for each unit of accounting. As a result of applying fresh start accounting, the Company recorded goodwill of \$951 million which represents the excess of reorganization value over amounts assigned to the other assets. See Note 2.

The Company determined the estimated fair value of each unit of accounting utilizing an income approach model based on the present value of the estimated discrete future cash flows attributable to each of the intangible assets identified for each unit assuming a discount rate. This approach makes use of unobservable factors such as projected revenues, expenses, capital expenditures, and a discount rate applied to the estimated cash flows. The determination of the discount rate was based on a weighted average cost of capital approach, which uses a market participant's cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows.

The Company estimated discounted future cash flows using reasonable and appropriate assumptions including among others, penetration rates for basic and digital video, high-speed Internet, and telephone; revenue growth rates; operating margins; and capital expenditures. The assumptions are derived based on the Company's and its peers'

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historical operating performance adjusted for current and expected competitive and economic factors surrounding the cable industry. The estimates and assumptions made in the Company's valuations are inherently subject to significant uncertainties, many of which are beyond its control, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would significantly affect the measurement value include the assumptions regarding revenue growth, programming expense growth rates, the amount and timing of capital expenditures and the discount rate utilized. The assumptions used are consistent with current internal forecasts, some of which differ from the assumptions used for the annual impairment testing in December 2008 as a result of the economic and competitive environment discussed previously. The change in assumptions reflects the lower than anticipated growth in revenues experienced during 2009 and the expected reduction of future cash flows as compared to those used in the December 2008 valuations.

Franchises, for valuation purposes, are defined as the future economic benefits of the right to solicit and service potential customers (customer marketing rights), and the right to deploy and market new services, such as interactivity and telephone, to potential customers (service marketing rights). Fair value is determined based on estimated discrete discounted future cash flows using assumptions consistent with internal forecasts. The franchise after-tax cash flow is calculated as the after-tax cash flow generated by the potential customers obtained (less the anticipated customer churn), and the new services added to those customers in future periods. The sum of the present value of the franchises' after-tax cash flow in years 1 through 10 and the continuing value of the after-tax cash flow beyond year 10 yields the fair value of the franchises. Franchises increased \$62 million as a result of the application of fresh start accounting. Subsequent to finalization of the franchise impairment charge and fresh start accounting, franchises are recorded at fair value of \$5.3 billion. Franchises are expected to generate cash flows indefinitely and as such will continue to be tested for impairment annually.

Customer relationships, for valuation purposes, represent the value of the business relationship with existing customers (less the anticipated customer churn), and are calculated by projecting the discrete future after-tax cash flows from these customers, including the right to deploy and market additional services to these customers. The present value of these after-tax cash flows yields the fair value of the customer relationships. The Company recorded \$2.4 billion of customer relationships in connection with the application of fresh start accounting on the Effective Date. Customer relationships will be amortized on an accelerated method over useful lives of 11-15 years based on the period over which current customers are expected to generate cash flows.

As of December 31, 2009 and 2008, indefinite-lived and finite-lived intangible assets are presented in the following table:

	Successor 2009			Predecessor 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises with indefinite lives	\$ 5,272	\$ --	\$ 5,272	\$ 7,377	\$ --	\$ 7,377
Goodwill	951	--	951	68	--	68
	<u>\$ 6,223</u>	<u>\$ --</u>	<u>\$ 6,223</u>	<u>\$ 7,445</u>	<u>\$ --</u>	<u>\$ 7,445</u>
Finite-lived intangible assets:						
Franchises with finite lives	\$ --	\$ --	\$ --	\$ 16	\$ 9	\$ 7
Customer relationships	2,363	28	2,335	26	17	9
Other intangible assets	33	--	33	45	24	21
	<u>\$ 2,396</u>	<u>\$ 28</u>	<u>\$ 2,368</u>	<u>\$ 87</u>	<u>\$ 50</u>	<u>\$ 37</u>

Franchise amortization expense for the Predecessor represents the amortization relating to franchises that did not qualify for indefinite-life treatment including costs associated with franchise renewals. Franchise amortization expense for the eleven months ended November 30, 2009, and years ended December 31, 2008, and 2007 was \$2 million, \$2 million, and \$3 million, respectively. Amortization expense related to customer relationships and other

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intangible assets for the one month ended December 31, 2009, eleven months ended November 30, 2009, and years ended December 31, 2008, and 2007 was \$28 million, \$5 million, \$5 million, and \$4 million, respectively. During the eleven months ended November 30, 2009, the net carrying amount of indefinite-lived franchises was reduced by \$9 million related to cable asset sales completed in 2009.

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

2010	\$	337
2011		311
2012		285
2013		259
2014		233
Thereafter		<u>943</u>
	\$	<u>2,368</u>

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.

**7. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following as of December 31, 2009 and 2008:

	<b>Successor December 31, 2009</b>	<b>Predecessor December 31, 2008</b>
Accounts payable – trade	\$ 102	\$ 86
Accrued capital expenditures	46	56
Accrued expenses:		
Interest	88	193
Programming costs	270	305
Franchise related fees	53	60
Compensation	59	80
Other	<u>138</u>	<u>200</u>
	<u>\$ 756</u>	<u>\$ 980</u>

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**8. Long-Term Debt**

Long-term debt consists of the following as of December 31, 2009 and 2008:

	<b>Successor December 31, 2009</b>		<b>Predecessor December 31, 2008</b>	
	<b>Principal Amount</b>	<b>Accreted Value</b>	<b>Principal Amount</b>	<b>Accreted Value</b>
CCH II, LLC:				
10.250% senior notes due September 15, 2010	\$ --	\$ --	\$ 1,860	\$ 1,857
10.250% senior notes due October 1, 2013	--	--	614	598
13.500% senior notes due November 15, 2016	1,766	2,092	--	--
CCO Holdings, LLC:				
8 3/4% senior notes due November 15, 2013	800	812	800	796
Credit facility	350	304	350	350
Charter Communications Operating, LLC:				
8.000% senior second-lien notes due April 30, 2012	1,100	1,120	1,100	1,100
8 3/8% senior second-lien notes due April 30, 2014	770	779	770	770
10.875% senior second-lien notes due September 15, 2014	546	601	546	527
Credit facilities	<u>8,177</u>	<u>7,614</u>	<u>8,246</u>	<u>8,246</u>
<b>Total Debt</b>	<b>\$ 13,509</b>	<b>\$ 13,322</b>	<b>\$ 14,286</b>	<b>\$ 14,244</b>
Less: Current Portion	<u>70</u>	<u>70</u>	<u>70</u>	<u>70</u>
<b>Long-Term Debt</b>	<b><u>\$ 13,439</u></b>	<b><u>\$ 13,252</u></b>	<b><u>\$ 14,216</u></b>	<b><u>\$ 14,174</u></b>

On the Effective Date, the Company applied fresh start accounting and as such adjusted its debt to reflect fair value. Therefore, as of December 31, 2009, the accreted values presented above represent the fair value of the notes as of the Effective Date, plus the accretion to the balance sheet date. However, the amount that is currently payable if the debt becomes immediately due is equal to the principal amount of notes. As of December 31, 2008, the accreted values presented above generally represented the principal amount of the notes less the original issue discount at the time of sale, plus the accretion to the balance sheet date.

The exchange of CCH II debt described below resulted in a loss due to effects of the Plan of approximately \$353 million for the eleven months ended November 30, 2009, included in the Predecessor company's consolidated statements of operations. See Note 2.

***CCH II, LLC Notes***

On the Effective Date, CCH II and CCH II Capital Corp. issued approximately \$1.8 billion in total principal amount of new 13.5% senior notes. Existing holders of senior notes of CCH II and CCH II Capital Corp. ("CCH II Notes") exchanged \$1.5 billion principal amount of their CCH II Notes plus accrued interest for \$1.7 billion principal amount (\$2.0 billion fair value) of new 13.5% Senior Notes of CCH II and CCH II Capital Corp. (the "New CCH II Notes"). CCH II Notes and accrued interest that were not exchanged were paid in cash by Charter in an amount equal to \$1.1 billion. The notes were thereafter transferred to Charter and cancelled.

The New CCH II Notes are senior debt obligations of CCH II and CCH II Capital Corp. The New CCH II Notes rank equally with all other current and future unsecured, unsubordinated obligations of CCH II and CCH II Capital Corp. The New CCH II notes are structurally subordinated to all obligations of the subsidiaries of CCH II, including the CCO Holdings notes and credit facility and the Charter Operating notes and credit facilities.

At any time prior to the third anniversary of their issuance, CCH II will be permitted to redeem up to 35% of the New CCH II Notes with the proceeds of an equity offering, for cash equal to 113.5% of the then-outstanding principal amount of the New CCH II Notes being redeemed, plus accrued and unpaid interest. At or any time prior to the third anniversary of their issuance, CCH II will be permitted to redeem the New CCH II Notes, in whole or in

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part, at 100% of the principal amount outstanding plus a “make-whole” premium calculated based on a discount rate of the Treasury rate plus 50 basis points, plus accrued and unpaid interest. On or after the third anniversary of their issuance, the New CCH II Notes will be subject to redemption by CCH II for cash equal to 106.75% of the principal amount of the New CCH II Notes being redeemed for redemptions made during the fourth year following their issuance, 103.375% for redemptions made during the fifth year following their issuance, 101.6875% for redemptions made during the sixth year following their issuance, and 100.000% for redemptions made thereafter, in each case, together with accrued and unpaid interest.

In the event of specified change of control events, CCH II must offer to purchase the outstanding CCH II notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

***CCO Holdings Notes***

The CCO Holdings notes are senior debt obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current and future unsecured, unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of subsidiaries of CCO Holdings, including the Charter Operating notes and the Charter Operating credit facilities.

The issuers of the CCO Holdings 8 <sup>3</sup>/<sub>4</sub>% senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the redemption price of 102.917% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings 8 <sup>3</sup>/<sub>4</sub>% senior notes redeemed, plus, in each case, any accrued and unpaid interest.

In the event of specified change of control events, CCO Holdings must offer to purchase the outstanding CCO Holdings senior notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

***Charter Operating Notes***

The Charter Operating notes are senior debt obligations of Charter Operating and Charter Communications Operating Capital Corp. To the extent of the value of the collateral (but subject to the prior lien of the credit facilities), they rank effectively senior to all of Charter Operating’s future unsecured senior indebtedness. The collateral currently consists of the capital stock of Charter Operating held by CCO Holdings, all of the intercompany obligations owing to CCO Holdings by Charter Operating or any subsidiary of Charter Operating, and substantially all of Charter Operating’s and the guarantors’ assets (other than the assets of CCO Holdings). CCO Holdings and those subsidiaries of Charter Operating that are guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations, guarantee the Charter Operating notes.

Charter Operating may, at any time and from time to time, at their option, redeem the outstanding 8% second lien notes due 2012, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date, 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 an 8% senior second-lien note due 2012 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.

On or after April 30, 2009, Charter Operating may redeem all or a part of the 8 <sup>3</sup>/<sub>8</sub>% senior second lien notes at a redemption price that declines ratably from the initial redemption price of 104.188% to a redemption price on or after April 30, 2012 of 100% of the principal amount of the 8 <sup>3</sup>/<sub>8</sub>% senior second lien notes redeemed plus in each case accrued and unpaid interest.

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.

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

***High-Yield Restrictive Covenants; Limitation on Indebtedness.***

The indentures governing the CCH II, CCO Holdings and Charter Operating notes contain certain covenants that restrict the ability of CCH II, CCH II Capital Corp., CCO Holdings, CCO Holdings Capital Corp., Charter Operating, Charter Communications Operating Capital Corp., and all of their restricted subsidiaries to:

- incur additional debt;
- pay dividends on equity or repurchase equity;
- make investments;
- sell all or substantially all of their assets or merge with or into other companies;
- sell assets;
- enter into sale-leasebacks;
- in the case of restricted subsidiaries, create or permit to exist dividend or payment restrictions with respect to the bond issuers, guarantee their parent companies debt, or issue specified equity interests;
- engage in certain transactions with affiliates; and
- grant liens.

***CCO Holdings Credit Facility***

The CCO Holdings credit facility consists of a \$350 million term loan. The term loan matures on September 6, 2014. The CCO Holdings credit facility also allows the Company to enter into incremental term loans in the future, maturing on the dates set forth in the notices establishing such term loans, but no earlier than the maturity date of the existing term loans. However, no assurance can be given that the Company could obtain such incremental term loans if CCO Holdings sought to do so. Borrowings under the CCO Holdings credit facility bear interest at a variable interest rate based on either LIBOR or a base rate plus, in either case, an applicable margin. The applicable margin for LIBOR term loans, other than incremental loans, is 2.50% above LIBOR. The applicable margin with respect to the incremental loans is to be agreed upon by CCO Holdings and the lenders when the incremental loans are established. The CCO Holdings credit facility is secured by the equity interests of Charter Operating, and all proceeds thereof.

***Charter Operating Credit Facilities***

On the Effective Date, the Charter Operating credit facilities remain outstanding although the revolving line of credit is no longer available for new borrowings and remains substantially drawn with the same maturity and interest terms. The Charter Operating credit facilities have outstanding principal amount of \$8.2 billion at December 31, 2009 as follows:

- a term loan with a remaining principal amount of \$6.4 billion, which is repayable in equal quarterly installments aggregating in each loan year to 1% of the original amount of the term loan, with the remaining balance due at final maturity on March 6, 2014;
- an incremental term loan with a remaining principal amount of \$491 million which is payable on March 6, 2014 and prior to that date will amortize in quarterly principal installments totaling 1% annually; and
- a revolving credit facility of \$1.3 billion, with a maturity date on March 6, 2013.



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The Charter Operating credit facilities also allow the Company to enter into incremental term loans in the future with an aggregate amount of up to an additional \$500 million, with amortization as set forth in the notices establishing such term loans, but with no amortization greater than 1% prior to the final maturity of the existing term loan. Although the Charter Operating credit facilities allow for the incurrence of up to an additional \$500 million in incremental term loans, no assurance can be given that additional incremental term loans could be obtained in the future if Charter Operating sought to do so.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating's election, at a base rate or LIBOR (0.26% as of December 31, 2009 and 1.46% to 3.50% as of December 31, 2008), as defined, plus a margin for LIBOR loans of 2.00% for the revolving credit facility and for the term loan. The current incremental term loan bears interest at LIBOR plus 5.0%, with a LIBOR floor of 3.5% or at Charter Operating's election, a base rate (3.25% at December 31, 2009) plus a margin of 4.00%. Charter Operating has currently elected the base rate for the incremental term loan.

The obligations of Charter Operating under the Charter Operating credit facilities (the "Obligations") are guaranteed by Charter Operating's immediate parent company, CCO Holdings, and the subsidiaries of Charter Operating, except for certain subsidiaries, including immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of provisions of other indebtedness to which they are subject (the "non-guarantor subsidiaries"). The Obligations are also secured by (i) a lien on substantially all of the assets of Charter Operating and its subsidiaries (other than assets of the non-guarantor subsidiaries), and (ii) a pledge by CCO Holdings of the equity interests owned by it in Charter Operating or any of Charter Operating's subsidiaries, as well as intercompany obligations owing to it by any of such entities.

***Credit Facilities — Restrictive Covenants***

***Charter Operating Credit Facilities***

The Charter Operating credit facilities contain representations and warranties, and affirmative and negative covenants customary for financings of this type. The financial covenants measure performance against standards set for leverage to be tested as of the end of each quarter. Additionally, the Charter Operating credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including in connection with certain sales of assets, so long as the proceeds have not been reinvested in the business. The Charter Operating credit facilities permit Charter Operating and its subsidiaries to make distributions to pay interest on the subordinated and parent company indebtedness, provided that, among other things, no default has occurred and is continuing under the Charter Operating credit facilities.

The events of default under the Charter Operating credit facilities include, among other things:

- the failure to make payments when due or within the applicable grace period,
- the failure to comply with specified covenants, including but not limited to a covenant to deliver audited financial statements for Charter Operating with an unqualified opinion from the Company's independent accountants and without a "going concern" or like qualification or exception.
- the failure to pay or the occurrence of events that cause or permit the acceleration of other indebtedness owing by CCO Holdings, Charter Operating, or Charter Operating's subsidiaries in amounts in excess of \$100 million in aggregate principal amount,
- the failure to pay or the occurrence of events that result in the acceleration of other indebtedness owing by certain of CCO Holdings' direct and indirect parent companies in amounts in excess of \$200 million in aggregate principal amount,
- Mr. Allen and/or certain of his family members and/or their exclusively owned entities (collectively, the "Paul Allen Group") ceasing to have the power, directly or indirectly, to vote at least 35% of the ordinary voting power for the management of Charter Operating on a fully diluted basis,
- the consummation of any transaction resulting in any person or group (other than the Paul Allen Group) having power, directly or indirectly, to vote more than 35% of the ordinary voting power for the

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management of Charter Operating on a fully diluted basis, unless the Paul Allen Group holds a greater share of ordinary voting power for the management of Charter Operating, and

- Charter Operating ceasing to be a wholly-owned direct subsidiary of CCO Holdings, except in certain very limited circumstances.

***CCO Holdings Credit Facility***

The CCO Holdings credit facility contains covenants that are substantially similar to the restrictive covenants for the CCO Holdings notes. The CCO Holdings credit facility contains provisions requiring mandatory loan prepayments under specific circumstances, including in connection with certain sales of assets, so long as the proceeds have not been reinvested in the business. The CCO Holdings credit facility permits CCO Holdings and its subsidiaries to make distributions to pay interest on the CCH II notes, the CCO Holdings notes, and the Charter Operating second-lien notes, provided that, among other things, no default has occurred and is continuing under the CCO Holdings credit facility.

***Limitations on Distributions***

Distributions by Charter's subsidiaries to a parent company for payment of principal on parent company notes are restricted under the indentures and credit facilities discussed above, 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. As of December 31, 2009, there was no default under any of these indentures or credit facilities. However, certain of the Company's subsidiaries did not meet their applicable leverage ratio tests based on December 31, 2009 financial results. As a result, distributions from certain of Charter's subsidiaries to their parent companies would have been restricted at such time and will continue to be restricted unless those tests are met. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities

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

In addition to the limitation on distributions under the various indentures discussed above, distributions by the Company's subsidiaries may be limited by applicable law, including the Delaware Limited Liability Company Act, under which the Company's subsidiaries may only make distributions if they have "surplus" as defined in the act.

***Liquidity and Future Principal Payments***

The Company has a significant amount of debt, and its business requires significant cash to fund principal and interest payments on its debt, capital expenditures and ongoing operations. The Company has funded its cash requirements through cash flows from operating activities, borrowings under its credit facilities, proceeds from sales of assets, issuances of debt and equity securities, and cash on hand. Upon filing bankruptcy and continuing under the Plan as consummated, Charter Operating no longer has access to the revolving feature of its revolving credit facility and will rely on cash on hand and cash flows from operating activities to fund its projected operating cash needs. As set forth below, the Company has significant future principal payments beginning in 2012 and beyond. The Company continues to monitor the capital markets, and it expects to undertake refinancing transactions and utilize cash flows from operating activities and cash on hand to further extend or reduce the maturities of its principal obligations.

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Based upon outstanding indebtedness as of December 31, 2009, the amortization of term loans, and the maturity dates for all senior and subordinated notes, total future principal payments on the total borrowings under all debt agreements as of December 31, 2009, are as follows:

Year	Amount
2010	\$ 70
2011	70
2012	1,170
2013	2,185
2014	8,248
Thereafter	1,766
	\$ 13,509

**9. Loans Payable – Related Party**

Loans payable-related party as of December 31, 2009 and 2008 consists of loans from Charter Holdco to Charter Operating of \$13 million.

**10. Temporary Equity**

Temporary equity on the consolidated balance sheets represented Mr. Allen’s 5.6% preferred membership interest in CC VIII, an indirect subsidiary of CCH II, of \$203 million as of December 31, 2008. Mr. Allen’s CC VIII interest was classified as temporary equity as a result of Mr. Allen’s ability to put his interest to the Company upon a change in control. On the Effective Date, Mr. Allen’s 5.6% preferred membership interest was transferred to Charter and is now classified as noncontrolling interest. See Note 2 and Note 11.

**11. Noncontrolling Interest**

Noncontrolling interest represents Charter’s 5.6% membership interest and CCH I’s 13% membership interest in CC VIII of \$225 million as of December 31, 2009. As of December 31, 2008, noncontrolling interest of \$473 million represented only CCH I’s 13% membership interest in CC VIII. As discussed above, on the Effective Date, Mr. Allen transferred his 5.6% membership interest to Charter. Noncontrolling interest in the accompanying condensed consolidated statements of operations represents the 2% accretion of the preferred membership interest in CC VIII plus approximately 18.6% of CC VIII’s income, inclusive of Mr. Allen’s previous 5.6% membership interest accounted for as temporary equity as of December 31, 2008.

**12. Comprehensive Income (Loss)**

The Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet effectiveness criteria in accumulated other comprehensive loss. Comprehensive loss for the years ended December 31, 2008, and 2007 was \$1.9 billion and \$712 million, respectively. Comprehensive income for the one month ended December 31, 2009 and eleven months ended November 30, 2009 was \$6 million and \$2.7 billion, respectively.

**13. Accounting for Derivative Instruments and Hedging Activities**

The Company used interest rate swap agreements to manage its interest costs and reduce the Company’s exposure to increases in floating interest rates. The Company’s policy is to manage its 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 agreed to exchange, at specified intervals through 2013, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts. At the banks’ option, certain interest rate swap agreements could have been extended through 2014.

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Upon filing for Chapter 11 bankruptcy, the counterparties to the interest rate swap agreements terminated the underlying contracts and, upon emergence from bankruptcy, received payment of \$495 million for the market value of the interest rate swap agreements as measured on the date the counterparties terminated plus accrued interest. The Company does not hold any derivative financial instruments as of December 31, 2009.

The Company's hedging policy does not permit it to hold or issue derivative instruments for speculative trading purposes. The Company did, however, have certain interest rate derivative instruments that were designated as cash flow hedging instruments. Such instruments effectively converted variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, derivative gains and losses offset related results on hedged items in the consolidated statements of operations. The Company formally documented, designated and assessed the effectiveness of transactions that received hedge accounting.

Changes in the fair value of interest rate agreements that were designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, and that met effectiveness criteria were reported in accumulated other comprehensive loss. The amounts were subsequently reclassified as an increase or decrease to interest expense in the same periods in which the related interest on the floating-rate debt obligations affected earnings (losses).

Certain interest rate derivative instruments were not designated as hedges as they did not meet effectiveness criteria. However, management believes such instruments were closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges were marked to fair value, with the impact recorded as a change in value of derivatives in the Company's consolidated statements of operations.

As of December 31, 2008, the Company had outstanding \$4.3 billion in notional amounts of interest rate swap agreements outstanding. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged were determined by reference to the notional amount and the other terms of the contracts.

The effect of derivative instruments on the Company's consolidated statements of operations is presented in the table below.

	<b>Year Ended December 31, 2009</b>		<b>Predecessor</b>	
	<b>Successor One Month Ended December 31, 2009</b>	<b>Predecessor Eleven Months Ended November 30, 2009</b>	<b>Predecessor Year Ended December 31,</b>	
			<b>2008</b>	<b>2007</b>
Change in value of derivatives:				
Loss on interest rate derivatives not designated as hedges	\$ --	\$ (4)	\$ (62)	\$ (46)
Accumulated other comprehensive loss:				
Loss on interest rate derivatives designated as hedges (effective portion)	\$ --	\$ (9)	\$ (180)	\$ (123)
Amount of loss reclassified from accumulated other comprehensive loss into interest expense, reorganization items, net or gain due to fresh start accounting adjustments	\$ --	\$ 279	\$ (76)	\$ 10

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**14. Fair Value Measurements**

*Financial Assets and Liabilities*

The Company has estimated the fair value of its financial instruments as of December 31, 2009 and 2008 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

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

The estimated fair value of the Company's debt at December 31, 2009 and 2008 are based on quoted market prices.

A summary of the carrying value and fair value of the Company's debt at December 31, 2009 and 2008 is as follows:

	Successor		Predecessor	
	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Debt</b>				
CCH II debt, Predecessor	\$ --	\$ --	\$ 2,455	\$ 1,051
CCH II debt, Successor	2,092	2,086	--	--
CCO Holdings debt	812	816	796	505
Charter Operating debt	2,500	2,527	2,397	1,923
Credit facilities	7,918	8,000	8,596	6,187

The Company adopted new accounting guidance for fair value measurements and disclosures on its financial assets and liabilities effective January 1, 2008, and has an established process for determining fair value. 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.

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

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

Interest rate derivatives were valued at December 31, 2008 using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating's credit risk) and were classified within level 2 of the valuation hierarchy. The Company's interest rate derivatives were accounted for at fair value on a recurring basis and totaled \$411 million and had a weighted average interest pay rate of 4.93% at December 31, 2008.

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The Company's long-term debt was adjusted to fair value on the Effective Date. Debt instruments with a fair value of \$9.8 billion were classified as level 1 within the fair value hierarchy and debt instruments with a fair value of \$3.5 billion were classified as level 2 in the fair value hierarchy.

***Nonfinancial Assets and Liabilities***

The Company adopted new accounting guidance effective January 1, 2009 with respect to its nonfinancial assets and liabilities including fair value measurements of franchises, property, plant, and equipment, and other intangible assets. These assets are not measured at fair value on a recurring basis; however they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. During 2009, the Company recorded an impairment on its franchise assets of \$2.2 billion and reflected its franchises, property, plant and equipment, customer relationships and goodwill at fair value based on applying fresh start accounting. The fair value of these assets was determined utilizing an income approach or cost approach that makes use of significant unobservable inputs. Such fair values are classified as level 3 in the fair value hierarchy. See Note 6 for additional information.

**15. Other Operating (Income) Expenses, Net**

Other operating (income) expenses, net consist of the following for the years presented:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>One Month Ended December 31, 2009</u>	<u>Eleven Months Ended November 30, 2009</u>	<u>Year Ended December 31,</u>	
			<u>2008</u>	<u>2007</u>
(Gain) loss on sale of assets, net	\$ 1	\$ 6	\$ 13	\$ (3)
Special charges, net	3	(44)	56	(14)
	<u>\$ 4</u>	<u>\$ (38)</u>	<u>\$ 69</u>	<u>\$ (17)</u>

***(Gain) loss on sale of assets, net***

(Gain) loss on sale of assets represents the (gain) loss recognized on the sale of fixed assets and cable systems.

***Special charges, net***

Special charges, net for one month ended December 31, 2009 primarily includes severance charges. Special charges, net for the eleven months ended November 30, 2009 primarily includes gains related to favorable litigation settlements. Special charges, net for the year ended December 31, 2008 includes severance charges and settlement costs associated with certain litigation, offset by favorable insurance settlements. Special charges, net for the year ended December 31, 2007, primarily represents favorable litigation settlements offset by severance associated with the closing of call centers and divisional restructuring.

**16. Reorganization Items, Net**

Reorganization items, net is presented separately in the condensed consolidated statements of operations and represents items of income, expense, gain or loss that are realized or incurred by the Company because it was in reorganization under Chapter 11 of the U.S. Bankruptcy Code.

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Reorganization items, net consisted of the following items:

	<u>Successor</u>	<u>Predecessor</u>
	<u>One Month Ended December 31, 2009</u>	<u>Eleven Months Ended November 30, 2009</u>
Penalty interest, net	\$ --	\$ 351
Loss on debt at allowed claim amount	--	41
Professional fees	3	167
Paul Allen management fee settlement – related party	--	11
Other	--	18
<b>Total Reorganization Items, Net</b>	<b>\$ 3</b>	<b>\$ 588</b>

Reorganization items, net consist of adjustments to record liabilities at the allowed claim amounts and other expenses directly related to the Company's bankruptcy proceedings. Penalty interest primarily represents the 2% per annum penalty interest paid on the Company's debt and credit facilities while in bankruptcy, and the incremental amounts owed on the credit facilities as a result of the requirement to pay the prime rate plus the 1% per annum applicable margin instead of the election to pay LIBOR. While in bankruptcy, Charter Operating and CCO Holdings were not able to elect LIBOR on credit facilities but paid interest at the prime rate plus the 1% per annum applicable margin plus 2% per annum penalty interest. Post-emergence professional fees relate to claim settlements, plan implementation and other transition costs related to the Plan.

**17. Other Income (Expense), Net**

Other income (expense), net consists of the following for years presented:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>One Month Ended December 31, 2009</u>	<u>Eleven Months Ended November 30, 2009</u>	<u>Year Ended December 31, 2008      2007</u>	
CCO Holdings notes redemption	\$ --	\$ --	\$ --	\$ (19)
Charter Operating credit facilities refinancing	--	--	--	(13)
CCH II tender offer	--	--	(4)	--
Gain (loss) on investment	--	1	(1)	(2)
Other, net	--	1	(5)	--
	<u>\$ --</u>	<u>\$ 2</u>	<u>\$ (10)</u>	<u>\$ (34)</u>

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. The transactions resulted in a loss on extinguishment of debt of approximately \$4 million for the year ended December 31, 2008.

In April 2007, CCO Holdings redeemed \$550 million of its senior floating rate notes due December 15, 2010 resulting in a loss on extinguishment of debt of approximately \$19 million for the year ended December 31, 2007.

In March 2007, Charter Operating refinanced its facilities resulting in a loss on extinguishment of debt for the year ended December 31, 2007 of approximately \$13 million.

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**18. Stock Compensation Plans**

In accordance with the Plan, Charter's board of directors adopted the Charter Communications, Inc. 2009 Stock Incentive Plan (the "2009 Stock Plan"). The 2009 Stock Plan provides for grants of nonqualified stock options, incentive stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock, restricted stock units and restricted stock. Directors, officers and other employees of Charter and its subsidiaries and affiliates, as well as others performing consulting services for the Company and its parent companies, are eligible for grants under the 2009 Stock Plan.

Prior to the Company's emergence from bankruptcy, Charter had stock compensation plans (the "Equity Plans") which provided 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, as each term is defined in the Equity Plans. Employees, officers, consultants and directors of Charter and its subsidiaries and affiliates were eligible to receive grants under the Equity Plans.

Under the Equity Plans, options granted generally vested over four years from the grant date, with 25% generally vesting on the first anniversary of the grant date and ratably thereafter. Generally, options expired 10 years from the grant date. Restricted stock vested annually over a one to three-year period beginning from the date of grant. The performance units became performance shares on or about the first anniversary of the grant date, conditional upon Charter's performance against financial performance measures established by Charter's management and approved by its board of directors as of the time of the award. The performance shares became shares of Class A common stock on the third anniversary of the grant date of the performance units. In 2009, the majority of restricted stock and performance units and shares were voluntarily forfeited by participants without termination of the service period, and the remaining, along with all stock options, were cancelled on the Effective Date.

The Plan included an allocation of not less than 3% of new equity for employee grants with 50% of the allocation to be granted within thirty days of the Company's emergence from bankruptcy. In December 2009, Charter's board of directors authorized 8 million shares under the 2009 Stock Plan and awarded to certain employees 2 million shares of restricted stock, one-third of which are to vest on each of the first three anniversaries of the Effective Date. Such grant of new awards is deemed to be a modification of old awards and will be accounted for as a modification of the original awards. As a result, unamortized compensation cost of \$12 million was added to the cost of the new award and will be amortized over the vesting period. As of December 31, 2009, total unrecognized compensation remaining to be recognized in future periods totaled \$72 million.



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A summary of the activity for Charter's stock options for the eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, is as follows (amounts in thousands, except per share data). No stock options were granted in 2009. On the Effective Date, all remaining stock options were cancelled.

	<b>Predecessor</b>					
	<b>Eleven Months Ended November 30, 2009</b>		<b>Year Ended December 31, 2008</b>			
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	22,044	\$ 3.82	25,682	\$ 4.02	26,403	\$ 3.88
Granted	--	\$ --	45	\$ 1.19	4,549	\$ 2.77
Exercised	--	\$ --	(53)	\$ 1.18	(2,759)	\$ 1.57
Cancelled	<u>(22,044)</u>	\$ 3.82	<u>(3,630)</u>	\$ 5.27	<u>(2,511)</u>	\$ 2.98
Outstanding, end of period	<u>--</u>	\$ --	<u>22,044</u>	\$ 3.82	<u>25,682</u>	\$ 4.02
Weighted average remaining contractual life	--		<u>6 years</u>		<u>7 years</u>	
Options exercisable, end of period	<u>--</u>	\$ --	<u>15,787</u>	\$ 4.53	<u>13,119</u>	\$ 5.88
Weighted average fair value of options granted	\$ --		<u>\$ 0.90</u>		<u>\$ 1.86</u>	

A summary of the activity for Charter's restricted Class A common stock for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, is as follows (amounts in thousands, except per share data):

	<b>Successor</b>		<b>Predecessor</b>					
	<b>One Month Ended December 31, 2009</b>		<b>Eleven Months Ended November 30, 2009</b>		<b>Year Ended December 31, 2008</b>			
	<b>Shares</b>	<b>Weighted Average Grant Price</b>	<b>Shares</b>	<b>Weighted Average Grant Price</b>	<b>Shares</b>	<b>Weighted Average Grant Price</b>	<b>Shares</b>	<b>Weighted Average Grant Price</b>
Outstanding, beginning of period	--	\$ --	12,009	\$ 1.21	4,112	\$ 2.87	3,033	\$ 1.96
Granted	1,920	\$ 35.25	--	\$ --	10,761	\$ 0.85	2,753	\$ 3.64
Vested	--	\$ --	(259)	\$ 1.08	(2,298)	\$ 2.36	(1,208)	\$ 1.83
Cancelled	--	\$ --	<u>(11,750)</u>	\$ 1.21	<u>(566)</u>	\$ 1.57	<u>(466)</u>	\$ 4.37
Outstanding, end of period	<u>1,920</u>	\$ 35.25	<u>--</u>	\$ --	<u>12,009</u>	\$ 1.21	<u>4,112</u>	\$ 2.87

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A summary of the activity for Charter's performance units and shares for the eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, is as follows (amounts in thousands, except per share data). No performance units or shares were granted in 2009. On the Effective Date, all remaining performance units and shares were cancelled.

	<b>Predecessor</b>					
	<b>Eleven Months Ended</b>		<b>Year Ended December 31,</b>			
	<b>November 30,</b>		<b>2008</b>		<b>2007</b>	
	<b>Weighted</b>		<b>Weighted</b>		<b>Weighted</b>	
	<b>Average</b>		<b>Average</b>		<b>Average</b>	
	<b>Grant</b>		<b>Grant</b>		<b>Grant</b>	
	<b>Price</b>		<b>Price</b>		<b>Price</b>	
	<b>Shares</b>	<b>Price</b>	<b>Shares</b>	<b>Price</b>	<b>Shares</b>	<b>Price</b>
Outstanding, beginning of period	33,037	\$ 1.80	28,013	\$ 2.16	15,206	\$ 1.27
Granted	--	\$ --	10,137	\$ 0.84	14,797	\$ 2.95
Vested	(951)	\$ 1.21	(1,562)	\$ 1.49	(41)	\$ 1.23
Cancelled	<u>(32,086)</u>	\$ 1.81	<u>(3,551)</u>	\$ 2.08	<u>(1,949)</u>	\$ 1.51
Outstanding, end of period	<u>    --</u>	\$ --	<u>33,037</u>	\$ 1.80	<u>28,013</u>	<u>\$ 2.16</u>

**19. Income Taxes**

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

For the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, the Company recorded deferred income tax expense and benefits as shown below. The income tax expense is recognized through increases in deferred tax liabilities and current federal and state income taxes primarily related to fresh start accounting and differences in accounting for franchises at the Company's indirect corporate subsidiaries and limited liability companies that are subject to income tax. The income tax benefits were realized through decreases in deferred tax liabilities of certain of its indirect subsidiaries attributable to the write-down of franchise assets for financial statement purposes and not for tax purposes. The tax provision in future periods will vary based on current and future temporary differences, as well as future operating results.

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Current and deferred income tax benefit (expense) is as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>One Month</u>	<u>Eleven Months</u>	<u>Year Ended</u>	
	<u>Ended</u>	<u>Ended</u>	<u>December 31,</u>	
	<u>December 31,</u>	<u>November 30,</u>	<u>2008</u>	<u>2007</u>
	<u>2009</u>	<u>2009</u>		
Current expense:				
Federal income taxes	\$ --	\$ (1)	\$ (2)	\$ (3)
State income taxes	(1)	(6)	(5)	(5)
Current income tax expense	(1)	(7)	(7)	(8)
Deferred benefit (expense):				
Federal income taxes	(2)	(19)	28	4
State income taxes	(1)	(13)	19	(16)
Deferred income tax benefit (expense)	(3)	(32)	47	(12)
Total income benefit (expense)	\$ (4)	\$ (39)	\$ 40	\$ (20)

Income tax expense for the eleven months ended November 30, 2009 included \$71 million of deferred tax benefit related to the impairment of franchises. Income tax benefit for the year ended December 31, 2008 included \$32 million of deferred tax benefit related to the impairment of franchises. Income tax expense for the year ended December 31, 2007 includes \$18 million of deferred income tax expense previously recorded at the Company's indirect parent company. This adjustment should have been recorded by the Company in prior periods.

The Company's effective tax rate differs from that derived by applying the applicable federal income tax rate of 35% for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively, as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>One Month</u>	<u>Eleven Months</u>	<u>Year Ended</u>	
	<u>Ended</u>	<u>Ended</u>	<u>December 31,</u>	
	<u>December 31,</u>	<u>November 30,</u>	<u>2008</u>	<u>2007</u>
	<u>2009</u>	<u>2009</u>		
Statutory federal income taxes	\$ (5)	\$ (938)	\$ 617	\$ 199
Statutory state income taxes, net	(1)	(98)	40	16
Losses allocated to limited liability companies not subject to income taxes	(2)	972	(610)	(228)
Valuation allowance reduced (used)	4	25	(7)	(7)
Income tax benefit (expense)	\$ (4)	\$ (39)	\$ 40	\$ (20)

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The tax effects of these temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 for the indirect subsidiaries of the Company which are included in long-term liabilities are presented below.

	<u>Successor</u> <u>December 31,</u> <u>2009</u>	<u>Predecessor</u> <u>December 31,</u> <u>2008</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 88	\$ 97
Other	33	2
	<hr/>	<hr/>
Total gross deferred tax assets	121	99
Less: valuation allowance	(31)	(60)
	<hr/>	<hr/>
Deferred tax assets	<u>\$ 90</u>	<u>\$ 39</u>
Deferred tax liabilities:		
Property, plant and equipment and other	(170)	(36)
Indefinite life intangibles	(133)	(182)
	<hr/>	<hr/>
Deferred tax liabilities	<u>(303)</u>	<u>(218)</u>
Net deferred tax liabilities	<u>\$ (213)</u>	<u>\$ (179)</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Due to the Company's history of losses, valuation allowances have been established except for deferred benefits available to offset certain deferred tax liabilities that will reverse over time.

As of December 31, 2009, the Company had deferred tax assets of \$121 million, which primarily relate to net operating loss carryforwards of certain of its indirect corporate subsidiaries and limited liability companies subject to state income tax. These net operating loss carryforwards (generally expiring in years 2010 through 2028) are subject to certain limitations. A valuation allowance of \$31 million exists with respect to these carry forwards as of December 31, 2009.

No tax years for Charter or Charter Holdco, the Company's indirect parent companies, are currently under examination by the Internal Revenue Service. Tax years ending 2006 through 2009 remain subject to examination. Years prior to 2006 remain open solely for purposes of examination of Charter's net operating loss and credit carryforwards.

## **20. Related Party Transactions**

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

In connection with the Plan, Charter, Mr. Allen and an entity controlled by Mr. Allen entered into the Allen Agreement, pursuant to which, among other things, Mr. Allen and such entity agreed to support the Plan, including the settlement of their rights, claims and remedies against Charter and its subsidiaries. See Note 2.

Charter is a party to management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter and Charter Holdco provide management services for the cable systems owned or operated by their subsidiaries. The management services include such services as centralized customer billing services, data

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processing and related support, benefits administration and coordination of insurance coverage and self-insurance programs for medical, dental and workers' compensation claims. Costs associated with providing these services are charged directly to the Company's operating subsidiaries and are included within operating costs in the accompanying consolidated statements of operations. Such costs totaled \$21 million, \$220 million, \$213 million, and \$213 million for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively. All other costs incurred on behalf of Charter's operating subsidiaries are considered a part of the management fee and are recorded as a component of selling, general and administrative expense, in the accompanying consolidated financial statements. The management fee charged to the Company's operating subsidiaries approximated the expenses incurred by Charter Holdco and Charter on behalf of the Company's operating subsidiaries in 2009, 2008 and 2007.

Mr. Allen or his affiliates own or have owned equity interests or warrants to purchase equity interests in various entities with which the Company does business or which provides it with products, services or programming. Among these entities are Digeo, Inc. ("Digeo"), and Microsoft Corporation. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated ("Vulcan Ventures") and Vulcan Inc. and is the president of Vulcan Ventures. Ms. Jo Lynn Allen was a director of the Company until the Effective Date and is the President and Chief Executive Officer of Vulcan Inc. and is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is a director of the Company and was Executive Vice President of Vulcan Inc. and Vulcan Ventures until May 2009. The various cable, media, Internet and telephone companies in which Mr. Allen has invested may mutually benefit one another. The Company can give no assurance, nor should you expect, that any of these business relationships will be successful, that the Company will realize any benefits from these relationships or that the Company will enter into any business relationships in the future with Mr. Allen's affiliated companies.

In 2009, Charter reimbursed Vulcan Inc. approximately \$3 million in legal expenses.

***9 OM, Inc. (formerly known as Digeo, Inc.)***

Mr. Allen, through his 100% ownership of Vulcan Ventures Incorporated ("Vulcan Ventures"), owns a majority interest in 9 OM, Inc. (formerly known as Digeo, Inc.) on a fully-converted fully-diluted basis. However, in October 2009, substantially all of 9 OM, Inc.'s assets were sold to ARRIS Group, Inc., an unrelated third party. Ms. Jo Lynn Allen was a director of Charter until the Effective Date and is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is a director of Charter and was Executive Vice President of Vulcan Ventures until his resignation in May 2009. Charter Operating owns a small minority percentage of 9 OM, Inc.'s stock but does not expect to receive any proceeds from the sale of assets to the ARRIS Group, Inc.

In May 2008, Charter Operating entered into an agreement with 9 OM, LLC (formerly known as Digeo Interactive, LLC), a subsidiary of 9 OM, 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 9 OM, 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. The Company purchased approximately \$19 million and \$1 million of DVR units from 9 OM, LLC under these agreements in 2009 and 2008, respectively.

On June 30, 2003, Charter Holdco entered into an agreement with Motorola, Inc. for the purchase of 100,000 digital video recorder ("DVR") units. The software for these DVR units was being supplied by Digeo Interactive, LLC under a license agreement entered into in April 2004. Pursuant to a software license agreement with Digeo Interactive for the right to use Digeo's proprietary software for DVR units, the Company paid approximately \$2 million, \$1 million, \$2 million in license and maintenance fees in 2009, 2008, and 2007, respectively.

The Company paid approximately \$1 million and \$10 million in 2008 and 2007, respectively, in capital purchases under an agreement with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. Total purchase price and license and maintenance fees during the term of the definitive agreements were expected to be approximately \$41 million. The definitive agreements were terminable at no penalty to Charter in certain circumstances.

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**21. Commitments and Contingencies**

*Commitments*

The following table summarizes the Company's payment obligations as of December 31, 2009 for its contractual obligations.

	<u>Total</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>
<b>Contractual Obligations</b>							
Capital and Operating Lease Obligations (1)	\$ 98	\$ 22	\$ 20	\$ 17	\$ 14	\$ 11	\$ 14
Programming Minimum Commitments (2)	371	101	104	110	56	--	--
Other (3)	<u>350</u>	<u>325</u>	<u>18</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>--</u>
Total	<u>\$ 819</u>	<u>\$ 448</u>	<u>\$ 142</u>	<u>\$ 130</u>	<u>\$ 73</u>	<u>\$ 12</u>	<u>\$ 14</u>

- (1) The Company leases certain facilities and equipment under noncancelable operating leases. Leases and rental costs charged to expense for the one month ended December 31, 2009 and eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, were \$2 million, \$23 million, \$24 million, and \$23 million, respectively.
- (2) The Company pays programming fees under multi-year contracts ranging from three to ten years, typically based on a flat fee per customer, which may be fixed for the term, or may in some cases escalate over the term. Programming costs included in the accompanying statement of operations were \$146 million, \$1.6 billion, \$1.6 billion, and \$1.6 billion, for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively. Certain of the Company's programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the aggregate guaranteed minimum commitments under the Company's programming contracts.
- (3) "Other" represents other guaranteed minimum commitments, which consist primarily of commitments to the Company's billing services vendors.

The following items are not included in the contractual obligation table due to various factors discussed below. However, the Company incurs these costs as part of its operations:

- The Company rents utility poles used in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense incurred for pole rental attachments for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, was \$4 million, \$43 million, \$47 million, and \$47 million, respectively.
- The Company pays franchise fees under multi-year franchise agreements based on a percentage of revenues generated from video service per year. The Company also pays other franchise related costs, such as public education grants, under multi-year agreements. Franchise fees and other franchise-related costs included in the accompanying statement of operations were \$15 million, \$161 million, \$179 million, and \$172 million for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively.
- The Company also has \$124 million in letters of credit, primarily to its various worker's compensation, property and casualty, and general liability carriers, as collateral for reimbursement of claims.

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***Litigation***

On August 28, 2008, a lawsuit was filed against Charter and Charter Communications, LLC (“Charter LLC”) in the United States District Court for the Western District of Wisconsin (now entitled, *Marc Goodell et al. v. Charter Communications, LLC and Charter Communications, Inc.*). The plaintiffs seek to represent a class of current and former broadband, system and other types of technicians who are or were employed by Charter or Charter LLC in the states of Michigan, Minnesota, Missouri or California. Plaintiffs allege that Charter and Charter LLC violated certain wage and hour statutes of those four states by failing to pay technicians for all hours worked. Although Charter and Charter LLC continue to deny all liability and believe that they have substantial defenses, on March 16, 2010, the parties tentatively settled this dispute subject to court approval. The Company has been subjected, in the normal course of business, to the assertion of other wage and hour claims and could be subjected to additional such claims in the future. The Company cannot predict the outcome of any such claims.

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

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

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

Charter Operating is in the process of amending its senior secured credit facilities which it expects to close by March 31, 2010 and upon the closing of these amendments, each of Bank of America, N.A. and JPMorgan, for itself and on behalf of the lenders under the Charter Operating senior secured credit facilities, has agreed to dismiss the pending appeal of the Company’s Confirmation Order pending before the District Court for the Southern District of New York and to waive any objections to the Company’s Confirmation Order issued by the United States Bankruptcy Court for the Southern District of New York. On December 3, 2009, Wilmington Trust withdrew its notice of appeal. On March 26, 2010, the Company was informed by counsel for Wells Fargo that Wells Fargo intends to dismiss its appeal on behalf of the lenders under the CCO Holdings credit facility. Law Debenture Trust and R2 Investments have filed their appeal briefs. The schedule for the securities plaintiffs to file their appeal briefs has not yet been established. The Company cannot predict the ultimate outcome of the appeals.

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

***Regulation in the Cable Industry***

The operation of a cable system is extensively regulated by the Federal Communications Commission ("FCC"), some state governments and most local governments. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities used in connection with cable operations. The 1996 Telecom Act altered the regulatory structure governing the nation's communications providers. It removed barriers to competition in both the cable television market and the telephone market. Among other things, it reduced the scope of cable rate regulation and encouraged additional competition in the video programming industry by allowing telephone companies to provide video programming in their own telephone service areas.

Future legislative and regulatory changes could adversely affect the Company's operations, including, without limitation, additional regulatory requirements the Company may be required to comply with as it offers new services such as telephone.

**22. Employee Benefit Plan**

The Company's employees may participate in the Charter Communications, Inc. 401(k) Plan. Employees that qualify for participation can contribute up to 50% of their salary, on a pre-tax basis, subject to a maximum contribution limit as determined by the Internal Revenue Service. For each payroll period, the Company contributed to the 401(k) Plan (a) the total amount of the salary reduction the employee elects to defer between 1% and 50% and (b) a matching contribution equal to 50% of the amount of the salary reduction the participant elects to defer (up to 5% of the participant's payroll compensation), excluding any catch-up contributions. The Company made contributions to the 401(k) plan totaling \$1 million, \$7 million, \$8 million, and \$7 million for the one month ended December 31, 2009, eleven months ended November 30, 2009 and years ended December 31, 2008, and 2007, respectively.

Effective January 1, 2010, the Company's matching contribution will be discretionary with the intent that any contribution be based on performance metrics used in its other bonus and incentive plans. The discretionary performance contribution will be made on an annual basis (instead of on a per pay period basis). Each participant who makes before-tax contributions and is employed on the last day of the fiscal year will receive a portion of the discretionary performance contribution, if any, on a pro rata basis. The Company will divide each participant's before-tax contributions for the year (up to 5% of eligible earnings, excluding catch-up contributions) by the total employee contributions (up to 5% of eligible earnings, excluding catch-up contributions) for the year to determine each participant's share of any discretionary performance contribution.

**23. Recently Issued Accounting Standards**

In December 2007, the FASB issued guidance included in ASC 810-10, *Consolidation – Overall* ("ASC 810-10"), which provides guidance on the accounting and reporting for minority interests in consolidated financial statements. ASC 810-10 requires losses to be allocated to noncontrolling (minority) interests even when such amounts are deficits. This guidance included in ASC 810-10 is effective for fiscal years beginning after December 15, 2008. The Company adopted this guidance included in ASC 810-10 effective January 1, 2009 and applied the effects retrospectively to all periods presented to the extent prescribed by the standard. The adoption resulted in the presentation of Mr. Allen's previous 5.6% preferred membership interest in CC VIII as temporary equity and CCH I's 13% membership interest in CC VIII as noncontrolling interest in the Company's consolidated balance sheets



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which were previously classified as minority interest. On the Effective Date, Mr. Allen's 5.6% preferred membership interest was transferred to Charter.

In June 2009, the FASB issued guidance included in ASC 105-10, *Generally Accepted Accounting Principles – Overall* ("ASC 105-10"). ASC 105-10 is intended to be the source of GAAP and reporting standards as issued by the FASB. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105-10 effective September 30, 2009. The Codification does not change or alter existing GAAP and there was no impact on the Company's financial statements.

In August 2009, the FASB issued guidance included in ASC 820-10-65 which states companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This guidance included in ASC 820-10-65 addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. This guidance included in ASC 820-10-65 is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by GAAP. No new fair-value measurements are required by this guidance. The Company adopted this guidance included in ASC 820-10-65 effective October 1, 2009. The adoption of this guidance included in ASC 820-10-65 did not have a material impact on the Company's financial statements.

**24. Parent Company Only Financial Statements**

As the result of limitations on, and prohibitions of, distributions, substantially all of the net assets of the consolidated subsidiaries are restricted from distribution to CCH II, the parent company. The following condensed parent-only financial statements of CCH II account for the investment in its subsidiaries under the equity method of accounting. The financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto.

**CCH II, LLC (Parent Company Only)**  
**Condensed Balance Sheet**

	<b>Successor</b>	<b>Predecessor</b>
	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6	\$ 5
Receivable from related party	1	4
Investment in subsidiaries	3,280	--
Loans receivable from subsidiaries	239	227
Other assets	--	13
	<u>\$ 3,526</u>	<u>\$ 249</u>
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>		
Current liabilities	\$ 20	\$ 71
Long-term debt	2,092	2,455
Losses in excess of investment in subsidiaries	--	813
Member's equity (deficit)	1,414	(3,090)
	<u>\$ 3,526</u>	<u>\$ 249</u>
Total liabilities and member's equity (deficit)	<u>\$ 3,526</u>	<u>\$ 249</u>

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**Condensed Statement of Operations**

	<u>Successor</u>	<u>Predecessor</u>		
	<u>One Month Ended December 31, 2009</u>	<u>Eleven Months Ended November 30, 2009</u>	<u>Year Ended December 31, 2008      2007</u>	
Interest expense	\$ (16)	\$ (233)	\$ (246)	\$ (238)
Loss due to Plan effects	--	(351)	--	--
Reorganization items, net	--	(38)	--	--
Other, net	--	--	(4)	--
Equity in earnings (losses) of subsidiaries	22	3,288	(1,473)	(350)
Net income (loss)	<u>\$ 6</u>	<u>\$ 2,666</u>	<u>\$ (1,723)</u>	<u>\$ (588)</u>

**Condensed Statements of Cash Flows**

	<u>Successor</u>	<u>Predecessor</u>		
	<u>One Month Ended December 31, 2009</u>	<u>Eleven Months Ended November 30, 2009</u>	<u>Year Ended December 31, 2008      2007</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss)	\$ 6	\$ 2,666	\$ (1,723)	\$ (588)
Noncash interest expense	(5)	9	8	6
Loss due to effects of Plan	--	351	--	--
Noncash reorganization items, net	--	(8)	--	--
Equity in (earnings) losses of subsidiaries	(22)	(3,288)	1,473	350
Changes in operating assets and liabilities	21	271	(11)	(19)
Other, net	--	--	4	--
Net cash flows from operating activities	<u>--</u>	<u>1</u>	<u>(249)</u>	<u>(251)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Distributions from subsidiaries	--	--	1,072	1,447
Investment in subsidiaries	--	(51)	--	--
Net cash flows from investing activities	<u>--</u>	<u>(51)</u>	<u>1,072</u>	<u>1,447</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Distributions to parent companies	--	--	(836)	(1,195)
Contributions from parent	--	51	17	--
Payments for debt issuance costs	--	--	(4)	--
Net cash flows from financing activities	<u>--</u>	<u>51</u>	<u>(823)</u>	<u>(1,195)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>--</u>	<u>1</u>	<u>--</u>	<u>1</u>
CASH AND CASH EQUIVALENTS, beginning of year	6	5	5	4
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6</u>	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 5</u>