

AMERICAN CRYOSTEM Corp
Form 10-K
January 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: September 30, 2017

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-54672

American CryoStem Corporation

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

26-4574088

(I.R.S. Employer Identification No.)

1 Meridian Road, Suite 5

Eatontown, NJ 07724

(Address of principal executive offices)

(732) 747-1007

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

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Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$0.001**

Indicate by checkmark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on a closing price of \$0.25 on March 31, 2017 (the last business day of the registrants most recently completed second fiscal quarter) was approximately \$ 9,280,427

As of January 10, 2018, the registrant had 45,509,872 shares of its common stock, par value \$0.001, outstanding.

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FORWARD LOOKING STATEMENTS

Included in this Form 10-K are “forward-looking” statements, as well as historical information. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the expectations reflected in these forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors, including matters described in the section titled “Risk Factors.” Forward-looking statements include those that use forward-looking terminology, such as the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “project,” “plan,” “will,” “shall,” similar expressions, including when used in the negative. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements involve risks and uncertainties and we cannot assure you that actual results will be consistent with these forward-looking statements. We undertake no obligation to update or revise these forward-looking statements, whether to reflect events or circumstances after the date initially filed or published, to reflect the occurrence of unanticipated events or otherwise.

PART I

Item 1. Business.

Company Overview

History

We were incorporated in the state of Nevada on March 13, 2009. On April 20, 2011, we acquired, through our wholly owned subsidiary American CryoStem Acquisition Corporation, substantially all of the assets from, and assumed substantially all of the liabilities of, ACS Global, Inc. (“ACS”) in exchange for our issuance of 21,000,000 shares of our common stock, par value \$0.001 per share, to ACS (the “Asset Purchase”). We filed a Current Report on Form 8-K with the Securities and Exchange Commission (SEC) on April 27, 2011 disclosing the Asset Purchase and certain related matters including, but not limited to, the appointment of our present officers and directors as well as the resignation by the former chief executive officer and sole director. Our fiscal year ends September 30 of each calendar year.

Upon the closing of the Asset Purchase: (i) ACS Global became our majority shareholder, (ii) John Arnone was appointed as our chief executive officer and president and Anthony Dudzinski was appointed as our chief operating officer, treasurer and secretary, and (iii) John Arnone and Anthony Dudzinski were appointed to our board of directors, with Mr. Arnone being appointed as Chairman of the Board. Mr. Dudzinski is also a director and the president and treasurer of ACS Global and Mr. Arnone is a director and secretary of ACS Global. Contemporaneously with the Asset Purchase Closing, we sold 1,860,000 shares of Common Stock to accredited investors in a private placement at a purchase price of \$0.50 per share for aggregate gross proceeds of \$930,000.

Our Business

About American CryoStem Corporation

American CryoStem Corporation; (CRYO) founded in 2008, has evolved to become a biotechnology pioneer, standardizing adipose tissue derived technologies (Adult Stem Cells) for the fields of Regenerative and Personalized Medicine. The Company operates a state-of-art, FDA-registered, laboratory in Monmouth Junction, New Jersey and licensed laboratories in Hong Kong, China and Tokyo, Japan, which operate on our proprietary platform, dedicated to the collection, processing, bio-banking, of adipose tissue (fat) and culturing and differentiation of adipose derived stem cells (ADSCs) for current or future use in regenerative medicine. CRYO maintains a strategic portfolio of intellectual property (IP) that surrounds our technology which supports a growing pipeline of stem cell applications and biologic products. We are leveraging our platform and a developed product portfolio to create a domestic and global footprint of licensed laboratory affiliates, physicians networks, patients and research organizations who purchase tissue collection, processing and storage consumables from our Company. Our laboratory stem cell products foundation are characterized adult human Mesenchymal Stem Cell (MSC's) derived from adipose tissue that work in conjunction with our patented (non-animal) medium lines. The Company's R&D efforts are focused on university and private collaborations to discover, develop and commercialize ADSC and laboratory products combined with synergistic technologies to create jointly developed regenerative medicine applications and new intellectual property.

The Company believes the reproducibility of scientific studies has become a substantial issue in life science research from drug discovery and development through trials as researchers throughout the world continue to use different protocols for processes associated with sample preparation, cryopreservation and cold chain management. We believe the scientific community is becoming more aware of factors that affect sample integrity and experimental variability. By standardizing handling, storage, and transportation protocols we can substantially improve the quality and reproducibility of our products, and data which will help to accelerate the transition from lab research to drug and therapy development and market launch. To this end, we have licensed affiliates operating on our cellular collection-processing and storage platform in Tokyo, Japan, and Hong Kong. Our licensees purchase our CELLECT adipose tissue collection kits and ACSelerate CP storage consumables from us.

Our business strategy is centered on marketing our standardized platform as a complete adipose stem cell (Adult Stem Cells) solution and expanding our research and development through scientific collaborations. We are generating initial revenues through the sale and licensing of our patented products, laboratory tools, and services to capitalize on: (1) ADSC technologies; (2) scientific breakthroughs incorporating ADSCs that have been developing in the fast growing Regenerative and Personalized Medicine industries; (3) providing these growth industries with a standardized ADSC cell processing platform; (4) enhancing the delivery of healthcare through cellular-based therapies and applications which address disease treatment, wound and burn healing, joint repair and personalized health and beauty care; and (5) building a global network of physicians and affiliated laboratory facilities for the delivery of our products and services.

Our proprietary, patent pending processing platform allows for the collection, preparation and cryo-preservation of adipose tissue without manipulation, bio-generation or the addition of animal-derived products or other chemical materials which require removal from the tissue sample upon retrieval or prior to use. Management believes this core process makes each tissue sample suitable for use in cosmetic grafting procedures or for further processing to adult stem cells for other types of stem cell therapies. Currently, we believe there are numerous therapeutic and orthopedic applications for adipose tissue and adult stem cell treatments identified or in use globally. As of January 1, 2018, a review of clinicaltrials.gov, operated by the US National Institutes of Health (NIH) indicates that there is a significant number of clinical trials registered or completed that are focused on adipose tissue (2387), adult stem cells (5488), adipose derived stem cells (221), mesenchymal stem cells (800), and stromal vascular fraction (83).

Products and Services

American CryoStem is focused on multiple high margin business lines capable of generating sustainable, recurring revenue streams from each of our developed products and services. The Company also incorporates its proprietary and patented or patent pending laboratory products, such as our *ACSelerate*[™] cell culture media, into our processing product production and contract manufacturing services. Additionally, the Company requires licensee's of our tissue and cell processing technologies to purchase all the consumable products required in the collection, processing and storage of tissue/stem cells as part of the licensing agreement including our **CELLECT**[®] Validated Collection, Transportation, and Storage System and *ACSelerate*[™] Cell Culture Media Products.

To date, we have generated minimal revenue; however, subject to, among other factors, obtaining the requisite financing, management believes that we are well positioned to utilize our developed products and services as the foundation for international distribution through licensees of our technologies and a host of Regenerative Medicine uses and future applications. In the US we operate an FDA registered facility that generates revenue from; the processing and storage of adipose tissue (ATGRAFT), the processing of adipose tissue into its cellular components for future use (ATCELL) and the production and sale of our **CELLECT**[®] tissue collection boxes, and patented media products.

The products and services are also designed to become an integral part of generating revenue from current and planned licensing territories, our New Jersey based collection, processing and storage operations (**CELLECT**[®]) sale and licensing of our developed laboratory products (*ACSelerate*[™] and research grade *ATCELL*[™]), and cellular therapy development activities.

CELLECT[®] Validated Collection, Transportation, and Storage System – An unbreakable “chain of custody” solution for physicians to collect and deliver tissue samples utilizing proprietary and patent pending methods and materials. The **CELLECT**[®] service is monitored in real-time and assures the highest cell viability upon laboratory receipt. The **CELLECT**[®] system incorporates our *ACSelerate*[™] Transport medium into all collection bags which supports the health of the tissue during transport. The **CELLECT**[®] kit is an integral part of our validated *ATGRAFT*[™] and *ATCELL*[™] technology to be used by all licensees of our technologies. The **CELLECT**[®] service is included in our patent application U.S. Serial No. 13/702,304.

American CryoStem is the first tissue bank to globally incorporate through its **CELLECT**[®] service the International Blood Banking identification and labeling and product identification coding system. The coding was developed in conjunction with the American Association of Blood Banks (AABB), the American Red Cross and the International Society of Blood Transfusion (ISBT). These groups form the International Council for Commonality in Blood Banking Automation (ICCBBA) and developed the ISBT 128 Standard for machine readable labeling. This labeling system is an acceptable machine readable labeling standard, product description, and bar coding system for FDA Center for Biologics Evaluation and Research under 21 CFR 606.12(c) 13. American CryoStem conforms to this standard in its laboratory facility and all cellular and tissue products produced at the facility carry our W3750 ICCBBA facility identifier allowing any hospital, clinic, laboratory and regulator worldwide to identify the origin and

obtain additional information on any sample produced at an American CryoStem facility. The Company will promote this standard in all laboratories that license or utilize our technology.

ATGRAFT™ Adipose Tissue Storage Service – A fat storage solution allowing physicians to provide their patients with multiple tissue and cell storage options. The ATGRAFT™ service, through one liposuction procedure allows individuals to prepare for future cosmetic or regenerative procedures by using their own stored adipose tissue as natural biocompatible filler or the components for cellular therapy application without the trauma of further liposuctions. ATGRAFT™ procedures may include breast reconstruction, layered augmentation, buttocks enhancement or volume corrections of the hands, feet, face and neck areas that experience significant adipose tissue (fat) volume reduction as we age. ATGRAFT™ is processed and stored utilizing our standards so that any stored fat tissue sample may be retrieved in the future and re-processed to create stem cells ATCELL™, our cell product for use in Regenerative Medicine applications. The ATGRAFT™ service is included in our pending patent application U.S. Serial No. 13/646,647.

The Company's charges standardized fees for ATGRAFT™ tissue processing and minimum annual storage fees depending on the volume of tissue processed. These processing and storage fees may be paid by the collecting/treating physician or the consumer. The Company earns additional fees paid upon sample retrieval, for the thawing, packaging and shipment of the stored samples to the physician or clinic for immediate use upon receipt. Additionally, physicians may request that any stored ATGRAFT™ tissue sample of 25ml or greater be reprocessed utilizing the Company's ATCELL™ and Autokine-CM™ processing.

The Company believes the ATGRAFT™ service may create patient retention and significant revenue opportunities for the participating physician. The ATGRAFT™ service lowers physician overall costs by eliminating additional liposuction procedures for each scheduled fat transfer or therapy procedure. Physician cost savings may include: materials, supplies, equipment, and the expenses of utilizing a surgical center, hospital operating room or an in-office aseptic procedure room. The ATGRAFT™ service is designed to operate under the minimally manipulated regulations contained in both 21 CFR 1271.10 and PHS 361.

ATCELL™ Adipose Derived Stem Cells (ADSCs) – Processed and characterized adipose derived regenerative cells (ADRCs) created using the Company’s proprietary Standard Operating Procedures (SOPs) and ACSelerate™ patented cell culture media. ATCELL™ is the Company’s trademarked name for its ADRCs and differentiated cell products and processing methodology. The Company maintains for research purposes multiple master and differentiated cell lines and labels them according to their characterization. (i.e. ATCELL™ (adipose derived stem cells) ATCELL-SVF™ (stromal vascular fraction), ATCELL – CH™ (differentiated chondrocytes) , etc. Cell lines are custom created for patients desiring to store their cells for their own use in future Regenerative Medicine procedures. The Company charges its customers a fee to reprocess previously stored ATGRAFT™ samples and for newly collected client tissue samples to be processed into cellular samples. Customer samples submitted for processing must utilize the CELLECT® collection system and ACSelerate™ mediums to conform to our internal SOPs and quality control standards.

The Company believes it will earn additional fees based upon the proposed storage configuration of the final ATCELL™ sample and for future culturing in the ACSelerate™ cell culture and differentiation media. Cell culturing and differentiation can be performed upon receipt of the raw tissue sample or at any time on a previously processed and cryopreserved ATGRAFT™ or ATCELL™ sample. ATCELL™ has shown that it is ideally suited for expansion and differentiation into additional cell types utilizing the ACSelerate™ line of culture and differentiation mediums. The ATCELL™ products and services are incorporated into our pending patent filing US Serial No. 13/646,647.

The Company’s ATCELL™ cell lines are processed and cultured in our patented ACSelerate™ cell culture media. All tissue, cells, and research materials made available for sale to research institutions are tested for sterility, disease, lifespan, and population doubling rate (PDL). Additionally, we believe these cells are suited for any type of cellular therapy or regenerative medicine research. Cell morphology is confirmed by (i) flow cytometry and (ii) differentiation analysis using ACSelerate™ differentiation media. Each ATCELL™ line can be further cultured and differentiated allowing the Company to provide genetically matched grade cell types. We believe this research methodology may provide opportunities for the Company’s ATCELL™ and ACSelerate™ products to become the building blocks of final developed commercial applications.

The Company intends to support its cell therapy application research, development and collaborative efforts by making ATCELL™ and ATGRAFT™ samples available for research and product development purposes through joint ventures, and university and commercial collaborations. These adipose tissue and cell line samples, we believe will be sought after by private researchers and universities for use in pre-clinical trial studies and in-vitro research due to our processing methodology, donor sample data and the ability to create multiple cell types that have identical genetic profiles. We believe the processing methods, data collection and testing of our ATCELL™ and the ability to make multiple cell types from the same donor line allows research teams to focus on application development and avoid bench to commercialization delays. The Company is prepared to distribute research samples of its ATCELL™ cell products to users of its ACSelerate™ cell culture media for application development. The Company is investigating new sources of human mesenchymal cell lines for production and distribution to the cellular therapy research market.

ACSelerate™ Cell Culture Media Products – Manufactured patented cell culture media products for growing human stromal cells (including all cells found in human skin, fat and other connective tissue). Certain ACSelerate™ cell culture media lines are available in animal serum free, which may be suitable for human and therapeutic uses or a low serum

version for application development and research purposes. The patented ACSelerate™ cell culture media line was specifically developed to address increasing industry demand for animal serum-free cell culture products and for the acceleration of products from the laboratory to the patient.

The Company entered into a licensing and manufacturing agreement with PeproTech a life sciences company formed in 1988. PeproTech is the trusted source for the development and manufacturing of high quality cytokine products for the life-science and cell therapy markets. Over the past 26 years the company has grown into a global enterprise with state-of-the-art manufacturing facilities in the US, and offices around the world. With over 2,000 products PeproTech has developed and refined innovative protocols to ensure quality, reliability and consistency. The Company and PeproTech have completed the optimization and scale up manufacturing studies and the licensed medium is marketed under both PeproTech's PeproGrow and the Company's ACSelerate MAX brands.

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On August 2, 2011, the Company was issued US patent number 7,989,205 for “Cell Culture Media, Kits and Methods of Use.” The granted claims include media variations for cellular differentiation of ADSCs into osteoblasts (bone), chondrocytes (cartilage), adipocytes (fat), neural cells, and smooth muscles cells in both HSA medium grade and FBS (research) grade. This patent covers both non-GMP research grades and GMP grades suitable for cell culture of adipose-derived stem cells. Additionally, in 2014 the Company filed a continuation of this granted patent with additional claims and improvements, U.S. Serial No. 13/194,900. On November 8, 2016 the Company was granted additional claims from the continuation U.S. Serial No. 13/194,900 issued as a new Patent Serial No. 9,487,755. Prior to the issuance the Company filed a continuation in part (CIP) containing additional claims related to our ongoing media development.

Published cell culture research indicates the most widely used cell culture medium for growing and differentiating stem cell cultures for in vitro diagnostics and research contains fetal bovine serum (FBS) and other animal derived products. The use of FBS and other animal products in cellular therapy application development and manufacture raises concerns and generates debates within the scientific and regulatory community relating to potential human/animal cross-contamination. These same concerns may lead to additional expensive and expansive testing and documentation requirements with the FDA during the application and approval process for new cellular therapies manufactured with or containing animal or animal derived products. FDA concerns are evidenced in their Guidance’s and Guidelines regarding cellular therapy involving human cells, tissues and products (HCT/PS) published and maintained by the FDA. Management believes that eliminating or greatly reducing FBS in cellular manufacturing, applications and products can eliminate or ease these scientific and regulatory concerns and may prove to be a winning strategy for cellular therapy application developers seeking FDA approval.

The Company supports its marketing efforts by making ATCELL™ samples available for research purposes and for internal product development through our research programs. We believe these cell lines may be sought after by private researchers and universities for use in pre-clinical trial studies and in-vitro research. We also believe that the Company’s ability to provide these materials for these research and development collaborators, partners and other third parties extends the Company’s ability to become a primary source of grade materials and services necessary to support approved applications and treatments.

The Company has created several versions of its *ACSelerate*™ cell culture media including:

- *ACSelerate-MAX*™ xeno serum free cell culture media,
- *ACSelerate-SFM*™ animal serum free cell culture media,;
- *ACSelerate-LSM*™ low FBS (0.05%) cell culture media,
- *ACSelerate-CY*™ for differentiation of *ATCELL*™ into chondrocytes (*ATCELL-CY*™),
- *ACSelerate-OB*™ for differentiation of *ATCELL*™ into osteoblasts (*ATCELL-OB*™)
- *ACSelerate-AD*™ for differentiation of *ATCELL*™ into adipocytes (*ATCELL-AD*™)
- *ACSelerate-MY*™ for differentiation of *ATCELL*™ into myocytes (*ATCELL-MY*™)
- *ACSelerate-CP*™ non-DMSO (Dimethyl Sulfoxide) cellular cryopreservation media
- *ACSelerate-TR*™ sterile transportation medium designed to maintain the viability of the tissue during the shipment of adipose tissue to our processing facility.

The Company continues to optimize additional versions of *ACSelerate*[™] media through further research and testing to develop versions for differentiation of *ATCELL*[™] ADSCs into neural, lung and other specific cell types that may be necessary for use in future applications. Many of these applications are not currently approved by the US Food and Drug Administration. On December 31, 2014 the Company filed a patent application for an advanced medium formulation titled Human Albumin Serum for Cell Culture Medium for Growth of Human Adipose Stromal Cells. (US Serial No. 62/098799) representing the most recent results of this ongoing optimization program. On December 31, 2015, the Company converted the provisional application to an international PCT filing (PCT/US/68350) under the title Human Serum for Cell Culture for Growth of Human Adipose Stromal Cells. To date the patent has also been filed in the following additional countries: China (HONG KONG), India, Mexico, Brazil, the European Union, US, Japan, Thailand, Brazil, Russia, Australia, New Zealand, Canada, and Saudi Arabia.

ACS Laboratories[™] Laboratory Product Sales, Contract Manufacturing and Professional Services – ACS Laboratories is a division of American CryoStem Corporation, responsible for the manufacturing and sale of all the Company's patented and patent pending cellular, cell culture, processing and testing products to professional, institutional and commercial clients. The Company operates a separate website (*acslaboratories.com*) to distinguish the sale of commercial and research products from its consumer products and services, which are marketed on its main website (*americancryostem.com*). ACS Laboratories can manufacture the full line of *ACSelerate*[™] cell culture media and *ATCELL*[™] products upon request; and will provide these products to our collaborative partners and international licensees as further discussed below.

Contract Manufacturing, Autokine-CM® Anti-Aging, Autologous Skin Care Product Line – Under agreement with Personal Cell Sciences Corp. (PCS), we manufacture the key ingredient Autokine-CM® (autologous adipose derived stem cell conditioned medium) for PCS' U-Autologous™ anti-aging topical formulation. Each product is genetically unique to the patient and custom blended, deriving its key ingredients from the individual client's own stem cells. The Company provides its CELLECT® Tissue Collection service to collect the required tissue to manufacture the U-Autologous™ product and processes it under the same Standard Operating Procedures that it developed for the ATGRAFT™ and ATCELL™ cell processing services utilizing ACSelerate™ cell culture media. The Company receives collection, processing and long term storage fees and earns a royalty on all U-Autologous product sales. The utilization of the Company's core services in its contract manufacturing relationships provides opportunities for the Company to promote ATGRAFT™ and ATCELL™ products.

Our Company's contract manufacturing services can be extended to develop custom and/or white label products and services for both local and global cosmetic and regenerative medicine companies, physicians, wellness clinics and medical spas. The Company intends to expand its relationships and contract manufacturing regionally through its physician networks and globally through its International Licensing Program.

International Licensing Program – The Company believes that globally, many jurisdictions outside the US currently permit use of cellular therapies and regenerative medicine applications. The Company has received numerous international inquiries concerning the sale or licensing of our SOPs, products and services in the Regenerative Medicine and Medical Tourism Markets. The Company believes that the inquiries to date are a result of the global boom in Medical Tourism, Regenerative and Personalized Medicine and the slow pace of approval of cellular therapies and regenerative medicine applications in the US. To address the Company's sales, marketing and branding opportunities globally, the Company has created its international licensing program. To date we have licensed our technologies in Hong Kong, Shenzhen, China and, Tokyo, Japan.

The Company believes it can take advantage of the significant growth of the global cellular therapy market through its international licensing and marketing efforts. A recently published study by Transparency Market Research predicts that the Stem Cell market will grow at a CAGR of 24.2% upon its value of US \$26.23 billion in 2013 and will reach an approximate value of US \$119.52 billion by 2019. The report, titled "Stem Cells Market - Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2012 - 2018"; which can be found at (<http://globenewswire.com/news-release/2014/12/22/693419/10113247/en/Global-Stem-Cells-Market-to-grow-at-a-CAGR-of->

In June of 2015, The Company entered into an initial agreement with CellSource, LTD. ("CellSource") located in Shibuya, Tokyo Japan for the licensing of our AGRAFT™ tissue processing and storage technology and the purchase of our CELLECT® collection products which include our ACSelerate-TR™ transport medium. The Company also assisted CellSource in upgrading its facility in Japan and provided training in the ATGRAFT™ processing and recordkeeping procedures. CellSource began marketing the new services initially within its existing network of clinics throughout Japan and begin purchasing its CELLECT™ and ACSelerate-CP™ cryoprotectant from the Company in the third quarter of 2015. Upon execution of the Agreement the Company received an upfront payment and will receive additional minimum annual payments, and consumable product sales revenue in future years.

Product Development

Our strategic approach to product development is to design, develop and launch new products and services that utilize our existing products and services, i.e. the use of the CELLECT® collection materials by contracted companies to collect fresh tissue for their product. Management believes that allowing other biotech companies to utilize portions of our platform will provide the Company with additional opportunities to produce near term cash flow, strong recurring revenue streams, strong international licensing partners and complementary scientific data. We focus on developing products, services and applications that require tissue collection and processing as the initial requirement to produce cellular therapies and products. These products and services may include adipose tissue and stem cell sample processing and storage as a form of personal “*bio-insurance*”, adipose tissue (fat) storage for cosmetic fat engraftment procedures, and the creation of topical applications and ingredients used by other companies in the wound care and cosmetic industries as well as cellular applications and bio-materials development.

We focus our efforts on expanding our product and services pipelines based upon our intellectual property portfolio, collaborative development relationships, product sales and distribution, and international licensing and partnering opportunities. Our current activities include supporting collaborations by providing our products and services (ACSelerate™ and ATCELL™) with the expectation that our products and services become the basis for new adipose tissue and stem cell based Regenerative Medicine and cellular therapy applications. We believe this strategy allows our proposed research partners and their application development teams to begin with harvested and processed adipose tissue and Adipose Derived Regenerative Cells ADRCs (ATCELL)™, which may be a significant step toward accelerating the development and approval of new treatments.

Collaboration / Partnering Opportunities / Acquisitions

PeproTech, Inc.

On April 4, 2016 the Company entered into an Agreement with PeproTech, Inc of Rocky Hill, NJ. Under the Agreement PeproTech will manufacture, market and distribute the Company's ACSelerate – Max cell growth medium. The Company and PeproTech completed the optimization and scale up manufacturing studies and the licensed medium is marketed under both PeproTech's PeproGrow and the Company's ACSelerate MAX brands. PeproTech plans to leverage its current global sales relationships which reach a majority of all research laboratories worldwide to maximize distribution of the optimized media while the Company will concentrate its sales efforts on its collaborative and licensing partners. Additionally, the Company and PeproTech are discussing the licensing of additional American CryoStem patented media and products for production and distribution by PeproTech, any additional media licensed to PeproTech will undergo similar optimization and scale up production testing prior to being released for sale.

BioLife Customer and Physician Acquisition

In February 2015 the Company entered into a binding asset purchase agreement with BioLife Cell Bank Dallas, LLC and BioLife Cell Bank Management, LLC (collectively "BioLife"), to purchase all of BioLife's current adipose tissue, stem cell storage clients samples, and physician network. The transaction was concluded in March of 2015. Transfer of the adipose tissue samples was completed on April 24, 2015. The Company initiated annual storage fee billing to the acquired storage clients in June of 2015. Management believes that, with the acquisition of BioLife, the Company became one of the largest commercial adipose storage facilities in the United States.

Additionally the Company acquired the physician customer list of approximately 60 cosmetic and plastic surgeons, and began marketing its services to all physician users of the BioLife services.

Protein Genomics and Formation of Autogenesis Corporation

In 2012, American CryoStem entered into a Memorandum of Understanding (MOU) outlining our initial collaborative efforts with Protein Genomics, Inc. (PGEN) to test and develop new products by combining certain components of our respective intellectual property and patented products. We have provided PGEN and its research partner, Development Engineering Sciences (DES), with Adipose Derived Stem Cells (ATCELL)™ and our patented cell culture mediums (ACSelerate)™ for testing with PGEN's patented products designed for the wound healing market.

In fiscal 2013 we entered into a formal joint venture with Protein Genomics through the incorporation of Autogenesis, Corp. as required by the 2012 MOU. Each company (CRYO and PGen) initially has an equal ownership interest. All products capable of being commercialized, as well as any new intellectual property, resulting from the ongoing scientific collaboration will be wholly-owned by Autogenesis. During 2013 and 2014, the collaborative efforts

resulted in successful initial “proof of concept” combining PGEN’s unique biomaterial and the Company’s ATCELL[™] and ACSelerate[™] products. Management believes the preliminary results showed successful healing of full depth wounds on the backs of immune deficient mice.

Rutgers University

In May of 2012, American CryoStem entered into Material Transfer Agreements with three research scientists at Rutgers University allowing them to utilize the Company’s autologous Adipose-Derived Stem Cells (ATCELL[™]) and patented, serum free, GMP grade cell culture and differentiation mediums (ACSelerate[™]) for evaluation with the anticipation to implement additional agreements to research, develop and commercialize innovative new cellular therapies targeting incurable diseases, neurological disorders and the \$5 billion global wound care market.

During the last quarter of 2015 the Company undertook a review of the collaborative efforts between the Company and Dr. Lee pending the expiration of the agreements in November of 2015. Management believes that potential commercialization of the licensed technologies would require a number of years of additional study and experimentation and substantial investment by the Company. In November of 2015 the Collaboration and Research Agreement and the Licensing Agreement were terminated.

Cells on Ice:

In August of 2015 the company entered into an Agreement with Cells On Ice, Inc. (COI) located in Los Angeles, California to process adipose tissue and adipose derived cellular samples to study future use in Regenerative Medicine. COI is a network of physicians interested in the development and use of adipose tissue and adipose derived cellular samples in regenerative therapies and cellular medicine. The Company has agreed to distribute its Collect collection boxes and provide its ATGRAFT™ and ATCELL™ processing services under the COI brand for the collection, processing and storage of tissue samples at its NJ facility. Under the agreement, COI will pay the Company for the processing and storage of each sample generated by COI network physicians. COI plans to seek regulatory approval for use of the stored samples in studies and trials utilizing adipose tissue processed into Stromal Vascular Fraction (SVF) and ultimately expanded adipose derived mesenchymal adult stem cells. The Company is incorporating its existing protocols into COI's studies and may provide processing and other data to COI in support of their ongoing efforts to develop and obtain regulatory approval of its cellular therapies. COI has initiated several IRB approved studies. This initial work will become the basis for Investigational New Drug and Investigational Device Exemption filings with the FDA.

Additional Collaborations

The Company recognizes the benefits of collaborations with industry and university partners and continues to seek these relationships. These relationships are generally covered by Confidential Non-Disclosure Agreements and include Material Transfer Agreements (MTA) under which the Company will supply ATCELL™ and/or ACSelerate™ medium products for evaluation, testing, and the development of new cellular therapy applications.

The Company has entered into Non-Disclosure and Material Transfer Agreements with a number of potential collaborators. No assurance can be given that these efforts or relationships will ultimately result in new technology for future commercialization.

Regulatory Information

The Company believes that its processing methodologies and the laboratory facilities are designed to be in compliance with all current regulations as defined by the United States Public Health Service Act ("PHS" or the "PHS Act") and the Food and Drug Administration (FDA) regulations as they relate to the operation of a tissue processing and storage facility.

The Company's New Jersey laboratory facility is registered with the FDA (FEI 3008307548) as a processing and storage facility for Human Cells, Tissues and Cellular and Tissue Based Products (HCT/Ps) since 2010. In 2013, we registered the facility with the State of New York (CP169TP136) and the State of California (CNC80948) the only states in the U.S. requiring registration. We have discussed our operations with the State of New Jersey Health Department and Department of Environmental Protection (DEP) to ascertain any special regulations to which we may be subject. Based upon these discussions, and our use of a registered medical waste disposal company, we do not at this time have any special registrations or regulations for compliance with the State of New Jersey.

Our SOPs are the key to properly operating our tissue processing facility. To ensure delivery of the highest quality services, we incorporate these SOPs, which are designed to provide a basis for accreditation by the American Association of Blood Banks (AABB), the American Association of Tissue Banks (AATB) and the Foundation for the Accreditation of Cellular Therapy (FACT-JACIE). We have consistently endeavored to ensure that our processes, methodologies and procedures remain among the highest standards in the global tissue collection, processing and storage market. To this end, we have equipped ourselves with state-of-the-art quality processing and testing equipment, which we believe helps to ensure that every sample collected and processed is sterile (free from adventitious agents), viable and capable of significant cellular growth and expansion.

Quality Management

The Company's quality management program attempts to ensure that during processing and testing of each adipose tissue or SVF sample, the appropriate quality management tests and processing methodologies are performed and the data is collected, recorded and reviewed by the laboratory management team.

Chain of Custody Control

Central to the individual sample testing is an unbroken chain of custody and tracking. Sample tracking begins with the creation of each collection box. All samples, processing, quality management, batch, and storage documents and records, are coded with this unique number. All records and testing samples are cross referenced and verified as required by the standard operating procedures.

Testing Design and Standard Operating Procedures (SOPs)

Testing methods are standardized and operate under a complete set of SOPs and Quality Management (QM) processes. All SOPs are designed to be in compliance with the US Food and Drug Administration's regulations and guidance for aseptic processing. Strict QM is enforced to avoid and/or record any process deviations.

Intellectual Property

From the Company's formation, our strategy has been to invest time and capital in intellectual property protection. This strategy is intended to strengthen our Company's foundation in any defensive or offensive legal challenge. In addition, we are developing our IP portfolio to ensure and enhance our business flexibility and allow us to gain favorable terms in potential future collaborative partnerships with third parties. Our intellectual property portfolio currently includes two issued U.S. patents (No. 7,989,205, and Serial No. 9,487,755, *Cell Culture Media Kits and Methods of Use*); and has additional pending patent applications which are detailed in the following chart:

Title	Technology	Application #
Cell culture media, Kits, and Methods of Use	ACS cell culture media line Covers 12 types of Medium	US Patent No. 7,989,205 Issued August 2, 2011
Cell culture media, Kits, and Methods of Use	ACS cell culture media line Additional claim Granted for all 12 medium types	US Patent No. 9,487,755 Issued November 8, 2016 Continuation of US

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Patent No. 7,989,205

Cell culture media, Kits, and Methods of Use	ACS cell culture media line Continuation of Granted Patent covering additional improvements	US Patent Application No. 15/344,805 Continuation of US Patent No. 7,989,205
Human serum for cell culture medium for growth of human adipose stromal cells	A cell culture medium for growth of human adipose stromal cells for human and therapeutic applications	PCT/US15/6835030 month National Phase entry date of June 31, 2017
A Business Method for Collection, Cryogenic Storage and Distribution of a Biological Sample Material	Company Core Tissue Collection Processing and Storage Methodology Covers CELLECT Kit, Transport and Cryopreservation Medium for ATGRAFT and ATCELL Products	US Serial No 13/194,900 Filed June 6, 2010 Patent Application Published December 5, 2013
A Business Method for Collection, Cryogenic Storage and Distribution of a Biological Sample Material	Company Core Tissue Collection Processing and Storage Methodology Continuation covering Improvements	Developed Improvement established; Divisional, Continuation-In-Part claiming priority to US Serial No. 13/194,900 imminent (PCT Application filing planned)
Systems and Methods for the Digestion of Adipose Tissue Samples Obtained From a Client For Cryopreservation	Adipose Tissue Digestion Laboratory Processing Methods	U.S. Serial No. 13/646,647 filed October 6, 2011

Systems and Methods for the Digestion of Adipose Tissue Samples Obtained From a Client For Cryopreservation	Adipose Tissue Digestion Laboratory Processing Methods	Developed Improvement established; Divisional, Continuation-In-Part claiming priority to US Serial No. 13/646,900 imminent (PCT Application filing planned)
Compositions and Methods for collecting, Washing, Cyroprocessing, Recovering and Return of Lipoaspirate to Physicians for Autologous Adipose Transfer Procedures”	Company Adipose Tissue Storage Platform for Cosmetic Procedures Covers the core processing adipose tissue for ATGRAFT adipose tissue dermal filler product	U.S. Serial No. 14/406,203 National Phase entry date of December 5, 2014 based on PCT/US2013/044621 European Union Application No. EPI3800847.9 China Application No. 2013800391988
Compositions and Methods for “Collecting, Washing, Cyroprocessing, Recovering and Return of Lipoaspirate to Physicians for Autologous Adipose Transfer Procedures”	Company Adipose Tissue Storage Platform for Cosmetic Procedures Covers additional claims related to ATGRAFT process not included in original application	Developed Improvement established; Divisional, Continuation-In-Part claiming priority to US Serial No. 14/406,203 imminent (PCT Application filing planned)
Systems and methods to isolate and expand stem cells from urine	Isolation of stem cells from urine of patients for use in research and therapeutics	US Serial Nos. 62/335,426 and 62/439,106

Additionally, the Company has in-licensed the following IP:

Patent Title	Use of Patent	Application #
Cosmetic compositions including tropoelastin isomorphs (wound healing)	Protein Genomics and American CryoStem (Autogenesis) collaboration	USPTO #5,726,040
Cosmetic compositions (wound healing)	Protein Genomics and American CryoStem (Autogenesis) collaboration	USPTO #6,451,326
Recombinant hair treatment compositions (wound healing)	Protein Genomics and American CryoStem (Autogenesis) collaboration	USPTO #6,572,845

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Wound healing compositions and methods using tropoelastin and lysyl oxidase

Protein Genomics and American CryoStem (Autogenesis) collaboration USPTO: #6,808,707

(wound healing)

Business methods, processes and systems for collection, cryogenic storage and distribution of cosmetic formulations from an obtained stem cell based a biological

Personal Cell Sciences and American CryoStem collaboration USPTO application #61/588,841

(PCS)

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Trademarks

In addition to patents, the Company has registered the following trademarks with the U.S. Patent and Trademark Office: *American CryoStem*[®], *CELLECT*[®] and *ATGRAFT*[™]. We plan to obtain additional registered trademarks for our future products, slogans and themes to be used in our marketing initiatives, including, for example, *ACSelerate-SFM*[™], *ACSelerate-LSM*[™] and *ATCELL*[™].

The Company has also secured a number of online domain names relevant to its business, including www.americancryostem.com and www.acslaboratories.com.

Market Size and Opportunities

By leveraging and capitalizing on our proprietary Adipose Tissue Processing Platform, our Company is working to address multiple high growth, multi-billion dollar market opportunities, including those prevailing within the Regenerative Medicine, Cosmeceuticals, Medical Tourism and Cell Culture Media markets. The Company regularly reviews independent market research to gauge the market size of its intended domestic and international markets and to identify additional areas within these markets where the Company's cell culture medium, laboratory products, and tissue and cellular processing services, can be marketed, sold and/or licensed.

Global Stem Cells Market

A report from Transparency Market Research (TMR) forecasts that the global stem cells market is expected to register a healthy CAGR of 13.8% during the period from 2017 to 2025 to become worth US\$270.5 bn by 2025. Depending upon geography, the key segments of the global stem cells market are North America, Latin America, Europe, Asia Pacific, and the Middle East and Africa. At present, North America dominates the market because of the substantial investments in the field, impressive economic growth, rising instances of target chronic diseases, and technological progress. As per the TMR report, the market in North America will likely retain its dominant share in the near future to become worth US\$167.33 bn by 2025.

A report published by Markets and Markets Research in 2017 titled "Cell Expansion Market by Product (Reagent, Media, Flow Cytometer, Centrifuge, Bioreactor), Cell Type (Human, Animal), Application (Regenerative Medicine & Stem Cell Research, Cancer), End user (Research Institute, Cell Bank) - Global Forecasts to 2021". The report states: The global cell expansion market is expected to reach USD 18.76 Billion by 2021 from USD 8.34 Billion in 2016 at a CAGR of 17.6%. Geographically, the cell expansion market is dominated by North America, followed by Europe, Asia, and the Rest of the World (RoW). Growth in the North American segment is primarily driven by increasing incidence of chronic diseases in the North American countries. According to the American Medical Association and the American Medical Group Association, more than 50% of Americans suffered from one or more chronic diseases in 2012; the number of Americans suffering from chronic diseases was around 133 million in 2005 and this figure is expected to reach around 157 million by 2020. With this significant growth in the number of patients suffering from chronic diseases, the market for cell expansion is expected to grow in this region in the coming years.

Regenerative Medicine Market

The Global Translational Regenerative Medicine market is expected to grow significantly over the forecast period. The Global Translational Regenerative Medicine market was valued at \$5.8bn in 2016. Visiongain forecasts this market to increase to \$14.5bn in 2021. The market is estimated to grow at a CAGR of 19.9% in the first half of the forecast period and 17.7% from 2016 to 2027.

Medical Tourism, Global Wellness Tourism

As stated by the Global Wellness Institute; The global wellness economy, which encompasses 10 diverse sectors chart was worth an estimated \$3.7 trillion in 2015.

https://static1.squarespace.com/static/54306a8ee4b07ea66ea32cc0/t/58862a472994ca37b8416c61/1485187660666/GWI_Wellness_Economy_Chart_2017_FINALweb.pdf

Cell Culture Market

The Company believes the reproducibility of scientific studies has become a substantial issue in life science research from drug discovery and development through trials as researchers throughout the world continue to use different protocols for processes associated with sample preparation, cryopreservation and cold chain management. We believe the scientific community is becoming more aware of factors that affect sample integrity and experiment variability. By standardizing handling, storage, and transportation protocols we believe we can substantially improve the quality and reproducibility of pre clinical and clinical data which we believe will help to accelerate the transition from lab research to drug development and market launch.

According to MarketsandMarkets, the global cell culture market was valued at an estimated \$14,772 million in 2013. This market is expected to grow at a CAGR of 10.71% between 2013 and 2018, to reach \$24,574 million in 2018. The cell culture media, sera, and reagents market consists of six segments, namely, contamination detection kits, cryoprotective agents, lab reagents, media, serum, and other reagents. Of these, the serum product segment had the largest share of the cell culture media, sera, and reagents market in 2013, whereas the media product segment is expected to grow at the highest CAGR between 2013 and 2018.

Marketing and Distribution

The key objective of our marketing strategy is to position American CryoStem in the market as the “Gold Standard” for adipose tissue collection, cell processing and cryogenic storage, therapeutic applications, and research/commercial uses of adipose tissue within the current regulatory framework. The combination of a traditional sales approach supported by continuous internal and external marketing programs, are closely coordinated with the expansion of our laboratory processing capabilities. Our initial marketing efforts intend to disseminate current and future uses of adipose tissue and adult stem cells which support our business model, products and services. We intend to continue to employ both print advertising and social media sales campaigns. In addition, we plan to continue to utilize key leaders, and early adopters in the medical community as a marketing resource to enhance awareness of our proprietary, patented products and services and to increase the number of surgeons who join our network, university and private collaboration and consumers who use our products and services.

We plan to continue direct marketing programs focused on reaching plastic and cosmetic surgeons to join our network of providers that offer our services to their patients. This marketing initiative has been implemented using a traditional sales approach common to the pharmaceutical and biotechnology industries. This fundamental sales approach at the core of our marketing activities is being strategically and tactically expanded using a combination of in-house sales personnel and outside independent channels.

Our plan, capital permitting, provides for a comprehensive integrated marketing approach using various traditional and new media, such as the Internet, social media/blogging, video, print, TV, radio and trade shows to reach targeted potential consumers and promote awareness of our Company and our branded products and services. The essence of

this targeted strategy is to reach the end-users as quickly as possible and to accelerate the adoption curve of our products and services. We also plan to utilize outside marketing resources and trade groups to increase the number of surgeons willing to offer our products and services to their patients.

Development of Regional U.S. Markets

Cells on Ice

In August of 2015 the company entered into a contract manufacturing Agreement with Cells On Ice, LLC. (COI) located in Los Angeles, California to process and store adipose tissue and adipose derived cellular samples. COI is a network of physicians interested in the safety and use of adipose tissue and adipose derived cellular samples in regenerative therapies and cellular medicine. The Company has agreed to supply its CELLECT™ collection boxes and provide its ATGRAFT™ and ATCELL™ services under the COI brand for the collection, processing and storage of tissue samples at its NJ facility. Under the agreement, COI will pay the Company for the collection, processing and storage of each sample generated by COI network physicians. COI plans to seek regulatory approval for use of the stored samples in studies and trials utilizing adipose tissue processed into Stromal Vascular Fraction (SVF) and ultimately expanded adipose derived mesenchymal adult stem cells. The Company is incorporating its existing protocols into COI's studies and providing processing and other data to COI in support of their ongoing efforts to develop and obtain regulatory approval of its cellular therapies.

Physician Network

The Company continues to develop regional relationships to leverage its new products and services through existing cosmetic surgery and regenerative medicine practices. The Company continues to develop and expand its network of physicians seeking to adopt its products and services, initially focusing on surgeons performing liposuction, tissue transfer and regenerative procedures involving the use of adipose tissue. The Company intends to continue expanding its efforts to medical professionals interested in tissue storage and Regenerative Medicine applications utilizing ASDCs and establish itself as a primary source of collection, processing, and preparation of cellular therapies as they are developed and approved for patient use by the FDA.

Development of International Markets

International Licensing Program – Globally, many jurisdictions outside the US permit the use of adipose tissue based cellular therapies and regenerative medicine applications. The Company has received numerous inquiries concerning the sale or licensing of our products and services in these jurisdictions. The Company believes that the inquiries to date are a result of the global boom in Medical Tourism and the slow pace of approval of cellular therapies and regenerative medicine applications in the US. To address these inquiries and to expand the Company’s sales, marketing and branding opportunities the Company has designed and is offering an International Licensing Program.

The program is designed to permit the licensing of the Company’s products and services to organizations that meet the Company’s financial and technical criteria. The licensing program allows for a variety of business relationship including franchising, partnering and joint venturing. Marketing efforts to date have been to clinics, physician and hospitals in foreign jurisdictions capable of rapidly building or committing the appropriate facilities and personnel to create the required laboratory facilities to operate the *CELLECT*[®], *ATGRAFT*[™] and *ATCELL*[™] services in their local market. Strategically, the Company’s international licensees will maintain the branding of the Company’s services along the lines of the “Intel Inside” branding program.

Qualified Licensees can quickly take advantage of the rapidly expanding opportunity to collect, process, store and culture individual regenerative cell samples for their clients with the comfort and confidence that they are providing services that have been developed to conform to US FDA standards. Core to the relationship is the developed proprietary and patent pending processing and laboratory operational methodologies contained in our Standard Operating Procedures, Training, and Continuous Quality Management, Testing Program, and Laboratory Operations manuals.

Licensing programs may be initiated through a letter of intent (LOI) agreement between the Company and the prospective licensee. This LOI agreement is designed for due diligence and facility qualifications purposes. The Company may receive an initial fee under the agreement which may or may not be credited toward future royalty payments. Following evaluation of the prospective licensee the Company will enter into a final Agreement which outlines all upfront fees, minimum royalties and consumable purchase obligations of the Licensee.

Significant to our international development activities is the global expansion of the American CryoStem branded services and patented products, as well as the expansion of the Company’s services, technology and products as the core platform to implement cellular therapies and regenerative medicine.

Health Information Technology Company, LTD (Hong Kong)

On June 30, 2014 the Company granted Health Information Technology Company, LTD (“HIT”) exclusive rights to utilize the Company’s Standard Operating Procedures (SOP’s) to market the Company’s ATGRAFI[®] issue storage service for Hong Kong. The Agreement calls for upfront fees, royalties and the purchase by HIT of certain consumables manufactured by the Company. The Company and HIT have reached further agreement to extend their relationship on a non exclusive basis to include HIT’s cord blood laboratory located in Shenzhen, Guangdong Province, one of China’s most successful Special Economic Zones.. HIT will also purchase CRYO ACSelerate[™] storage media, COLLECT[™] collection and transportation kits as well as other American CryoStem products necessary for adipose tissue processing and storage at the Shenzhen facility. The final master licensing agreement is for a period of 5 years with renewal options and was executed between the parties on September 24, 2014. During 2017 the Company entered into additional agreements with HIT to allow for the transfer of their rights to an affiliated Company Boaxin in Shenzhen China.

CellSource Tokyo, Japan

In the second quarter of 2015 the Company entered into negotiations with CellSource, LLC in Tokyo, Japan for the licensing of its ATGRAFT™ products and services and on June 2, 2015 the Company and Cell Source entered into an initial term sheet Licensing the ATGRAFT™ technology to CellSource for Japan. According to Allied Market Research, World Regenerative Medicines Market Currently, North America dominates the global Regenerative Medicine market due to heavy investment in development of regenerative products.. However, the growing focus on research and development in Japan and South Korea makes Asia-Pacific the fastest growing region at a CAGR of 30.9% during 2014-2020.

Scientific and Medical Advisory Board

To expand our Scientific, R&D and product marketing efforts we continue to actively recruit and enlist the services of highly qualified peer leaders through our Scientific and Medical Advisory Board to assist us in our industry speaking engagements and education platform. This education platform is designed to focus on physicians, and industry needs and demands as they relate to current and future treatments utilizing our adipose tissue platform and adult stem cell technologies. Additionally, certain members of our advisory board provide assistance and input to management on the oversight of our research relationships, laboratory development and quality management systems. As of September 30, 2017, the following are currently members of our Scientific and Medical Advisory Board:

·Dayong Gao, Ph.D.

Dr. Gao is a world-renowned Professor of Mechanical Engineering and Biomedical Engineering at the University of Washington in Seattle. He has been actively engaged in cryopreservation research for more than 20 years, with specific emphasis on fundamental and applied cryobiology, which is the investigation of mechanisms in cryo-injury and cryo-protection with respect to living biological systems at low temperatures; with the development of optimal methods and technologies for the cryopreservation; and with the banking of living cells and tissues for biomedical applications. Dr. Gao has published 175 research papers in prestigious scientific/biomedical journals, with over 250 papers/abstracts in conference proceedings. He has obtained 16 patents, and authored two scientific books and numerous chapters in 17 scientific books. He currently serves on the Editorial Board, as Editor-in-Chief, of six scientific journals, and is the Editor of the Cryopreservation Engineering section of *Biopreservation and Biobanking*. His research in cryobiology and cryopreservation has been funded by the National Institutes of Health, the American Cancer Society, the Bill and Melinda Gates Foundation, the American Heart Association, the Whitaker Foundation, the Washington Research Foundation and the Kentucky Science Foundation, among others. Dr. Gao graduated with B.Sc. degree from the University of Science and Technology in China, and received a Ph.D. in Mechanical Engineering from Concordia University, Montreal, Canada.

·Dr. Fredric A. Stern, FACS

Dr. Stern is the founder and Medical Director of the Stern Center for Aesthetic Surgery in Bellevue, Washington. Following his education at Columbia University Medical School, Dr. Stern earned his Board Certification in Ophthalmology at the University of Washington, and underwent extensive additional training in oculofacial plastic and laser surgery. In 1987, he joined Virginia Mason Medical Center in Seattle, serving as Director of the Oculoplastic Surgery Division for ten years. While at Virginia Mason, Dr. Stern performed an extensive number of cosmetic laser procedures. He is honored to have been chosen as one of a select group of instructors of the *Botox Cosmetic*® National Education Faculty, as well as the *Radiesse*™ Medical Education Faculty. Dr. Stern is also an instructor for the *Sciton*™ Laser. In 2011, he was voted the Best Plastic Surgeon in Western Washington by *KING 5*

(NBC affiliate) TV's viewing audience. Dr. Stern is a Fellow of the American College of Surgeons, the American Academy of Facial Plastic and Reconstructive Surgeons, the American Academy of Cosmetic Surgery, and the American Society of Liposuction Surgery, as well as a member of the International Society of Hair Restoration Surgery. In addition, over the past several years, he has appeared on *Northwest Afternoon, Evening Magazine*, as well as *KOMO, KIRO* and *Q13* news, discussing and demonstrating the latest techniques in facial and eyelid laser cosmetic surgery, *Botox*[®] and laser-assisted liposuction. He is also an accomplished winemaker & published novelist. Dr. Stern's latest novel is a medical thriller titled, *The Sigma Project*.

Burt D. Ensley, Ph.D.

Dr. Ensley is the Chief Executive Officer and Chairman of Protein Genomics, Inc. He previously served as Chief Executive Officer of Phytotech, Inc. and President of NuCycle Therapy, Inc. prior to their sale. In addition, Dr. Ensley headed the Specialty Chemicals Group at Amgen, Inc. for nearly a decade. He holds a PhD in Microbiology from University of Georgia; is a Fellow of the American Academy of Microbiology; served on the BIO Directorate Board of the National Science Foundation; and is the Board Co-Chair of the University of Arizona's BIO5 Institute. Dr. Ensley holds 19 issued U.S. patents.

· Roy D. Mittman, MD, PA

Dr. Mittman currently serves as a senior partner of Seaview Orthopaedic and Medical Associates (SOMA) located in Ocean, New Jersey. He has assembled a team of highly qualified board certified, fellowship trained physicians to practice at SOMA specializing in general orthopaedics, as well as surgery of the Spine, Hand/Wrist, Knee/Shoulder, Total Joints, Foot and Ankle, Sports Medicine, Pain Management and Osteoporosis. SOMA currently operates six locations committed to providing quality care in Monmouth and Ocean Counties. After earning a Bachelor of Arts degree at John Hopkins University, Dr. Mittman earned his Medical Degree at the Albert Einstein College of Medicine in New York and completed orthopaedic training in 1978 at Montefiore Hospital in New York. He is a member of the New Jersey Orthopaedic Society, Orthopaedic Surgeons of New Jersey, Monmouth County Medical Society and the American College of Sports Medicine.

· Alan H. Davis

Mr. Davis is currently a partner in and the Chief Operating Officer of Novare, LLC. Novare Biologistics was created to meet the need of transporting and storing laboratory materials, including biological samples at required temperature anywhere within the U.S. Over the past 20 years, Mr. Davis has concentrated on business development and sales in biotechnology, manufacturing and software technology. Previously, he was primarily involved in retailing.

· Dr. Vincent Giampapa, MD F.A.C.S

Dr. Giampapa is the founder /director of the Regenerative Medicine Institute located in Costa Rica, the Plastic Surgery Center International and The Giampapa Institute for Anti-Aging Medical Therapy located in Montclair, NJ. Dr. Giampapa's research focuses on stem cell technologies and their applications to improve the cellular aging process in order to enhance health span and quality of life. As a result of his research, Dr. Giampapa has been awarded medical and intellectual property patents with the United States Patent and Trademark Office for developments involving unique cell culture delivery techniques, new drug delivery systems, stem cell reprogramming, DNA repair, and telomerase maintenance. He is a co-founder of The Academy of Anti-Aging Medicine (A4M), comprised of over 26,000 members representing over 110 nations, the first president of the Board of Anti-Aging Medicine and the founder of healthyCell®, an advanced cell health nutritional supplement and StemBank™, a blood derived stem cell extraction and storage company. Dr. Giampapa will have an active role assisting the Company with the development of its "From laboratory to clinic/physician's office" services and applications platform.

· Dr. Rand McClain

Dr. McClain earned his medical degree at Western University and completed his internship at the University of Southern California's Keck School of Medicine Residency Program (U.S.C. California Hospital). Dr. McClain has dedicated over 35 years of his personal and professional life studying nutrition, exercise, herbs and supplements and is also a Master of Acupuncture and Traditional Chinese Medicine. Dr. McClain has participated in professional and elite amateur sport as an individual participant and as well as a member of two U.S. teams and continues to participate competitively. His work is published in peer-reviewed and popular journals and he enjoys sharing and participating in the beneficial changes he helps create in people's lives. Dr. McClain has worked with some of the best and original innovators in Sports, Rejuvenative, Regenerative ("Anti-Aging"), Cosmetic and Family Medicine. He also practices as part of the Regenerative Medicine Institute an organization dedicated to advancing cellular treatments, procedures and research in the use of all available avenues to slow or reverse physiological and cosmetic effects of aging. Dr. McClain currently serves as Chief Medical Officer of Live Cell Research, a company dedicated to the discovery and development of products designed to enhance health and quality of life through epigenomic manipulation. Dr.

McClain is also a Medical Advisory Board member of American Cryostem Corporation a publicly traded company operating laboratories dedicated to the collection, processing, bio-banking, culturing and differentiation of autologous adipose tissue (fat) and adipose derived stem cells (ADSCs). Dr. McClain is a Board Member of Z.E.N. Foods, a gourmet food delivery and nutrition service company that provides individually designed meal programs in conjunction with health providers and its own registered dietician. Dr. McClain is also proud to be a member of the National Veteran Foundation's Advisory Board.

·Dr. Richard Goldfarb, FACS

Dr. Richard Goldfarb established the Center for SmartLipo with the vision of bringing patients advanced treatments and techniques to help patients restore and maintain a more youthful appearance. He has formed a team of specialists, each with a unique strength in treating the various parts of your face and body. Included are Aesthetic Laser and Liposuction Specialists, Facial Plastic Surgeons, a Plastic and Reconstructive Surgeon, and a Medical Weight Loss team. As a group, they are unequalled in their ability to provide you with comprehensive consultative and treatment options to achieve your aesthetic goals. Dr. Goldfarb graduated from University of Health Sciences / Finch University, The Chicago Medical School with top honors in Surgery. He completed his surgical training at Northeastern Ohio College of Medicine. He did additional training in cosmetic surgery at the University of Pennsylvania, Department of Plastic Surgery and Yale University. He has over 30 years of General and Vascular Surgery experience, and has become a Cosmetic Surgery Specialist. In view of his advanced training and skills, Dr. Goldfarb is highly sought after to lecture and train physicians internationally on numerous cosmetic laser and surgery topics. He is the Medical Director, International and National trainer for Selphyl, and National and International trainer/lecturer for the Silhouette Lift Procedure. Dr. Goldfarb pioneered the technique to combine Silhouette Lift with fat transfer and Selphyl® for total facial rejuvenation (“The Goldfarb Procedure”). He is on the Board of Directors, and lectures and trains physicians for the National Society of Cosmetic Physicians and Surgeons. He is a faculty member and lecturer for THE Aesthetics Show, a training organization for physicians in the field of laser and aesthetic medicine and cosmetic surgery. Doctors visit the Center for SmartLipo from all over the world on a regular basis to learn state-of-the-art cosmetic treatments and techniques from Dr. Goldfarb and his team. The American Society of Lasers in Medicine, American Academy of Liposuction Surgery, and American Academy of Cosmetic Surgery all count him as a member. Dr. Goldfarb is board certified and a Fellow of the American College of Surgeons, in addition to the American Society of Laser Medicine and Surgery.

Corporate Information

Our principal executive offices are located at 1 Meridian Road, Eatontown, New Jersey 07724 and our telephone number is (732) 747-1007. Our website is www.americancryostem.com. We also lease and operate a tissue processing laboratory in Mount Laurel, New Jersey at the Burlington County College Science Incubator located on the Burlington County College campus. Our laboratory website address is www.acslaboratories.com.

Employees

Currently, we have ten employees and continue to use consultants on an as needed basis. As we grow, we will need to attract an unknown number of additional qualified employees, however we could be unsuccessful in attracting and retaining the persons needed.

Available information

We file electronically with the U.S. Securities and Exchange Commission (SEC) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The public can obtain materials that we file with the SEC through the SEC’s website at <http://www.sec.gov> or at the SEC’s Public Reference Room at 100 F Street,

NE, Washington, DC 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 800-SEC-0330.

Item 1A. Risk Factors

To date we have generated only minimal operating revenues. Our recurring losses from operations and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern and as a result, our independent registered public accounting firm included an explanatory paragraph in its report on our financial statements for the fiscal year ended September 30, 2017 with respect to this uncertainty which is included in the 2017 10K. Substantial doubt about our ability to continue as a going concern may create negative reactions to the price of our Common Stock and we may have a more difficult time obtaining financing.

We expect to incur increased operating expenses for the foreseeable future. The amount of net losses and the time required for us to reach and sustain profitability are uncertain. The likelihood of our success must be considered in light of the problems, expenses, difficulties, and delays frequently encountered in connection with a development stage business, including, but not limited to, uncertainty as to development and the time required for our planned services to become available in the marketplace. There can be no assurance that we will ever generate sufficient revenues or achieve profitability at all or on any substantial basis. These matters raise substantial doubt about our ability to continue as a going concern. If we cease or curtail our development activities, it is highly likely that you would lose your entire investment in our Company.

We will require substantial additional capital to pursue our business plan.

We have incurred negative cash flows since inception from our developmental activities, and at this time as well as for the foreseeable future will finance (until we can generate sufficient revenues, if ever, to cover expenses) our activities and overhead expenses from any revenues we generate and through the issue and sale of debt and/or equity securities. The recoverability of the costs incurred by us to date is highly uncertain and is dependent upon, among other items, achieving commercial production and sales of our services, of which no assurances can be given. Our prospects must be considered in light of the risks, expenses and difficulties which are frequently encountered by companies in the development stage in the emerging Regenerative Medicine industry that we hope to commence operations in.

We have financed our development activities and expenses since inception through the sale of our debt and equity securities. Our capital requirements will depend on many factors, including, among other things, the cost of developing our business and marketing activities, the efficacy and effectiveness of our proposed services, costs (whether or not foreseen), the length of time required to collect accounts receivable we may in the future generate, competing technological and market developments and acceptance. Changes in our proposed business or business plan could materially increase our capital requirements. We cannot assure you that our proposed plans will not change or that changed circumstances will not result in the depletion of our capital resources more rapidly than currently anticipated.

Even if we obtain funding, we still will need to obtain substantial additional financing to, among other things, fund the future development of any services we attempt to undertake and for general working capital purposes. Any additional equity financing, if available, may be dilutive to stockholders and any such additional equity securities may have rights, preferences or privileges that are senior to those of the holders of shares of our Common Stock. Debt financing, if available, will require payment of interest and may involve our granting security interests on our assets and restrictive covenants that could impose limitations on our operating flexibility.

Our ability to obtain needed financing may be impaired by such factors as the capital markets, our capital structure, our development stage, the lack of an active market for shares of our Common Stock, and our lack of profitability, all of which would impact the availability or cost of future financings. We cannot assure prospective investors that we will be able to obtain requisite financing in a timely fashion or at all and, if obtained, on acceptable terms. Our inability to obtain needed financing on acceptable terms would have a material adverse effect on the implementation of our proposed business plan.

Statements concerning our future plans and operations are dependent on our ability to secure adequate funding and the absence of unexpected delays or adverse developments. We may not be able to secure required funding.

The statements concerning future events or developments or our future activities, such as current or planned research and development activities, anticipated products and services, anticipated commercial introduction of products and services, and other statements concerning our future operations and activities, are forward-looking statements that in each instance assume that we are able to obtain sufficient funding in the near term and thereafter to support such activities and continue our operations and planned activities in a timely manner. There can be no assurance that this will be the case. Also, such statements assume that there are no significant unexpected developments or events that delay or prevent such activities from occurring. Failure to timely obtain sufficient funding, or unexpected development or events, could delay the occurrence of such events or prevent the events described in any such statements from occurring which could adversely affect our business, financial condition and results of operations.

We have significant payment obligations under certain Notes due through January 31, 2018. Any non-payment of the Notes when due in the absence of an extension of the maturity date would constitute event of default under the Notes, and our financial condition may be adversely affected.

As of September 30, 2017, the Company had issued and outstanding; \$226,500 aggregate principal amount of Bridge Notes, which matured, between January through July 2015 and bear interest at the rate of 8% per annum, \$86,000 aggregate principal amount of Convertible Notes which matured in September 2014 convertible into shares of Common Stock and the rate of one (1) share of Common Stock for each \$0.35 of principal amount and/or interest so converted, \$45,000 of 8% convertible notes which matured in September of 2016 and are convertible into shares of Common Stock and the rate of one (1) share of Common Stock for each \$0.30 of principal amount and/or interest so converted, and \$467,500 of 8% convertible notes which mature in January 31, 2018 convertible into shares of Common Stock and the rate of one (1) share of Common Stock for each \$0.20 of principal amount and/or interest so converted, and \$265,500 of 8% convertible notes which mature in January 31, 2018 convertible into shares of Common Stock and the rate of one (1) share of Common Stock for each \$0.15 of principal amount and/or interest so converted. No assurances can be given that the Company will have sufficient funds to repay the principal and/or interest on such Bridge Notes when due or on the Convertible Notes such Convertible Notes are converted into Common Stock prior to maturity. In such event, we might be subject to, among other things, non-payment claims of the Note holders, and our financial condition may be adversely affected.

Our limited operating history may make it difficult to evaluate our business and our future viability.

We are in the relatively early stage of operations and have only a limited operating history on which to base an evaluation of our business and prospects. Even if we successfully obtain additional funding, we are subject to the risks associated with development stage companies with a limited operating history, including: the need for additional financing; the uncertainty of research and development efforts; successful commercialization of our products and services; market and customer acceptance of our products and services; unexpected issues with federal or state regulatory authorities; competition from larger organizations; dependence on key personnel; uncertain patent or other intellectual property protection; fluctuations in expenses; and dependence on corporate partners and collaborators. Any failure to successfully address these risks and uncertainties could seriously harm our business and prospects. We may not succeed given the technological, marketing, strategic and competitive challenges we will face. The likelihood of our success must be considered in light of the expenses, difficulties, complications, problems and delays frequently encountered in connection with the growth of a new business, the continuing development of new drug technology, and the competitive and regulatory environment in which we operate or may choose to operate in the future.

Many of our products, services and technologies are in early stages of development.

Processing and cryogenic storage of adipose tissue and stem cells, and application development is in the early stages of development, and there can be no assurance that our business will be successful. Further, potential products based upon individuals' stem cells will require extensive additional research and development before any commercial introduction. There can be no assurance that any future research and development will result in viable products or meet efficacy or regulatory standards.

Cell therapy is a developing field and a significant market for our services has yet to emerge in the US.

Cell therapy and regenerative medicine is a developing field, which we believe few cell therapy products or services approved for and/or commercial use. We are wholly dependent on the acceptance of cell therapy (and specifically stem cells) to develop into a large and profitable industry. We hope to develop services related to the collection, processing, storage of stem cells and application development. We believe the market for stem cell and tissue-based therapies is in its infancy, substantially research oriented and financially speculative and has yet to achieve substantial commercial success. Stem cell products and services may in general be susceptible to various risks, including undesirable and unintended side effects, unintended immune system responses, inadequate therapeutic efficacy, lack of acceptance by physicians, hospital and consumers, or other characteristics that may prevent or limit their approval or commercial use. Management believes that the demand for tissue processing and stem cell processing and the number of people who may use cell or tissue-based therapies is difficult, if not impossible, to forecast. Our success is dependent on, among other items, the establishment of a market for our proposed services and our ability to capture a share of this market.

Our proposed services may not attain commercial acceptance absent endorsement by physicians.

Our proposed services will compete against individual adipose tissue and cellular samples derived from alternate sources, such as bone marrow, umbilical cord blood and perhaps embryos. We believe that physicians and hospitals are historically slow to adopt new technologies like ours, whatever the merits, when older technologies continue to be supported by established providers. Overcoming such inertia often requires very significant marketing expenditures or definitive product performance and/or pricing superiority. Management currently believes physicians' and hospitals' inertia and skepticism to be a significant barrier as we attempt to gain market penetration with our proposed services. Failure to achieve market acceptance of our proposed services would have a material adverse effect on our future prospects.

If we should in the future become required to obtain regulatory approval to market and sell our proposed services we will not be able to generate any revenues until such approval is received.

The medical industry is subject to stringent regulation by a wide range of authorities. We are required to have licenses in two states and have obtained tissue bank licenses to market and support our services in New York and California as well as annual registration with the FDA as a tissue bank. While we believe that, given our proposed business, we are not presently required to obtain additional state and federal regulatory approval to market our services we cannot predict whether regulatory clearance will be required in the future and, if so, whether such clearance will at such time be obtained, whether for the stem cells and/or any other services that we are developing or may attempt to develop. Should such regulatory approval in the future be required, our services may be suspended or may not be able to be marketed and sold in the United States until we have completed the regulatory clearance process as and if implemented by the FDA. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product or service and would require the expenditure of substantial resources.

If regulatory clearance of a service we propose to provide is granted, this clearance may be limited to those particular states and conditions for which the service is demonstrated to be safe and effective, which would limit our ability to generate revenue.

We cannot ensure that any service developed by us will meet all of the applicable regulatory requirements needed to receive marketing clearance. Failure to obtain regulatory approval will prevent commercialization of our services where such clearance is necessary. There can be no assurance we will obtain regulatory approval of our proposed services that may require it.

Our facilities may require compliance with PHS and FDA regulations and there is no assurance we are in and/or in the future will be in compliance with these protocols or that the PHS or FDA may find deficiencies upon inspection of our facility.

The Company has developed its processing methodologies, and its Monmouth Junction, New Jersey laboratory facilities which the Company believes may be required to be in compliance with all current applicable regulations and guidelines as defined by the United States Public Health Service Act (“**PHS**” or the “**PHS Act**”) and the Food and Drug Administration (“**FDA**”) regulations and guidance as they relate to the operation of a tissue processing and storage facility. While we believe such facilities are in compliance with such regulations, no assurance can be given that we are in fact in compliance and/or in the future will be in compliance with these regulations or that upon inspection by PHS and/or FDA that we will not be required to amend our procedures or limit our operations based upon the finding of the inspection.

As and if we evolve from a company primarily involved in the research and development of our technology into one that is also involved in the commercialization of our technology, we may have difficulty managing our growth and expanding our operations.

As and if our business grows, we will in all likelihood need to add employees and enhance our management, systems and procedures. We may need to successfully integrate our internal operations with the operations of various third party service providers to produce and market commercially viable products. We may also need to manage additional relationships with various collaborative partners, suppliers and other organizations. Expanding our business may place a significant burden on our management and operations. We may not be able to implement improvements to our management information and control systems in an efficient and timely manner and we may discover deficiencies in our existing systems and controls. Our failure to effectively respond to such changes may make it difficult for us to manage our growth and expand our operations.

We currently are wholly dependent on John Arnone and Anthony Dudzinski; Conflicts of Interest.

We currently are wholly dependent on John Arnone and Anthony Dudzinski, our only executive officers and directors. Our future performance will depend on the continued services of such persons and our ability to retain such persons and to hire additional qualified persons. The loss of either of Mr. Arnone or Mr. Dudzinski, or both, would materially and adversely affect our proposed business. There are no assurances they will continue to do so. The employment agreements among other terms permit each of Mr. Arnone and Mr. Dudzinski to conduct other business activities outside of their employment with us. Each such employment agreement terminates in October 2020.

We have not obtained any “key-man” life insurance policies nor do we presently plan to obtain or maintain any such policies on Mr. Arnone, Mr. Dudzinski or any other of our employees.

Mr. Arnone owns the majority of the issued and outstanding voting stock of Personal Cell Science, a Florida corporation (“**PCS**”). PCS is in the cosmetic business and has entered into a contract manufacturing and royalty agreement with us to manufacture conditioned medium. We also receive a royalty of 10% of the gross sales of any autologous products sold by PCS containing the conditioned medium that we manufacture. Messrs. Arnone and Dudzinski collectively beneficially own in excess of 50.1% of our issued and outstanding voting stock and as a result have the ability to directly and/or indirectly make all decisions for us. Mr. Arnone is also the CEO of Regenerative BioTherapy Corp. Regenerative BioTherapy Corp, a Florida corporation which entered into a licensing Agreement with the Company in September of 2014. The licensing agreement Permits Regenerative BioTherapy the use of the Company’s Standard Operating Procedures, Quality Management and General Operations procedures and process for the Company’s product lines and IP; to construct and operate a laboratory and treatment facility in the Caribbean.

We may in the future seek to expand our business relationship with, and/or acquire PCS and/or Regenerative BioTherapy Corp. Management cannot assure you that any such business relationship or acquisition, if consummated, would be on terms favorable to us.

We may be unable to protect our intellectual property from infringement by third parties, and third parties may claim that we are infringing on their intellectual property, either of which could materially and adversely affect us.

We intend to rely on patent protection, trade secrets, technical know-how and continuing technological innovation to protect our intellectual property, and we expect to require any employees, consultants and advisors that we may hire or engage in the future to execute confidentiality and assignment of inventions agreements in connection with their employment, consulting or advisory relationships. There can be no assurance, however, that these agreements will not be breached or that we will have adequate remedies for any such breach.

Despite our efforts to protect our intellectual property, third parties may infringe or misappropriate our intellectual property or may develop intellectual property competitive with ours. Our competitors may independently develop similar technology or otherwise duplicate our proposed processes or services. As a result, we may have to litigate to enforce and protect our intellectual property rights to determine their scope, validity or enforceability. Intellectual property litigation is particularly expensive, time-consuming, diverts the attention of management and technical personnel and could result in substantial cost and uncertainty regarding our future viability. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection would limit our ability to produce and/or market our services in the future and would likely have an adverse effect on any revenues we may in the future be able to generate by the sale or license of such intellectual property.

We may be subject to costly litigation in the event our future services or technology infringe upon another party's proprietary rights. Third parties may have, or may eventually be issued, patents that would be infringed by our technology. Any of these third parties could make a claim of infringement against us with respect to our technology. We may also be subject to claims by third parties for breach of copyright, trademark or license usage rights. Any such claims and any resulting litigation could subject us to significant liability for damages or injunctions precluding us from utilizing our technology or services or marketing or selling any products or services under the same. An adverse determination in any litigation of this type could require us to design around a third party's patent, license alternative technology from another party or otherwise result in limitations in our ability to use the intellectual property subject to such claims.

Risks Related to Our Common Stock

We are authorized to issue 300,000,000 shares of Common Stock and 50,000,000 shares of "blank check" preferred stock, the issuance of which could, among other things, reduce the proportionate ownership interests

of current shareholders.

We are authorized to issue 300,000,000 shares of Common Stock and 50,000,000 shares of “blank check” preferred stock. As of September 30, 2017, there were 43,409,580 shares of Common Stock (excluding 13,941,500 shares issuable upon exercise of all issued and outstanding stock options and warrants, and 4,503,214 shares issuable on the conversion of all outstanding Convertible Notes, and no shares of preferred stock were issued and outstanding). Our board of directors has the ability, without seeking shareholder approval, to issue additional shares of Common Stock and/or to designate, establish the terms and conditions of, and issue shares of preferred stock for such consideration, if any, as the board of directors may determine. Any such shares of preferred stock could have dividend, liquidation, conversion, voting or other rights, which could adversely affect the voting power or other rights of the holders of shares of Common Stock. In the event of such issuance, the preferred stock could, among other items, be used as a method of discouraging, delaying or preventing a change in control of our Company, which could have the effect of discouraging bids for our Company and thereby prevent security-holders from receiving the maximum value for their shares of our Common Stock.

Our Common Stock is currently traded on the OTCIQ and is subject to additional trading restrictions as a “penny stock,” which could adversely affect the liquidity and price of such stock. If our Common Stock remains subject to the SEC’s penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.

Our Common Stock currently trades on the OTCIQ. The OTCIQ may be viewed by investors as a less desirable, and less liquid, marketplace. As a result, an investor may find it more difficult to purchase, dispose of or obtain accurate quotations as to the value of our Common Stock.

Because our Common Stock is not listed on any national securities exchange, such shares will also be subject to the regulations regarding trading in “penny stocks,” which are those securities trading for less than \$5.00 per share, and that are not otherwise exempted from the definition of a penny stock under other exemptions provided for in the applicable regulations. The following is a list of the general restrictions on the sale of penny stocks:

Before the sale of penny stock by a broker-dealer to a new purchaser, the broker-dealer must determine whether the purchaser is suitable to invest in penny stocks. To make that determination, a broker-dealer must obtain, from a prospective investor, information regarding the purchaser’s financial condition and investment experience and objectives. Subsequently, the broker-dealer must deliver to the purchaser a written statement setting forth the basis of the suitability finding and obtain the purchaser’s signature on such statement.

A broker-dealer must obtain from the purchaser an agreement to purchase the securities. This agreement must be obtained for every purchase until the purchaser becomes an “established customer.”

The Exchange Act requires that before effecting any transaction in any penny stock, a broker-dealer must provide the purchaser with a “risk disclosure document” that contains, among other things, a description of the penny stock market and how it functions and the risks associated with such investment. These disclosure rules are applicable to both purchases and sales by investors.

A dealer that sells penny stock must send to the purchaser, within 10 days after the end of each calendar month, a written account statement including prescribed information relating to the security.

These requirements can severely limit the liquidity of securities in the secondary market because fewer brokers or dealers are likely to be willing to undertake these compliance activities. As a result of our Common Stock not being listed on a national securities exchange and the rules and restrictions regarding penny stock transactions, an investor’s ability to sell to a third party and our ability to raise additional capital may be limited. We make no guarantee that market-makers will make a market in our Common Stock, or that any market for our Common Stock will continue.

Our two (2) principal stockholders control us, and your interests as a stockholder may conflict with the interests of those persons.

Based on the number of outstanding shares of our Common Stock held by our stockholders as of September 30, 2017, our two (2) directors, executive officers and their respective affiliates beneficially owned in excess of 50.1% of our outstanding shares of Common Stock. As a result, those stockholders have the ability to control, among other items,

the outcome of all matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. The interests of these persons may not always coincide with our interests or the interests of our other stockholders. This concentration of ownership could harm the market price of our Common Stock by (i) delaying, deferring or preventing a change in corporate control, (ii) impeding a merger, consolidation, takeover or other business combination involving us, and/or (iii) discouraging a potential acquirer from attempting to obtain acquire us. The control held over us by such 2 persons may adversely affect the trading price of our Common Stock due to investor's awareness of conflicts of interest.

Our stockholders may experience significant dilution as a result of any additional financing using our securities.

We will need to raise significant additional capital in order to maintain and continue our operations. To the extent that we raise additional funds by issuing equity securities or securities convertible into or exercisable for equity securities, our stockholders may experience significant dilution and we may issue securities with better terms than those offered hereby.

We have not paid dividends on our Common Stock in the past and do not expect to pay dividends on our Common Stock for the foreseeable future. Any return on investment may be limited to the value of our Common Stock.

No cash dividends have been paid on our Common Stock, and we do not expect to pay cash dividends on our Common Stock in the foreseeable future. Payment of dividends would depend upon our profitability at the time, cash available for those dividends, and other factors as our board of directors may consider relevant. If we do not pay dividends, our Common Stock may be less valuable because a return on a stockholder's investment will only occur if our stock price appreciates.

A sale of a substantial number of shares of our Common Stock may cause the price of our Common Stock to decline and may impair our ability to raise capital in the future.

Our Common Stock is currently traded on the OTCIQ, and there have been and may continue to be periods when it could be considered “thinly-traded,” meaning that the number of persons interested in purchasing our Common Stock at or near bid prices at any given time may be relatively small or non-existent. Finance transactions resulting in a large amount of newly issued shares that become readily tradable or other events that cause stockholders to sell shares, could place downward pressure on the trading price of our stock. In addition, the lack of a robust resale market may require a stockholder who desires to sell a large number of shares of Common Stock to sell the shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock. If our stockholders sell, or the market perceives that our stockholders intend to sell for various reasons, substantial amounts of our Common Stock in the public market, the market price of our Common Stock could decline. Sales of a substantial number of shares of our Common Stock may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

The Company may not have complied with various state securities laws in connection with prior issuances/sales of its securities.

Since April 2011, the date of the closing of the Asset Purchase, through September 30, 2017, the Company sold approximately \$4,004,627 gross amount of its equity and debt securities. In connection with such sales, the Company may have violated various state securities laws. If the Company was determined by a court, FINRA or regulatory body with the required jurisdiction to have violated such laws, any such violation could result in the Company being required to offer rescission rights to each such prior purchase from the Company to rescind such purchases and pay to the prior purchaser an amount of funds equal to the purchase price paid by such prior investors plus interest from the date of any such purchase. No assurances can be given the Company will, if it is required to offer such purchasers rescission right, have sufficient funds to pay the prior purchasers the amount required. In addition, if the Company violated one or more securities laws of a state in connection with prior offers and/or sales of its securities, each such state could bring an enforcement, regulatory and/or other legal action against the Company which, among other things, could result in the Company having to pay substantial fines, not being able to sell securities in such states in the future and/or having a determination made by any such states against the Company that the Company failed to comply with such states’ securities laws, which could result in the Company, among other untoward effects including those set forth above, not being able to have its Common Stock be eligible for continued quotation on the OTCIQ and/or other trading markets and/or mediums that the Common Stock is then trading and/or eligible for quotation on and/or in the future seeks to be quoted or traded on.

As a “thinly-traded” stock, large sales can place downward pressure on our stock price.

Our stock experiences periods when it could be considered “thinly traded.” Financing transactions resulting in a large number of newly issued shares that become readily tradable, or other events that cause current shareholders to sell shares, could place further downward pressure on the trading price of our stock. In addition, the lack of a robust resale

market may require a shareholder who desires to sell a large number of shares to sell the shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock.

Shares eligible for future sale may adversely affect the market for our Common Stock.

As of September 30, 2017, we had 13,941,500 of Common Stock issuable upon exercise of all outstanding stock options and warrants, and, 4,503,214 shares issuable on the conversion of outstanding Convertible Notes. If and when these securities are exercised or converted into shares of our Common Stock, the number of our shares of Common Stock outstanding will increase. Such increase in our outstanding shares, and any sales of such shares into the public market, could have a material adverse effect on the market for our Common Stock and the market price of our Common Stock.

In addition, from time to time, certain of our shareholders may be eligible to sell all or some of their shares of Common Stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, after satisfying a six month holding period: (i) affiliated shareholders (or shareholders whose shares are aggregated) may, under certain circumstances, sell within any three month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock and (ii) non-affiliated shareholders may sell without such limitations, provided we are current in our public reporting obligations. Rule 144 also permits the sale of securities by non-affiliates that have satisfied a one year holding period without any limitation or restriction. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our securities.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Description of Property

We currently rent office space at 1 Meridian Road, Eatontown, NJ 07724 for our corporate offices, and we rent laboratory space in Monmouth Junction, New Jersey.

Item 3. Legal Proceedings

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters

(a) Market Information

Our common stock is listed on the OTCIQ under the symbol “CRYO” The following table shows the reported high and low closing prices per share for our common stock for each quarterly period as noted. The over-the-counter market quotations set forth for our common stock reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Quarter ended	High	Low
December 31, 2016	\$0.48	\$0.20
March 31, 2017	\$0.32	\$0.23
June 30, 2017	\$0.55	\$0.25
September 30, 2017	\$1.08	\$0.40

(b) Holders of Common Equity

As of September 30, 2017, there were approximately 162 holders of record of our common stock. This figure does not take into account those shareholders whose certificates are held in the name of broker-dealers or other nominees.

(c) Dividend Information

We have never paid any cash dividends on our common shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion development of our business.

(d) Sales of Unregistered Securities

During fiscal year 2016, the Company issued 707,500 shares of common stock and received proceeds of \$144,501.

During fiscal year 2016, option holders exercised their options and received 709,500 shares of common stock. The Company received proceeds of \$55,476 upon exercise.

During fiscal year 2016, the Company issued 425,000 shares of common stock to consultants for services rendered valued at \$95,750.

During fiscal year 2016, the Company issued 50,000 shares of common stock for a security deposit on its new lab location in Princeton, New Jersey. The value of the deposit is \$10,450.

During fiscal year 2016, the Company issued 557,591 shares of common stock to pay for interest due to holders of the bridge notes and convertible notes. The value of the interest paid is \$168,763.

During fiscal year 2017, the Company issued 91,667 shares of common stock and received proceeds of \$13,750.

During fiscal year 2017, holders of \$468,000 convertible notes exercised and were issued 2,396,548 shares.

During fiscal year 2017, option holders exercised their options and received 2,640,000 shares of common stock. The Company received proceeds of \$110,400 upon exercise.

During fiscal year 2017, the Company issued 425,000 shares of common stock to consultants for services rendered valued at \$175,250. The fair value of the common stock issued at the date of issuance was used to value the transactions.

During fiscal year 2017, the Company issued 200,000 shares of common stock for to its lawyers to settle an outstanding legal invoice. The fair value of the common stock issued at the date of issuance was used to value the transaction. The Company recognized a loss on the settlement of \$113,617 on the transaction.

During fiscal year 2017, the Company issued 534,656 shares of common stock to pay \$149, 805 in interest due to holders of the bridge notes and convertible notes. The fair value of the common stock issued at the date of issuance was used to value the transactions.

(e) Securities Authorized For Issuance Under Equity Compensation Plans

The Company applies ASC 718, “Accounting for Stock-Based Compensation” to account for its option issues. Accordingly, all options granted are recorded at fair value using a generally accepted option pricing model at the date of the grant. For purposes of determining the option value at issuance, the fair value of each option granted is measured at the date of the grant by the option pricing model with the following assumptions:

	FY 2017		FY 2016	
Dividend yield	0.00	%	0.00	%
Risk free interest rate	1.25	%	0.25	%
Volatility	181.12	%	202.70	%

The fair values generated by option pricing model may not be indicative of the future values, if any, that may be received by the option holder.

The Company normally issues options to its key personnel and consultants at the end of each fiscal year. Using the Black-Sholes valuation method, the Company recorded salaries and consulting expense of \$1,085,988 and \$603,364 in fiscal years 2017 and 2016, respectively.

During fiscal year 2017, the Company issued 2,770,000 options to employees and other professionals. As a result, the Company recorded labor expense of \$1,019,998, in its statement of operations.

Transfer Agent

Our transfer agent is Olde Monmouth Stock Transfer Co., Inc. located at 200 Memorial Parkway, Atlantic Highlands, New Jersey 07716. Its contact phone is 732-872-2727.

Item 6. Selected Financial Data

Not applicable.

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

This annual report on Form 10-K and other reports filed by American CryoStem Corporation (the "Company") from time to time with the U.S. Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," or the neg of these terms and similar expressions as they relate to the Company or the Company's management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks contained in the "Risk Factors" section of the this Annual Report on Form 10-K., relating to the Company's industry, the Company's operations and results of operations, and any businesses that the Company may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

Background

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USE OF PROCEEDS

None of the proceeds from the sale of our Class A common stock offered by this prospectus will be received by us. However, pursuant to the share lending agreement, we will receive a loan fee of \$0.001 for each share that we lend to Citigroup Global Markets Limited, which will be used for general corporate purposes. See Share Lending Agreement.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY**

Our Class A common stock is quoted on the Nasdaq National Market under the symbol CHTR. The following table sets forth, for the periods indicated, the range of high and low last reported sale price per share of Class A common stock on the Nasdaq National Market. There is no established trading market for our Class B common stock.

2006	High	Low
First Quarter through February 9	\$1.24	\$1.15
2005	High	Low
First Quarter	\$2.30	\$1.35
Second Quarter	\$1.53	\$0.90
Third Quarter	\$1.71	\$1.14
Fourth Quarter	\$1.50	\$1.12
2004	High	Low
First Quarter	\$5.43	\$3.99
Second Quarter	\$4.70	\$3.61
Third Quarter	\$3.90	\$2.61
Fourth Quarter	\$3.01	\$2.03

As of December 31, 2005, there were 4,516 holders of record of our Class A common stock, one holder of our Class B common stock, and 4 holders of record of our Series A Convertible Redeemable Preferred Stock.

The last reported sale price of our Class A common stock on the Nasdaq National Market on February 9, 2006 was \$1.19 per share.

We have never paid and do not expect to pay any cash dividends on our Class A common stock in the foreseeable future. Charter Holdco is required under certain circumstances to pay distributions pro rata to all its common members to the extent necessary for any common member to pay taxes incurred with respect to its share of taxable income attributed to Charter Holdco. Covenants in the indentures and credit agreements governing the debt of our subsidiaries restrict their ability to make distributions to us and, accordingly, limit our ability to declare or pay cash dividends. We intend to cause Charter Holdco and its subsidiaries to retain future earnings, if any, to finance the operation of the business of Charter Holdco and its subsidiaries.

Table of Contents**CAPITALIZATION**

The following table sets forth, as of September 30, 2005, on a consolidated basis:

cash and cash equivalents;

the actual (historical) capitalization of Charter; and

the capitalization of Charter, pro forma to reflect the issuance and sale of \$450 million principal amount of 10.250% CCH II senior notes in January 2006 and the use of such proceeds to pay down credit facilities.

The following information should be read in conjunction with Selected Historical Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and related notes included elsewhere in this prospectus.

	As of September 30, 2005	
	Actual	Pro forma
	(Dollars in millions)	
Cash and cash equivalents	\$ 22	\$ 22
Long-term debt:		
Charter Communications, Inc.:		
5.875% convertible senior notes due 2009(a)	\$ 841	\$ 841
4.75% convertible senior notes due 2006	25	25
Charter Holdings:		
Senior and senior discount notes(b)	1,736	1,736
CIH:		
Senior and senior discount notes(c)(d)	2,426	2,426
CCH I:		
11.00% senior notes due 2015(d)	3,686	3,686
CCH II:		
10.250% senior notes due 2010	1,601	2,041
CCO Holdings:		
8 3/4% senior notes due 2013	794	794
Senior floating rate notes due 2010	550	550
Charter Operating:		
8.000% senior second lien notes due 2012	1,100	1,100
8 3/8% senior second lien notes due 2014	733	733
Renaissance:		
10.00% senior discount notes due 2008	115	115
Credit facilities:		
Charter Operating(e)	5,513	5,082
Total long-term debt	19,120	19,129
Preferred stock redeemable(f)	55	55
Minority interest(g)	665	665
Shareholders deficit:		
Class A common stock; \$.001 par value; 1.75 billion shares authorized; 348,576,466 shares issued and outstanding(h)		

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Class B common stock; \$.001 par value; 750 million shares authorized;
50,000 shares issued and outstanding
Preferred stock; \$.001 par value; 250 million shares authorized; no
non-redeemable shares issued and outstanding

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	As of September 30, 2005	
	Actual	Pro forma
	(Dollars in millions)	
Additional paid-in-capital	4,821	4,821
Accumulated deficit	(9,830)	(9,830)
Accumulated other comprehensive income	3	3
	-----	-----
Total shareholders' deficit	(5,006)	(5,006)
	-----	-----
Total capitalization	\$ 14,834	\$ 14,843
	=====	=====

- (a) Represents \$863 million of 5.875% convertible senior notes of which \$30 million, related to certain provisions of the 5.875% convertible senior notes that for accounting purposes were derivatives which required bifurcation, was recorded as accounts payable and accrued expenses and other long-term liabilities with the resulting long-term debt of \$832 million. The debt has accreted to \$841 million at September 30, 2005 and will accrete to the \$863 million face value over three years, the duration of our pledged securities.

	As of September 30, 2005
	(Dollars in millions)
(b) Represents the following Charter Holdings notes:	
8.250% senior notes due 2007	\$ 105
8.625% senior notes due 2009	292
9.920% senior discount notes due 2011	198
10.000% senior notes due 2009	154
10.250% senior notes due 2010	49
11.750% senior discount notes due 2010	43
10.750% senior notes due 2009	131
11.125% senior notes due 2011	217
13.500% senior discount notes due 2011	91
9.625% senior notes due 2009	107
10.000% senior notes due 2011	136
11.750% senior discount notes due 2011	116
12.125% senior discount notes due 2012	97

Total	\$ 1,736
	=====

	As of September 30, 2005
	(Dollars in millions)
(c) Represents the following CIH notes:	
11.125% senior notes due 2014	\$ 151
9.920% senior discount notes due 2014	471
10.000% senior notes due 2014	299
11.750% senior discount notes due 2014	759
13.500% senior discount notes due 2014	559
12.125% senior discount notes due 2015	187

Total	\$ 2,426

- (d) The CIH notes and CCH I notes issued in exchange for Charter Holdings notes are recorded in accordance with GAAP. GAAP requires that the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings notes due 2009 be recorded at the historical book values of the Charter Holdings notes as opposed to the current accreted value for legal purposes and notes indenture purposes (which, for both purposes, is the amount that would become payable if the debt becomes immediately due). As of September 30, 2005, the accreted value of our total long-term debt for legal purposes and notes indenture purposes is \$18.6 billion.

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- (e) Total potential borrowing availability under our credit facilities was \$786 million as of September 30, 2005 (approximately \$1.2 billion pro forma for the issuance and sale of \$450 million principal amount of 10.250% CCH II senior notes due 2010), although the actual availability at that time was only \$648 million because of limits imposed by covenant restrictions (approximately \$1.1 billion pro forma for the issuance and sale of \$450 million principal amount of 10.250% CCH II senior notes due 2010).
- (f) In connection with Charter's acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., Charter issued 545,259 shares of Series A Convertible Redeemable Preferred Stock valued at and with a liquidation preference of \$55 million. Holders of the preferred stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly or 7.75% if not paid but accrued. Beginning January 1, 2005 and through September 30, 2005, Charter accrued the dividend on its Series A Convertible Redeemable Preferred Stock. The preferred stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. In November 2005, we repurchased 508,546 shares of the preferred stock. See Summary Recent Events Repurchase of Convertible Redeemable Preferred Stock. The preferred stock is convertible, in whole or in part, at the option of the holders from April 1, 2002 through August 31, 2008, into shares of Class A common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of Class A common stock, subject to certain customary adjustments.
- (g) Minority interest represents preferred membership interests in CC VIII. Paul G. Allen held preferred membership units in CC VIII as a result of the exercise of put rights originally granted in connection with the Bresnan transaction in 2000. There was an issue regarding the ultimate ownership of the CC VIII membership interests following the consummation of the Bresnan put transaction on June 6, 2003. This dispute was settled October 31, 2005. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.
- (h) Although the shares offered by this prospectus and issued in July and November 2005 will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement. Pro forma for the issuance of the shares offered hereby and the shares issued in November 2005, at September 30, 2005, there were 438,355,766 shares issued and outstanding.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements are based on the historical consolidated financial statements of Charter, adjusted on a pro forma basis to reflect the following transactions as if they occurred on January 1, 2004 for the unaudited pro forma consolidated statement of operations:

- (1) the disposition of certain assets in March and April 2004 for total proceeds of \$735 million and the use of such proceeds in each case to pay down credit facilities;
- (2) the issuance and sale of \$550 million of CCO Holdings senior floating rate notes in December 2004 and \$1.5 billion of Charter Operating senior second lien notes in April 2004;
- (3) an increase in amounts outstanding under the Charter Operating credit facilities in April 2004 and the use of such funds, together with the proceeds from the sale of the Charter Operating senior second lien notes to refinance amounts outstanding under the credit facilities of our subsidiaries, CC VI Operating Company, LLC, CC VIII Operating, LLC and Falcon Cable Communications, LLC;
- (4) the issuance and sale of \$863 million of 5.875% convertible senior notes in November 2004 with proceeds used for (i) the purchase of certain U.S. government securities pledged as security to fund the first six interest payments thereon, (ii) redemption of outstanding 5.75% convertible senior notes due 2005 and (iii) general corporate purposes;
- (5) the repayment of \$530 million of borrowings under the Charter Operating revolving credit facility with net proceeds from the issuance and sale of the CCO Holdings senior floating rate notes in December 2004, which were included in our cash balance at December 31, 2004;
- (6) the redemption of all of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 with cash on hand;
- (7) the issuance and sale of \$300 million of 8 3/4% CCO Holdings senior notes in August 2005 and the use of such proceeds to pay financing costs and accrued interest in the exchange transaction referenced below;
- (8) the exchange of \$3.4 billion principal amount of Charter Holdings' notes scheduled to mature in 2009 and 2010 for CCH I notes and the exchange of \$3.4 billion principal amount of Charter Holdings' notes scheduled to mature in 2011 and 2012 for CIH notes and CCH I notes;
- (9) the issuance of 67.7 million shares in November 2005 and the shares offered hereby pursuant to a share lending agreement, the sole effect of which is to increase common shares issued and outstanding. See Share Lending Agreement; and
- (10) the issuance and sale of \$450 million principal amount of 10.250% CCH II senior notes in January 2006 and the use of such proceeds to pay down credit facilities.

The unaudited pro forma adjustments are based on information available to us as of the date of this prospectus and certain assumptions that we believe are reasonable under the circumstances. The Unaudited Pro Forma Consolidated Financial Statements required allocation of certain revenues and expenses and such information has been presented for comparative purposes and is not intended to provide any indication of what our actual financial position or results of operations would have been had the transactions described above been completed on the dates indicated or to project our results of operations for any future date.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2004**

	Historical	Asset Dispositions(a)	Financing Transactions(b)	Pro Forma
(Dollars in millions, except per share and share amounts)				
Revenues				
Video	\$ 2,534	\$ (21)	\$	\$ 2,513
High-speed Internet	538	(3)		535
Advertising sales	205	(1)		204
Commercial	175	(2)		173
Other	249	(2)		247
	<u>3,701</u>	<u>(29)</u>	<u>—</u>	<u>3,672</u>
Costs and Expenses				
Operating (excluding depreciation and amortization)	1,552	(12)		1,540
Selling, general and administrative	735	(4)		731
Depreciation and amortization	1,105	(6)		1,099
Impairment of franchises	2,433			2,433
(Gain) loss on sale of assets, net	(104)	106		2
Option compensation expense, net	34			34
Special charges, net	100			100
	<u>5,855</u>	<u>84</u>	<u>—</u>	<u>5,939</u>
Loss from operations	(2,154)	(113)		(2,267)
Interest expense, net	(1,227)	4	(47)	(1,270)
Gain on derivative instruments and hedging activities, net	48			48
Loss on debt to equity conversions	(23)			(23)
Loss on extinguishment of debt	(21)		21	
	<u>(1,223)</u>	<u>4</u>	<u>(26)</u>	<u>(1,245)</u>
Loss before minority interest, income taxes, and cumulative effect of accounting change	(3,377)	(109)	(26)	(3,512)
Minority interest	24			24
Loss before income taxes and cumulative effect of accounting change	(3,353)	(109)	(26)	(3,488)
Income tax benefit	116	15		131
Loss before cumulative effect of accounting change	<u>(3,237)</u>	<u>\$ (94)</u>	<u>\$ (26)</u>	<u>\$ (3,357)</u>
Loss per common share, basic and diluted	<u>\$ (13.38)</u>			<u>\$ (13.78)</u>
Weighted average common shares outstanding, basic and diluted(c)	<u>299,411,053</u>			<u>299,411,053</u>

- (a) Represents the elimination of operating results related to the disposition of certain assets in March and April 2004 and a reduction of interest expense related to the use of the net proceeds from such sales to repay a portion of our subsidiaries' credit facilities.

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- (b) Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions two through eight and ten (in millions):

Interest on the Charter Operating senior second lien notes issued in April 2004 and the amended and restated Charter Operating credit facilities	\$ 114
Amortization of deferred financing costs	8
Less Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid	(83)
	<u>39</u>
Interest on \$863 million of 5.875% convertible senior notes issued in November 2004	38
Amortization of deferred financing costs	3
Less Interest from \$144 million of securities pledged for interest payments on convertible notes	(2)
Historical interest expense on \$588 million of 5.75% convertible senior notes retired with proceeds	(28)
	<u>11</u>
Interest on \$550 million of CCO Holdings senior floating rate notes issued in December 2004	27
Amortization of deferred financing costs	2
Less Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand in February 2005	(20)
Historical interest expense for the CC V Holdings, LLC 11.875% senior discount notes repaid with cash on hand in March 2005	(10)
	<u>(1)</u>
Interest on \$300 million of CCO Holdings 8 3/4% senior notes issued in August 2005	20
Interest on new CCH I notes issued in September 2005 in exchange for CCH notes	279
Amortization of deferred financing costs	5
Less Historical interest expense on CCH notes exchanged for CCH I notes	(327)
	<u>(43)</u>
Interest on \$450 million principal amount of CCH II 10.250% senior notes issued in January 2006	36
Amortization of deferred financing costs	2
Less Historical interest expense for Charter Operating's revolving credit facility repaid	(17)
	<u>21</u>
Net increase in interest expense	<u>\$ 47</u>

Adjustment to loss on extinguishment of debt represents the elimination of the write-off of deferred financing fees and third party costs related to the Charter Operating refinancing in April 2004.

- (c) Loss per common share, basic and diluted assumes none of the membership units of Charter Holdco are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Holdco that are automatically exchanged for Charter common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock-redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same. Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting

literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Year Ended December 31, 2004**

	Historical	Asset Dispositions(a)	Financing Transactions(b)	Pro Forma
(Dollars in millions, except per share and share amounts)				
Revenues				
Video	\$ 3,373	\$ (21)	\$	\$ 3,352
High-speed Internet	741	(3)		738
Advertising sales	289	(1)		288
Commercial	238	(2)		236
Other	336	(2)		334
	<u>4,977</u>	<u>(29)</u>	<u>—</u>	<u>4,948</u>
Costs and Expenses				
Operating (excluding depreciation and amortization)	2,080	(12)		2,068
Selling, general and administrative	971	(4)		967
Depreciation and amortization	1,495	(6)		1,489
Impairment of franchises	2,433			2,433
(Gain) loss on sale of assets, net	(86)	106		20
Option compensation expense, net	31			31
Special charges, net	104			104
Unfavorable contracts and other settlements	(5)			(5)
	<u>7,023</u>	<u>84</u>	<u>—</u>	<u>7,107</u>
Loss from operations	(2,046)	(113)		(2,159)
Interest expense, net	(1,670)	4	(39)	(1,705)
Gain on derivative instruments and hedging activities, net	69			69
Loss on debt to equity conversions	(23)			(23)
Loss on extinguishment of debt	(31)		31	
Other, net	3			3
	<u>(1,652)</u>	<u>4</u>	<u>(8)</u>	<u>(1,656)</u>
Loss before minority interest, income taxes, and cumulative effect of accounting change	(3,698)	(109)	(8)	(3,815)
Minority interest	19			19
Loss before income taxes and cumulative effect of accounting change	(3,679)	(109)	(8)	(3,796)
Income tax benefit	103	15		118
Loss before cumulative effect of accounting change	\$ (3,576)	\$ (94)	\$ (8)	\$ (3,678)
Loss per common share, basic and diluted	\$ (11.92)			\$ (12.25)
	<u>300,291,877</u>			<u>300,291,877</u>

Weighted average common shares outstanding,
basic and diluted(c)

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- (a) Represents the elimination of operating results related to the disposition of certain assets in March and April 2004 and a reduction of interest expense related to the use of the net proceeds from such sales to repay a portion of our subsidiaries' credit facilities.
- (b) Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions two through eight and ten (in millions):

Interest on the Charter Operating senior second lien notes issued in April 2004 and the amended and restated Charter Operating credit facilities	\$ 114	
Amortization of deferred financing costs	8	
Less Historical interest expense for Charter Operating credit facilities and on subsidiary credit facilities repaid	(83)	
	<u> </u>	39
Interest on \$863 million of 5.875% convertible senior notes issued in November 2004	45	
Amortization of deferred financing costs	4	
Less Interest from \$144 million of securities pledged for interest payments on convertible notes	(2)	
Historical interest expense on \$588 million of 5.75% convertible senior notes retired with proceeds	(37)	
	<u> </u>	10
Interest on \$550 million of CCO Holdings senior floating rate notes issued in December 2004	35	
Amortization of deferred financing costs	2	
Less Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand in February 2005	(30)	
Historical interest expense for the CC V Holdings, LLC 11.875% senior discount notes repaid with cash on hand in March 2005	(13)	
	<u> </u>	(6)
Interest on \$300 million of CCO Holdings 8 3/4% senior notes issued in August 2005		27
Interest on new CCH I notes issued in September 2005 in exchange for CCH notes	372	
Amortization of deferred financing costs	6	
Less Historical interest expense on CCH notes exchanged for CCH I notes	(435)	
	<u> </u>	(57)
Interest on \$450 million principal amount of CCH II 10.250% senior notes issued in January 2006	48	
Amortization of deferred financing costs	2	
Less Historical interest expense for Charter Operating's revolving credit facility repaid	(24)	
	<u> </u>	26
		<u> </u>
Net increase in interest expense		\$ 39
		<u> </u>

Adjustment to loss on extinguishment of debt represents the elimination of the write-off of deferred financing fees and third party costs related to the Charter Operating refinancing in April 2004 and the elimination of the premium paid to retire the 5.75% convertible senior notes and the write-off of the related deferred financing fees.

- (c) Loss per common share, basic and diluted assumes none of the membership units of Charter Holdco are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Holdco that are automatically exchanged for Charter

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common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock- redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same. Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2005**

	Historical	Financing Transactions(a)	Pro Forma
(Dollars in millions, except per share and share amounts)			
Revenues			
Video	\$ 2,551	\$	\$ 2,551
High-speed Internet	671		671
Advertising sales	214		214
Commercial	205		205
Other	271		271
	<u>3,912</u>		<u>3,912</u>
Costs and Expenses			
Operating (excluding depreciation and amortization)	1,714		1,714
Selling, general and administrative	762		762
Depreciation and amortization	1,134		1,134
Asset impairment charges	39		39
Loss on sale of assets, net	5		5
Option compensation expense, net	11		11
Hurricane asset retirement loss	19		19
Special charges, net	4		4
	<u>3,688</u>		<u>3,688</u>
Income from operations	224		224
Interest expense, net	(1,333)	17	(1,316)
Gain on derivative instruments and hedging activities, net	43		43
Gain on extinguishment of debt	498	(485)	13
Other, net	21		21
	<u>(771)</u>	<u>(468)</u>	<u>(1,239)</u>
Loss before minority interest and income taxes	(547)	(468)	(1,015)
Minority interest	(9)		(9)
Loss before income taxes	(556)	(468)	(1,024)
Income tax expense	(75)		(75)
Loss before cumulative effect of accounting change	\$ (631)	\$ (468)	\$ (1,099)
Loss per common share, basic and diluted	\$ (2.06)		\$ (3.58)
Weighted average common shares outstanding, basic and diluted(b)	307,761,930		307,761,930

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- (a) Represents adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions five through eight and ten (in millions):

Less Historical interest expense for Charter Operating's revolving credit facility repaid with cash on hand in February 2005	\$ (3)
Historical interest expense for the CC V Holdings, LLC 11.875% senior discount notes repaid with cash on hand in March 2005	(3)
	<u>(6)</u>
Interest on \$300 million of CCO Holdings 8 3/4% senior notes issued in August 2005	17
Interest on new CCH I notes issued in September 2005 in exchange for CCH notes	279
Amortization of deferred financing costs	5
Less Historical interest expense on CCH notes exchanged for CCH I notes	(327)
	<u>(43)</u>
Interest on \$450 million principal amount of CCH II 10.250% senior notes issued in January 2006	36
Amortization of deferred financing costs	2
Less Historical interest expense for Charter Operating's credit facility repaid	(23)
	<u>15</u>
Net decrease in interest expense	<u>\$ (17)</u>

Adjustment to loss on extinguishment of debt represents the elimination of losses related to the redemption of CC V Holdings, LLC 11.875% notes due 2008 of \$5 million and the elimination of the gain related to the exchange of Charter Holdings notes for CIH and CCH I notes of \$490 million.

- (b) Loss per common share, basic and diluted assumes none of the membership units of Charter Holdco are exchanged for Charter common stock and none of the outstanding options to purchase membership units of Charter Holdco that are automatically exchanged for Charter common stock are exercised. Basic loss per share equals loss before cumulative effect of accounting change less dividends on preferred stock-redeemable divided by weighted average shares outstanding. If the membership units were exchanged or options exercised, the effects would be antidilutive. Therefore, basic and diluted loss per common share is the same. Although the shares offered by this prospectus will be considered issued and outstanding, we do not expect they will impact our earnings per share under current accounting literature. See Share Lending Agreement for further discussion related to the accounting of the share lending agreement.

Table of Contents**CHARTER COMMUNICATIONS, INC.****UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET**

As of September 30, 2005

	Historical	Financing Transactions(a)	Pro Forma
(Dollars in millions)			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 22	\$	\$ 22
Accounts receivable, net	188		188
Prepaid expenses and other current assets	80		80
	<u> </u>	<u> </u>	<u> </u>
Total current assets	290		290
	<u> </u>	<u> </u>	<u> </u>
INVESTMENT IN CABLE PROPERTIES:			
Property, plant and equipment, net	5,936		5,936
Franchises, net	9,830		9,830
	<u> </u>	<u> </u>	<u> </u>
Total investment in cable properties, net	15,766		15,766
OTHER ASSETS	468	9	477
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 16,524	9	16,533
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND MEMBER S EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$ 1,172	\$	1,172
	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	1,172		1,172
	<u> </u>	<u> </u>	<u> </u>
LONG-TERM DEBT	19,120	9	19,129
	<u> </u>	<u> </u>	<u> </u>
DEFERRED MANAGEMENT FEES PARENT COMPANY	14		14
	<u> </u>	<u> </u>	<u> </u>
OTHER LONG-TERM LIABILITIES	504		504
	<u> </u>	<u> </u>	<u> </u>
MINORITY INTEREST	665		665
	<u> </u>	<u> </u>	<u> </u>
PREFERRED STOCK REDEEMABLE	55		55
	<u> </u>	<u> </u>	<u> </u>
SHAREHOLDER S DEFICIT	(5,006)		(5,006)
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and shareholder s deficit	\$ 16,524	\$ 9	\$ 16,533
	<u> </u>	<u> </u>	<u> </u>

(a) Represents increase in long-term debt as a result of deferred financing costs incurred in connection with the sale of \$450 million principal amount of CCH II 10.250% senior notes issued in January 2006.

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The following table presents summary financial and other data for Charter and its subsidiaries, and has been derived from (i) the audited consolidated financial statements of Charter and its subsidiaries for the five years ended December 31, 2004 and (ii) the unaudited consolidated financial statements of Charter and its subsidiaries for the nine months ended September 30, 2004 and 2005. The consolidated financial statements of Charter and its subsidiaries for each of the years ended December 31, 2000 to 2004 have been audited by KPMG LLP, an independent registered public accounting firm. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,					Nine Months Ended September 30,	
	2000	2001	2002	2003	2004	2004	2005
	(Dollars in millions, except share and per share amounts)					(Unaudited)	
Statement of Operations Data:							
Revenues	\$ 3,141	\$ 3,807	\$ 4,566	\$ 4,819	\$ 4,977	\$ 3,701	\$ 3,912
Costs and Expenses:							
Operating (excluding depreciation and amortization)	1,187	1,486	1,807	1,952	2,080	1,552	1,714
Selling, general and administrative	606	826	963	940	971	735	762
Depreciation and amortization	2,398	2,683	1,436	1,453	1,495	1,105	1,134
Impairment of franchises			4,638		2,433	2,433	
Asset impairment charges							39
(Gain) loss on sale of assets, net		10	3	5	(86)	(104)	5
Option compensation expense (income), net	38	(5)	5	4	31	34	11
Hurricane asset retirement loss							19
Special charges, net		18	36	21	104	100	4
Unfavorable contracts and other settlements				(72)	(5)		
	4,229	5,018	8,888	4,303	7,023	5,855	3,688
Income (loss) from operations	(1,088)	(1,211)	(4,322)	516	(2,046)	(2,154)	224
Interest expense, net	(1,040)	(1,310)	(1,503)	(1,557)	(1,670)	(1,227)	(1,333)
Gain (loss) on derivative instruments and hedging activities, net		(50)	(115)	65	69	48	43
Loss on debt to equity conversions					(23)	(23)	
Gain (loss) on extinguishment of debt				267	(31)	(21)	498
Other, net	(20)	(59)	(4)	(16)	3		21
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,148)	(2,630)	(5,944)	(725)	(3,698)	(3,377)	(547)
Minority interest(a)	1,280	1,461	3,176	377	19	24	(9)
Loss before income taxes and cumulative effect of accounting change	(868)	(1,169)	(2,768)	(348)	(3,679)	(3,353)	(556)
Income tax benefit (expense)	10	12	460	110	103	116	(75)
Loss before cumulative effect of accounting change	(858)	(1,157)	(2,308)	(238)	(3,576)	(3,237)	(631)
		(10)	(206)		(765)	(765)	

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Cumulative effect of accounting
change, net of tax

Net loss	(858)	(1,167)	(2,514)	(238)	(4,341)	(4,002)	(631)
Dividends on preferred stock redeemable		(1)	(3)	(4)	(4)	(3)	(3)
Net loss applicable to common stock	\$ (858)	\$ (1,168)	\$ (2,517)	\$ (242)	\$ (4,345)	\$ (4,005)	\$ (634)
Loss per common share, basic and diluted	\$ (3.80)	\$ (4.33)	\$ (8.55)	\$ (0.82)	\$ (14.47)	\$ (13.38)	\$ (2.06)

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	Year Ended December 31,					Nine Months Ended September 30,	
	2000	2001	2002	2003	2004	2004	2005
	(Dollars in millions, except share and per share amounts)					(Unaudited)	
Weighted-average common shares outstanding, basic and diluted	225,697,775	269,594,386	294,440,261	294,597,519	300,291,877	299,411,053	307,761,930
Other Data:							
Deficiencies of earnings to cover fixed charges(b)	\$ 2,148	\$ 2,630	\$ 5,944	\$ 725	\$ 3,698	\$ 3,377	\$ 547
Balance Sheet Data (end of period):							
Total assets	\$ 24,352	\$ 26,463	\$ 22,384	\$ 21,364	\$ 17,673	\$ 17,084	\$ 16,524
Long-term debt	13,061	16,343	18,671	18,647	19,464	18,484	19,120
Minority interest(a)	4,571	4,434	1,050	689	648	637	665
Redeemable securities	1,104						
Preferred stock redeemable		51	51	55	55	55	55
Shareholders' equity (deficit)	2,767	2,585	41	(175)	(4,406)	(4,082)	(5,006)

(a) Minority interest represents the percentage of Charter Holdco not owned by Charter, plus preferred membership interests in CC VIII. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in 2004, Charter began to absorb substantially all losses before income taxes that otherwise would have been allocated to minority interest. As a result of negative equity at Charter Holdco, during the year ended December 31, 2004 and the nine months ended September 30, 2005, no additional losses were allocated to minority interest, resulting in an approximate additional \$2.4 billion and \$301 million of net losses, respectively. Under our existing capital structure, Charter will absorb all future losses. Paul G. Allen held the preferred membership units in CC VIII, as a result of the exercise of a put right originally granted in connection with the Bresnan transaction in 2000. There was an issue regarding the ultimate ownership of the CC VIII membership interest following the consummation of the Bresnan put transaction on June 6, 2003. Effective January 1, 2005, Charter ceased recognizing minority interest in earnings and losses of CC VIII for financial reporting purposes until such time as the resolution of the issue was determinable or other events occurred. This dispute was settled October 31, 2005. We are currently determining the accounting impact of the settlement. Subsequent to recording the impact of the settlement in the fourth quarter of 2005, approximately 6% of CC VIII's income will be allocated to minority interest. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII.

(b) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.

Table of Contents**SUPPLEMENTARY QUARTERLY FINANCIAL DATA**

The following tables present quarterly financial data for the periods presented on the consolidated statements of operations (Dollars in millions, except share and per share amounts):

	Three Months Ended March 31, 2005	Three Months Ended June 30, 2005	Three Months Ended September 30, 2005
Revenues	\$ 1,271	\$ 1,323	\$ 1,318
Income from operations	51	110	63
Income (loss) before minority interest and income taxes	(334)	(321)	108
Net income (loss) applicable to common stock	(353)	(356)	75
Basic income (loss) per common share	(1.16)	(1.18)	0.24
Diluted income (loss) per common share	(1.16)	(1.18)	0.09
Weighted-average shares outstanding, basic	303,308,880	303,620,347	316,214,740
Weighted-average shares outstanding, diluted	303,308,880	303,620,347	1,012,591,842

Year Ended December 31, 2004

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,214	\$ 1,239	\$ 1,248	\$ 1,276
Income (loss) from operations	175	15	(2,344)	108
Loss before minority interest, income taxes and cumulative effect of accounting change	(235)	(366)	(2,776)	(321)
Net loss applicable to common stock	(294)	(416)	(3,295)	(340)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.00)	(1.39)	(8.36)	(1.12)
Basic and diluted loss per common share	(1.00)	(1.39)	(10.89)	(1.12)
Weighted-average shares outstanding	295,106,077	300,522,815	302,604,978	302,934,348

Year Ended December 31, 2003

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,178	\$ 1,217	\$ 1,207	\$ 1,217
Income from operations	77	112	117	210
Income (loss) before minority interest and income taxes	(301)	(286)	23	(161)
Net income (loss) applicable to common stock	(182)	(38)	36	(58)
Basic income (loss) per common share	(0.62)	(0.13)	0.12	(0.20)
Diluted income (loss) per common share	(0.62)	(0.13)	0.07	(0.20)
Weighted-average shares outstanding, basic	294,466,137	294,474,596	294,566,878	294,875,504
Weighted-average shares outstanding, diluted	294,466,137	294,474,596	637,822,843	294,875,504

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Reference is made to Disclosure Regarding Forward-Looking Statements, which describes 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 of Charter Communications, Inc. and subsidiaries as of and for the years ended December 31, 2004, 2003 and 2002 and the unaudited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the nine months ended September 30, 2005.

Introduction

We continue to pursue opportunities to improve our liquidity. Our efforts in this regard resulted in the completion of a number of transactions since 2004, as follows:

the January 2006 sale by our subsidiaries, CCH II and CCH II Capital Corp., of an additional \$450 million principal amount of their 10.250% senior notes due 2010;

the October 2005 entry by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, into a \$600 million senior bridge loan agreement with various lenders (which was reduced to \$435 million as a result of the issuance of CCH II notes);

the September 2005 exchange by Charter Holdings, CCH I and CIH of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;

the August 2005 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of \$300 million of 8 3/4% senior notes due 2013;

the March and June 2005 issuance of \$333 million of Charter Operating notes in exchange for \$346 million of Charter Holdings notes;

the March and June 2005 repurchase of \$131 million of our 4.75% convertible senior notes due 2006 leaving \$25 million in principal amount outstanding;

the March 2005 redemption of all of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 at a total cost of \$122 million;

the December 2004 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of \$550 million of senior floating rate notes due 2010;

the November 2004 sale of \$862.5 million of 5.875% convertible senior notes due 2009 and the December 2004 redemption of all of our outstanding 5.75% convertible senior notes due 2005 (\$588 million principal amount);

the April 2004 sale of \$1.5 billion of senior second-lien notes by our subsidiary, Charter Operating, together with the concurrent refinancing of its credit facilities; and

the sale in the first half of 2004 of non-core cable systems for a total of \$735 million, the proceeds of which were used to reduce indebtedness.

During the years 1999 through 2001, we grew significantly, principally through acquisitions of other cable businesses financed by debt and, to a lesser extent, equity. We have no current plans to pursue any significant acquisitions. However, we may pursue exchanges of non-strategic assets or divestitures, such as the sale of cable systems to Atlantic Broadband Finance, LLC discussed under Liquidity and Capital Resources Sale of Assets, below. We therefore do not believe that our historical growth rates are accurate indicators of future growth.

The industry's and our most significant operational challenges include competition from DBS providers and DSL service providers. See Business Competition. We believe that competition from DBS has resulted in net analog video customer losses and decreased growth rates for digital video customers. Competition from DSL providers combined with limited opportunities to expand our customer base now that

approximately 32% of our analog video customers subscribe to our high-speed Internet services has resulted

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in decreased growth rates for high-speed Internet customers. In the recent past, we have grown revenues by offsetting video customer losses with price increases and sales of incremental advanced services such as high-speed Internet, video on demand, digital video recorders and high definition television. We expect to continue to grow revenues through continued growth in high-speed Internet and incremental new services including telephone, high definition television, VOD and DVR service.

Historically, our ability to fund operations and investing activities has depended on our continued access to credit under our credit facilities. We expect we will continue to borrow under our credit facilities from time to time to fund cash needs. The occurrence of an event of default under our credit facilities could result in borrowings from these facilities being unavailable to us and could, in the event of a payment default or acceleration, trigger events of default under the indentures governing our outstanding notes and would have a material adverse effect on us. Approximately \$30 million of indebtedness under our credit facilities is scheduled to mature during 2006. We expect to fund payment of such indebtedness through borrowings under our revolving credit facility. See Liquidity and Capital Resources.

Acquisitions

The following table sets forth information regarding our significant acquisitions from January 1, 2000 to December 31, 2002 (none in 2003, 2004 or 2005):

	Acquisition Date	Purchase Price			Total Price	Acquired Customers (approx)
		Cash Paid	Assumed Debt	Securities Issued/Other Consideration		
(Dollars in millions)						
Interlake	1/00	\$ 13	\$	\$	\$ 13	6,000
Bresnan	2/00	1,100	963	1,014(a)	3,077	695,800
Capital Cable	4/00	60			60	23,200
Farmington	4/00	15			15	5,700
Kalamazoo	9/00			171(b)	171	50,700
Total 2000 Acquisitions		\$ 1,188	\$ 963	\$ 1,185	\$ 3,336	781,400
AT&T Systems	6/01	\$ 1,711	\$	\$ 25(c)	\$ 1,736(c)	551,100
Cable USA	8/01	45		55(d)	100	30,600
Total 2001 Acquisitions		\$ 1,756	\$	\$ 80	\$ 1,836	581,700
High Speed Access Corp.	2/02	\$ 78	\$	\$	\$ 78	N/A
Enstar Limited Partnership Systems	4/02	48			48	21,600
Enstar Income Program II-1, L.P.	9/02	15			15	6,400
Total 2002 Acquisitions		\$ 141	\$	\$	\$ 141	28,000
Total 2000-2002 Acquisitions		\$ 3,085	\$ 963	\$ 1,265	\$ 5,313	1,391,100

(a) Comprised of \$385 million in equity in Charter Holdco and \$629 million of equity in CC VIII.

(b) In connection with this transaction, we acquired all of the outstanding stock of Cablevision of Michigan in exchange for 11,173,376 shares of Charter Class A common stock.

(c)

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Comprised of approximately \$1.7 billion, as adjusted, in cash and a cable system located in Florida valued at approximately \$25 million, as adjusted.

- (d) In connection with this transaction, at the closing we and Charter Holdco acquired all of the outstanding stock of Cable USA and the assets of related affiliates in exchange for cash and 505,664 shares of Charter Series A convertible redeemable preferred stock. In the first quarter of 2003, an additional \$0.34 million in cash was paid and 39,595 additional shares of Charter Series A convertible redeemable preferred stock were issued to certain sellers.

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All acquisitions were accounted for under the purchase method of accounting and results of operations were included in our consolidated financial statements from their respective dates of acquisition.

We have no current plans to pursue any significant acquisitions. However, we will continue to evaluate opportunities to consolidate our operations through the sale of cable systems to, or exchange of like-kind assets with, other cable operators as such opportunities arise, and on a very limited basis, consider strategic new acquisitions. Our primary criteria in considering these opportunities are the rationalization of our operations into geographic clusters and the potential financial benefits we expect to ultimately realize as a result of the sale, exchange, or acquisition.

Overview of Operations

Approximately 86% of our revenues for both the nine months ended September 30, 2005 and for the year ended December 31, 2004, 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 14% of revenue 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 VOD programming where users are charged a fee for individual programs viewed, 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 have increased revenues during the past three years, primarily through the sale of digital video and high-speed Internet services to new and existing customers and price increases on video services offset in part by dispositions of systems. Going forward, our goal is to increase revenues by stabilizing our analog video customer base, implementing price increases on certain services and packages and increasing the number of our customers who purchase high-speed Internet services, digital video and new products and services such as telephone, VOD, high definition television and DVR service. To accomplish this, we are increasing prices for certain services and we are offering new bundling of services combining digital video and our advanced services (such as high-speed Internet service and high definition television) at what we believe are attractive price points. See **Business Sales and Marketing** for more details.

Our success in our efforts to grow revenues and improve margins will be impacted by our ability to compete against companies with often fewer regulatory burdens, easier access to financing, greater personnel resources, greater brand name recognition and long-established relationships with regulatory authorities and customers. Additionally, controlling our cost of operations is critical, particularly cable programming costs, which have historically increased at rates in excess of inflation and are expected to continue to increase. See **Business Programming** for more details. We are attempting to control our costs of operations by maintaining strict controls on expenses. More specifically, we are focused on managing our cost structure by renegotiating programming agreements to reduce the rate of historical increases in programming cost, managing our workforce to control increases and improve productivity, and leveraging our size in purchasing activities.

Our expenses primarily consist of operating costs, selling, general and administrative expenses, depreciation and amortization expense and interest expense. Operating costs primarily include programming costs, the cost of our workforce, cable service related expenses, advertising sales costs, franchise fees and expenses related to customer billings. For the nine months ended September 30, 2005, our income from operations, which includes depreciation and amortization expense and asset impairment charges but excludes interest expense, was \$224 million. For the nine months ended September 30, 2004, our loss from operations was \$2.2 billion. We had a positive operating margin (defined as income (loss) from operations divided by revenues) of 6% for the nine months ended September 30, 2005 and a negative operating margin of 58% for the nine months ended September 30, 2004. The increase in income from operations and operating margin for the nine months ended September 30, 2005 compared to 2004 was principally due to impairment of franchises of \$2.4 billion recorded in 2004 which did not recur in 2005. For the years ended December 31, 2004 and 2002, loss from operations was \$2.0 billion and \$4.3 billion, respectively. For the year ended December 31, 2003, income from operations was \$516 million. Operating margin was

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11% for the year ended December 31, 2003, whereas for the years ending December 31, 2004 and 2002, we had negative operating margin of 41% and 95%, respectively. The improvement in income from operations and operating margin from 2002 to 2003 was principally due to a \$4.6 billion franchise impairment charge in the fourth quarter of 2002 which did not recur in 2003 and the recognition of gains in 2003 of \$93 million related to unfavorable contracts and other settlements and gain on sale of systems. Although we do not expect charges for impairment in the future of comparable magnitude, potential charges could occur due to changes in market conditions.

We have a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the interest costs on our high level of debt, the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties and the amortization and impairment of our franchise intangibles. We expect that these expenses (other than impairment of franchises) will remain significant, and we therefore expect to continue to report net losses for the foreseeable future. Additionally, because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, we began to absorb substantially all future losses before income taxes that otherwise would have been allocated to minority interest. This resulted in an additional \$2.4 billion of net loss for the year ended December 31, 2004. Under our existing capital structure, future losses will continue to be absorbed by Charter. Effective January 1, 2005, we ceased recognizing minority interest in earnings or losses of CC VIII for financial reporting purposes until the dispute between Charter and Mr. Allen regarding the preferred membership interests in CC VIII was determinable or other events occurred. This dispute was settled October 31, 2005. We are currently determining the accounting impact of the settlement. Subsequent to recording the impact of the settlement in the fourth quarter of 2005, approximately 6% of CC VIII's income will be allocated to minority interest. See Note 7 to the condensed consolidated financial statements included elsewhere in this prospectus.

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:

Capitalization of labor and overhead costs;

Useful lives of property, plant and equipment;

Impairment of property, plant, and equipment, franchises, and goodwill;

Income taxes; and

Litigation.

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

Capitalization of labor and overhead costs. 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 September 30, 2005 and December 31, 2004 and 2003, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$5.9 billion (representing 36% of total assets), \$6.3 billion (representing 36% of total assets) and \$7.0 billion (representing 33% of total assets), respectively. Total capital expenditures for the nine months ended September 30, 2005 and the years ended December 31, 2004, 2003 and 2002 were approximately \$815 million, \$924 million, \$854 million and \$2.2 billion, respectively.

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Costs associated with network construction, initial customer installations, installation refurbishments and the addition of network equipment necessary to provide advanced services are capitalized. 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. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement 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 certain indirect costs (overhead) using standards developed from actual costs and applicable operational data. We calculate standards 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 significant in the periods presented.

Labor costs directly associated with capital projects are capitalized. We capitalize direct labor costs associated with personnel based upon the specific time devoted to network construction and customer installation activities. Capitalizable activities performed in connection with customer installations include such activities as:

Scheduling 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 terminal.

Judgment is required to determine the extent to which overhead is incurred as a result of 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 dispatch, that 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 direct labor and overhead of \$139 million, \$164 million, \$174 million and \$335 million for the nine months ended September 30, 2005 and the years ended December 31, 2004, 2003 and 2002, respectively. Capitalized internal direct labor and overhead costs have increased in 2005 as a result of the use of more internal labor for capitalizable installations rather than third party contractors. Capitalized internal direct labor and overhead costs significantly decreased in 2004 and 2003 compared to 2002 primarily due to the substantial completion of the upgrade of our systems and a decrease in the amount of capitalizable installation costs.

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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 studies 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 studies, which were not significant in the periods presented, will be reflected prospectively beginning in the period in which the study is completed. The effect of a one-year decrease in the weighted average remaining useful life of our property, plant and equipment would be an increase in depreciation expense for the year ended December 31, 2004 of approximately \$296 million. The effect of a one-year increase in the weighted average useful life of our property, plant and equipment would be a decrease in depreciation expense for the year ended December 31, 2004 of approximately \$198 million.

Depreciation expense related to property, plant and equipment totaled \$1.1 billion, \$1.5 billion, \$1.5 billion and \$1.4 billion, representing approximately 31%, 21%, 34% and 16% of costs and expenses, for the nine months ended September 30, 2005 and for the years ended December 31, 2004, 2003 and 2002, respectively. Depreciation is recorded using the straight-line composite method over management's estimate of the estimated useful lives of the related assets as listed below:

Cable distribution systems	7-20 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture and fixtures	5 years

Impairment of property, plant and equipment, franchises and goodwill. As discussed above, the net carrying value of our property, plant and equipment is significant. We also 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 September 30, 2005, December 31, 2004 and 2003 was approximately \$9.8 billion (representing 59% of total assets), \$9.9 billion (representing 56% of total assets) and \$13.7 billion (representing 64% of total assets), respectively. Furthermore, our noncurrent assets included approximately \$52 million of goodwill.

We adopted SFAS No. 142 on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet specified indefinite-life criteria no longer be amortized against earnings, but instead must be tested for impairment annually based on valuations, or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite-life, we considered the exclusivity of the franchise, 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. We have concluded that as of September 30, 2005, December 31, 2004, 2003 and 2002 more than 99% of our franchises qualify for indefinite-life treatment under SFAS No. 142, and that less than one percent of our franchises do not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. Costs of finite-lived franchises, along with costs associated with franchise renewals, are amortized on a straight-line basis over 10 years, which represents management's best estimate of the average remaining useful lives of such franchises. Franchise amortization expense was \$3 million and \$4 million for the nine months ended September 30, 2005 and for the year ended December 31, 2004, respectively, and \$9 million for each of the years ended December 31, 2003 and 2002. We expect that amortization expense on franchise assets will be approximately \$3 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors. Our goodwill is also deemed to have an indefinite life under SFAS No. 142.

SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, requires that we evaluate the recoverability of our property, plant and equipment and franchise assets which did not qualify for indefinite-life treatment under SFAS No. 142 upon the occurrence of events or changes in circumstances which indicate 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

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under SFAS No. 142, 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 poor operating results. Under SFAS No. 144, 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. During the nine months ended September 30, 2005, certain cable systems to be sold met the criteria for assets held for sale. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the nine months ended September 30, 2005 of approximately \$39 million. No impairments of long-lived assets were recorded in the years ended December 31, 2004, 2003 or 2002. We were also required to evaluate the recoverability of our indefinite-life franchises, as well as goodwill, as of January 1, 2002 upon adoption of SFAS No. 142, and on an annual basis or more frequently as deemed necessary.

Under both SFAS No. 144 and SFAS No. 142, if an asset is determined to be impaired, it is required to be written down to its estimated fair market value. We determine fair market value based on estimated discounted future cash flows, using reasonable and appropriate assumptions that are consistent with internal forecasts. Our assumptions include these and other factors: penetration rates for analog and digital video and high-speed Internet, revenue growth rates, expected operating margins and capital expenditures. Considerable management judgment is necessary to estimate future cash flows, and such estimates include inherent uncertainties, including those relating to the timing and amount of future cash flows and the discount rate used in the calculation.

Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of our cable systems into groups by which such systems are managed. Management believes such groupings represent the highest and best use of those assets. We determined that our franchises were impaired upon adoption of SFAS No. 142 on January 1, 2002 and as a result recorded the cumulative effect of a change in accounting principle of \$206 million (approximately \$572 million before minority interest effects of \$306 million and tax effects of \$60 million). As required by SFAS No. 142, the standard has not been retroactively applied to results for the period prior to adoption.

Our valuations, which are based on the present value of projected after tax cash flows, result in a value of property, plant and equipment, franchises, customer relationships and our total entity value. The value of goodwill is the difference between the total entity value and amounts assigned to the other assets. The use of different valuation assumptions or definitions of franchises or customer relationships, such as our inclusion of the value of selling additional services to our current customers within customer relationships versus franchises, could significantly impact our valuations and any resulting impairment.

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 the potential customers (service marketing rights). Fair value is determined based on estimated 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 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 franchise. Prior to the adoption of EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, discussed below, we followed a residual method of valuing our franchise assets, which had the effect of including goodwill with the franchise assets.

We follow the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, in valuing customer relationships. Customer relationships, for valuation purposes, represent the value of the business relationship with our existing customers and are calculated by projecting future after-tax cash flows from these customers including the right to deploy and market additional services such as interactivity and telephone to these customers. The present value of

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these after-tax cash flows yields the fair value of the customer relationships. Substantially all our acquisitions occurred prior to January 1, 2002. We did not record any value associated with the customer relationship intangibles related to those acquisitions. For acquisitions subsequent to January 1, 2002, we did assign a value to the customer relationship intangible, which is amortized over its estimated useful life.

In September 2004, EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, was issued, which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. We performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total franchise impairment of approximately \$3.3 billion. We recorded a cumulative effect of accounting change of \$765 million (approximately \$875 million before tax effects of \$91 million and minority interest effects of \$19 million) for the year ended December 31, 2004 representing the portion of our total franchise impairment attributable to no longer including goodwill with franchise assets. The effect of the adoption was to increase net loss and loss per share by \$765 million and \$2.55 for the year ended December 31, 2004. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation and was recorded as impairment of franchises in our consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by us and our industry peers in the third quarter of 2004 primarily as a result of increased competition from DBS providers and decreased growth rates in our and our industry peers high speed Internet customers in the third quarter of 2004, in part as a result of increased competition from DSL providers, led us to lower our projected growth rates and accordingly revise our estimates of future cash flows from those used at October 1, 2003. See Business Competition.

The valuation completed at October 1, 2003 showed franchise values in excess of book value and thus resulted in no impairment. Our annual impairment assessment as of October 1, 2002, based on revised estimates from January 1, 2002 of future cash flows and projected long-term growth rates in our valuation, led to the recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002.

The valuations used in our impairment assessments involve numerous assumptions as noted above. While economic conditions, applicable at the time of the valuation, 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 valuation and consequently the potential impairment charge.

The October 1, 2005 annual impairment test will be finalized in the fourth quarter of 2005 and any impairment resulting from such test will be recorded in the fourth quarter.

Sensitivity Analysis. The effect on the impairment charge recognized in the third quarter of 2004 of the indicated increase/decrease in the selected assumptions is shown below:

Assumption	Percentage/ Percentage Point Change	Impairment Charge Increase/(Decrease)
		(Dollars in millions)
Annual Operating Cash Flow(1)	+/- 5%	\$ (890)/\$921
Long-Term Growth Rate(2)	+/- 1 pts(3)	(1,579)/1,232
Discount Rate	+/- 0.5 pts(3)	1,336/(1,528)

(1) Operating Cash Flow is defined as revenues less operating expenses and selling general and administrative expenses.

(2) Long-Term Growth Rate is the rate of cash flow growth beyond year ten.

(3) A percentage point change of one point equates to 100 basis points.

Income Taxes. All operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are not subject to income tax. However, certain of these subsidiaries are corporations and are subject to income tax. All of the taxable income, gains, losses, deductions and credits of Charter Holdco are passed through to its members: Charter,

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Charter Investment, Inc. and Vulcan Cable III Inc. Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco limited liability company agreement (LLC Agreement) and partnership tax rules and regulations.

The LLC Agreement provided for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Under the LLC Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units were allocated instead to membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. (the Special Loss Allocations) to the extent of their respective capital account balances. After 2003, under the LLC Agreement, net tax losses of Charter Holdco are allocated to Charter, Vulcan Cable III Inc. and Charter Investment, Inc. based generally on their respective percentage ownership of outstanding common units to the extent of their respective capital account balances. The LLC Agreement further provides that, beginning at the time Charter Holdco generates net tax profits, the net tax profits that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common membership units will instead generally be allocated to Vulcan Cable III Inc. and Charter Investment, Inc. (the Special Profit Allocations). The Special Profit Allocations to Vulcan Cable III Inc. and Charter Investment, Inc. will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The amount and timing of the Special Profit Allocations are subject to the potential application of, and interaction with, the Curative Allocation Provisions described in the following paragraph. The LLC Agreement generally provides that any additional net tax profits are to be allocated among the members of Charter Holdco based generally on their respective percentage ownership of Charter Holdco common membership units.

Because the respective capital account balance of each of Vulcan Cable III Inc. and Charter Investment, Inc. was reduced to zero by December 31, 2002, certain net tax losses of Charter Holdco that were to be allocated for 2002, 2003, 2004 and possibly later years to Vulcan Cable III Inc. and Charter Investment, Inc. instead have been and will be allocated to Charter (the Regulatory Allocations). The LLC Agreement further provides that, to the extent possible, the effect of the Regulatory Allocations is to be offset over time pursuant to certain curative allocation provisions (the Curative Allocation Provisions) so that, after certain offsetting adjustments are made, each member's capital account balance is equal to the capital account balance such member would have had if the Regulatory Allocations had not been part of the LLC Agreement. The cumulative amount of the actual tax losses allocated to Charter as a result of the Regulatory Allocations through the year ended December 31, 2004 is approximately \$4.0 billion.

As a result of the Special Loss Allocations and the Regulatory Allocations referred to above, the cumulative amount of losses of Charter Holdco allocated to Vulcan Cable III Inc. and Charter Investment, Inc. is 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. The cumulative amount of such excess losses was approximately \$2.1 billion through December 31, 2003 and \$1.0 billion through December 31, 2004.

In certain situations, the Special Loss Allocations, Special Profit Allocations, Regulatory Allocations and Curative Allocation Provisions described above could result in Charter paying taxes in an amount that is more or less than if Charter Holdco had allocated net tax profits and net tax losses among its members based generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to the application of section 704(c) under the Internal Revenue Code, (iii) the potential interaction between the Special Profit Allocations and the Curative Allocation Provisions, (iv) the amount and timing of alternative minimum taxes paid by Charter, if any, (v) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (vi) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit

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Allocations, Special Loss Allocations, Regulatory Allocations and Curative Allocation Provisions will change significantly pursuant to the provisions of the income tax regulations or the terms of a contribution agreement with respect to such contributions. Such change could defer the actual tax benefits to be derived by Charter with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards. The ability to utilize net operating loss carryforwards is potentially subject to certain limitations as discussed below.

In addition, under their exchange agreement with Charter, Vulcan Cable III Inc. and Charter Investment, Inc. may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable III Inc. and Charter Investment, Inc. could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable III Inc. and Charter Investment, Inc. immediately prior to the consummation of the exchange. In the event Vulcan Cable III Inc. and Charter Investment, Inc. choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. Mr. Allen has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter. The ability of Charter to utilize net operating loss carryforwards is potentially subject to certain limitations (see Risk Factors Risks Related to Mr. Allen's Controlling Position). If Charter were to become subject to such limitations (whether as a result of an exchange described above or otherwise), and as a result were to owe taxes resulting from the Special Profit Allocations, then Mr. Allen may not be obligated to reimburse Charter for such income taxes.

As of September 30, 2005 and December 31, 2004 and 2003, we have recorded net deferred income tax liabilities of \$287 million, \$216 million and \$417 million, respectively. Additionally, as of September 30, 2005, December 31, 2004 and 2003, we have deferred tax assets of \$3.7 billion, \$3.5 billion and \$1.7 billion, respectively, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. We are required to record a valuation allowance when it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Given the uncertainty surrounding our ability to utilize our deferred tax assets, these items have been offset with a corresponding valuation allowance of \$3.4 billion, \$3.2 billion and \$1.3 billion at September 30, 2005, December 31, 2004 and 2003, respectively.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 2002 and 2003. Our results (excluding Charter and our indirect corporate subsidiaries) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants.

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 accordingly as facts and circumstances change and, ultimately when the matter is brought to closure. We have established reserves for certain matters including those described in Business Legal Proceedings. If any of the litigation matters pending against us, including those described in Business Legal Proceedings is 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.

Table of Contents**Results of Operations****Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004**

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, except per share and share data):

	Nine Months Ended September 30,			
	2005		2004	
Revenues	\$ 3,912	100%	\$ 3,701	100%
Costs and expenses:				
Operating (excluding depreciation and amortization)	1,714	44%	1,552	42%
Selling, general and administrative	762	19%	735	20%
Depreciation and amortization	1,134	29%	1,105	30%
Impairment of franchises			2,433	66%
Asset impairment charges	39	1%		
(Gain) loss on sale of assets, net	5		(104)	(3)%
Option compensation expense, net	11		34	1%
Hurricane asset retirement loss	19	1%		
Special charges, net	4		100	2%
	3,688	94%	5,855	158%
Income (loss) from operations	224	6%	(2,154)	(58)%
Interest expense, net	(1,333)		(1,227)	
Gain on derivative instruments and hedging activities, net	43		48	
Loss on debt to equity conversions			(23)	
Gain (loss) on extinguishment of debt	498		(21)	
Gain on investments	21			
	(771)		(1,223)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(547)		(3,377)	
Minority interest	(9)		24	
Loss before income taxes and cumulative effect of accounting change	(556)		(3,353)	
Income tax benefit (expense)	(75)		116	
Loss before cumulative effect of accounting change	(631)		(3,237)	
Cumulative effect of accounting change, net of tax			(765)	
Net loss	(631)		(4,002)	
Dividends on preferred stock redeemable	(3)		(3)	
Net loss applicable to common stock	\$ (634)		\$ (4,005)	

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Loss per common share, basic and diluted	\$ (2.06)	\$ (13.38)
Weighted average common shares outstanding, basic and diluted	307,761,930	299,411,053

Revenues. Revenues increased by \$211 million, or 6%, from \$3.7 billion for the nine months ended September 30, 2004 to \$3.9 billion for the nine months ended September 30, 2005. This increase is

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principally the result of an increase of 300,100 and 60,500 high-speed Internet and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 168,300 analog video customers and \$6 million of credits issued to hurricane Katrina impacted customers related to service outages. Through September and October, we have been restoring service to our impacted customers and, as of October 31, 2005, substantially all of our customers' service has been restored. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed Internet customers are 26,800 analog video customers, 12,000 digital video customers and 600 high-speed Internet customers sold in the cable system sales in Texas and West Virginia, which closed in July 2005. The cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 and the cable system sales in Texas and West Virginia, which closed in July 2005 (referred to in this section as the System Sales) reduced the increase in revenues by approximately \$33 million. Our goal is to increase revenues by improving customer service, which we believe will stabilize our analog video customer base, implementing price increases on certain services and packages and increasing the number of customers who purchase high-speed Internet services, digital video and advanced products and services such as telephone, VOD, high definition television and digital video recorder service.

Average monthly revenue per analog video customer increased to \$72.97 for the nine months ended September 30, 2005 from \$66.24 for the nine months ended September 30, 2004 primarily as a result of incremental revenues from advanced services and price increases. Average monthly revenue per analog video customer represents total revenue for the nine months ended during the respective period, divided by nine, divided by the average number of analog video customers during the respective period.

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

	Nine Months Ended September 30,					
	2005		2004		2005 over 2004	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$2,551	65%	\$2,534	68%	\$ 17	1%
High-speed Internet	671	17%	538	14%	133	25%
Advertising sales	214	6%	205	6%	9	4%
Commercial	205	5%	175	5%	30	17%
Other	271	7%	249	7%	22	9%
	<u>\$3,912</u>	<u>100%</u>	<u>\$3,701</u>	<u>100%</u>	<u>\$211</u>	<u>6%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues increased by \$17 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Approximately \$102 million of the increase was the result of price increases and incremental video revenues from existing customers and approximately \$11 million resulted from an increase in digital video customers. The increases were offset by decreases of approximately \$66 million related to a decrease in analog video customers, approximately \$25 million resulting from the System Sales and approximately \$5 million of credits issued to hurricanes Katrina and Rita impacted customers related to service outages.

Revenues from high-speed Internet services provided to our non-commercial customers increased \$133 million, or 25%, from \$538 million for the nine months ended September 30, 2004 to \$671 million for the nine months ended September 30, 2005. Approximately \$101 million of the increase related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$36 million related to the increase in average price of the service. The increase in high-speed Internet revenues was reduced by approximately \$3 million as a result of the System Sales and \$1 million of credits issued to hurricanes Katrina and Rita impacted customers related to service outages.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$9 million, or 4%, from \$205 million for the

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nine months ended September 30, 2004 to \$214 million for the nine months ended September 30, 2005, primarily as a result of an increase in local advertising sales and an increase of \$3 million in advertising sales revenues from vendors offset by a decline in national advertising sales. In addition, the increase was offset by a decrease of \$1 million as a result of the System Sales. For the nine months ended September 30, 2005 and 2004, we received \$12 million and \$9 million, respectively, in advertising sales revenues from vendors.

Commercial revenues consist primarily of revenues from cable video and high-speed Internet services to our commercial customers. Commercial revenues increased \$30 million, or 17%, from \$175 million for the nine months ended September 30, 2004 to \$205 million for the nine months ended September 30, 2005, primarily as a result of an increase in commercial high-speed Internet revenues. The increase was reduced by approximately \$3 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, telephone revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. Other revenues increased \$22 million, or 9%, from \$249 million for the nine months ended September 30, 2004 to \$271 million for the nine months ended September 30, 2005. The increase was primarily the result of an increase in telephone revenue of \$11 million, franchise fees of \$11 million and installation revenue of \$7 million and was partially offset by approximately \$2 million as a result of the System Sales.

Operating Expenses. Operating expenses increased \$162 million, or 10%, from \$1.6 billion for the nine months ended September 30, 2004 to \$1.7 billion for the nine months ended September 30, 2005. The increase in operating expenses was reduced by \$13 million as a result of the System Sales. Programming costs included in the accompanying condensed consolidated statements of operations were \$1.1 billion and \$991 million, representing 29% and 17% of total costs and expenses for the nine months ended September 30, 2005 and 2004, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

Nine Months Ended September 30,						
2005		2004		2005 over 2004		
Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change	
Programming	\$ 1,066	27%	\$ 991	27%	\$ 75	8%
Service	572	15%	489	13%	83	17%
Advertising sales	76	2%	72	2%	4	6%
	<u>\$ 1,714</u>	<u>44%</u>	<u>\$ 1,552</u>	<u>42%</u>	<u>\$ 162</u>	<u>10%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium, digital channels, VOD and pay-per-view programming. The increase in programming costs of \$75 million, or 8%, for the nine months ended September 30, 2005 over the nine months ended September 30, 2004 was a result of price increases, particularly in sports programming, partially offset by decreases in analog video customers. Additionally, the increase in programming costs was reduced by \$10 million as a result of the System Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$27 million and \$43 million for the nine months ended September 30, 2005 and 2004, respectively. Programming costs for the nine months ended September 30, 2004 also include a \$5 million reduction related to the settlement of a dispute with TechTV, Inc. See Note 20 to the condensed consolidated financial statements included elsewhere in this prospectus.

Our cable programming costs have increased in every year we have operated in excess of U.S. inflation and cost-of-living increases, and we expect them to continue to increase because of a variety of factors, including inflationary or negotiated annual increases, additional programming being provided to customers and increased costs to purchase programming. In 2005, programming costs have increased and we expect will continue to increase at a higher rate than in 2004. These costs will be determined in part on the outcome of programming negotiations in 2005 and will likely be subject to offsetting events or

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otherwise affected by factors similar to the ones mentioned in the preceding paragraph. Our increasing programming costs will result in declining operating margins for our video services to the extent we are unable to pass on cost increases to our customers. We expect to partially offset any resulting margin compression from our traditional video services with revenue from advanced video services, increased high-speed Internet revenues, advertising revenues and commercial service revenues.

Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, costs of providing high-speed Internet service, maintenance and pole rent expense. The increase in service costs of \$83 million, or 17%, resulted primarily from increased labor and maintenance costs to support improved service levels and our advanced products, higher fuel prices and pole rent expense. The increase in service costs was reduced by \$3 million as a result of the System Sales. Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased \$4 million, or 6%, primarily as a result of increased salary, benefit and commission costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$27 million, or 4%, from \$735 million for the nine months ended September 30, 2004 to \$762 million for the nine months ended September 30, 2005. The increase in selling, general and administrative expenses was reduced by \$5 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Nine Months Ended September 30,					
	2005		2004		2005 over 2004	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 658	17%	\$ 636	17%	\$ 22	3%
Marketing	104	2%	99	3%	5	5%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 762	19%	\$ 735	20%	\$ 27	4%
	—	—	—	—	—	—

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$22 million, or 3%, resulted primarily from increases in professional fees associated with consulting services of \$28 million and a rise in salaries and benefits of \$21 million related to increased emphasis on improved service levels and operational efficiencies, offset by decreases in bad debt expense of \$13 million, property and casualty insurance of \$7 million and the System Sales of \$5 million.

Marketing expenses increased \$5 million, or 5%, as a result of an increased investment in targeted marketing campaigns.

Depreciation and Amortization. Depreciation and amortization expense increased by \$29 million, or 3%, as a result of an increase in capital expenditures.

Impairment of Franchises. We performed an impairment assessment during the third quarter of 2004. The use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation, primarily as a result of increased competition, led to the recognition of a \$2.4 billion impairment charge for the nine months ended September 30, 2004.

Asset Impairment Charges. Asset impairment charges for the nine months ended September 30, 2005 represent the write-down of assets related to pending cable asset sales to fair value less costs to sell. See Note 3 to the condensed consolidated financial statements included elsewhere in this prospectus.

(Gain) Loss on Sale of Assets, Net. Loss on sale of assets of \$5 million for the nine months ended September 30, 2005 primarily represents the loss recognized on the disposition of plant and equipment. Gain on sale of assets of \$104 million for the nine months ended September 30, 2004 primarily represents

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the pretax gain realized on the sale of systems to Atlantic Broadband Finance, LLC which closed on March 1 and April 30, 2004.

Option Compensation Expense, Net. Option compensation expense of \$11 million for the nine months ended September 30, 2005 primarily represents options expensed in accordance with SFAS No. 123. Option compensation expense of \$34 million for the nine months ended September 30, 2004 primarily represents the expense of approximately \$9 million related to a stock option exchange program under which our employees were offered the right to exchange all stock options (vested and unvested) issued under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. The exchange offer closed in February 2004. Additionally, during the nine months ended September 30, 2004, we recognized approximately \$8 million related to the performance shares granted under the Charter Long-Term Incentive Program and approximately \$17 million related to options granted following the adoption of SFAS No. 123.

Hurricane Asset Retirement Loss. Hurricane asset retirement loss represents the loss associated with the write-off of the net book value of assets destroyed by hurricanes Katrina and Rita in the third quarter of 2005.

Special Charges, Net. Special charges of \$4 million for the nine months ended September 30, 2005 represents \$5 million of severance and related costs of our management realignment and \$1 million related to legal settlements offset by approximately \$2 million related to an agreed upon cash discount on settlement of the consolidated Federal Class Action and Federal Derivative Action. See Legal Proceedings. Special charges of \$100 million for the nine months ended September 30, 2004 represents approximately \$85 million as part of the terms set forth in memoranda of understanding regarding settlement of the consolidated Federal Class Action and Federal Derivative Action and approximately \$9 million of litigation costs related to the tentative settlement of the South Carolina national class action suit, which were approved by the respective courts and approximately \$9 million of severance and related costs of our workforce reduction. For the nine months ended September 30, 2004, the severance costs were offset by \$3 million received from a third party in settlement of a dispute.

Interest Expense, Net. Net interest expense increased by \$106 million, or 9%, from \$1.2 billion for the nine months ended September 30, 2004 to \$1.3 billion for the nine months ended September 30, 2005. The increase in net interest expense was a result of an increase of \$757 million in average debt outstanding from \$18.4 billion for the nine months ended September 30, 2004 compared to \$19.2 billion for the nine months ended September 30, 2005 and an increase in our average borrowing rate from 8.61% in the nine months ended September 30, 2004 to 8.95% in the nine months ended September 30, 2005 combined with approximately \$11 million of liquidated damages on our 5.875% convertible senior notes. This was offset partially by \$26 million in gains related to embedded derivatives in Charter's 5.875% convertible senior notes issued in November 2004. See Note 10 to the condensed consolidated financial statements.

Gain on Derivative Instruments and Hedging Activities, Net. Net gain on derivative instruments and hedging activities decreased \$5 million from \$48 million for the nine months ended September 30, 2004 to \$43 million for the nine months ended September 30, 2005. The decrease is primarily a result of a decrease in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, which decreased from \$45 million for the nine months ended September 30, 2004 to \$41 million for the nine months ended September 30, 2005.

Loss on debt to equity conversions. Loss on debt to equity conversions of \$23 million for the nine months ended September 30, 2004 represents the loss recognized from privately negotiated exchanges in the aggregate of \$30 million principal amount of Charter's 5.75% convertible senior notes held by two unrelated parties for shares of Charter Class A common stock, which resulted in the issuance of more shares in the exchange transaction than would have been issued under the original terms of the convertible senior notes.

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Gain (loss) on extinguishment of debt. Gain on extinguishment of debt of \$498 million for the nine months ended September 30, 2005 primarily represents approximately \$490 million related to the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities, approximately \$10 million related to the issuance of Charter Communications Operating, LLC (Charter Operating) notes in exchange for Charter Holdings notes and approximately \$4 million related to the repurchase of \$131 million principal amount of our 4.75% convertible senior notes due 2006. These gains were offset by approximately \$5 million of losses related to the redemption of our subsidiary s, CC V Holdings, LLC, 11.875% notes due 2008. See Note 6 to the condensed consolidated financial statements included elsewhere in this prospectus. Loss on extinguishment of debt of \$21 million for the nine months ended September 30, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Operating refinancing in April 2004.

Gain on investments. Gain on investments of \$21 million for the nine months ended September 30, 2005 primarily represents a gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise.

Minority Interest. Minority interest represents the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and in 2004, the pro rata share of the profits and losses of CC VIII. Effective January 1, 2005, we ceased recognizing minority interest in earnings or losses of CC VIII for financial reporting purposes until the dispute between Charter and Mr. Allen regarding the preferred membership interests in CC VIII was resolved. This dispute was settled October 31, 2005. See Note 7 to the condensed consolidated financial statements included elsewhere in this prospectus. Additionally, reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco is eliminated, Charter absorbs all losses before income taxes that otherwise would be allocated to minority interest. Subject to any changes in Charter Holdco s capital structure, future losses will continue to be substantially absorbed by Charter.

Income Tax Benefit (Expense). Income tax expense of \$75 million and income tax benefit of \$116 million was recognized for the nine months ended September 30, 2005 and 2004, respectively. The income tax expense is recognized through increases in deferred tax liabilities related to our investment in Charter Holdco, as well as through current federal and state income tax expense and increases in the deferred tax liabilities of certain of our indirect corporate subsidiaries. The income tax benefit was realized as a result of decreases in certain deferred tax liabilities related to our investment in Charter Holdco as well as decreases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

The income tax benefit recognized in the nine months ended September 30, 2004 was directly related to the impairment of franchises as discussed above. We do not expect to recognize a similar benefit associated with the impairment of franchises in future periods. 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.

Net Loss. Net loss decreased by \$3.4 billion, from \$4.0 billion for the nine months ended September 30, 2004 to \$631 million for the nine months ended September 30, 2005 as a result of the factors described above.

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

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Loss Per Common Share. The loss per common share decreased by \$11.32, from \$13.38 per common share for the nine months ended September 30, 2004 to \$2.06 per common share for the nine months ended September 30, 2005 as a result of the factors described above.

Year Ended December 31, 2004, December 31, 2003 and December 31, 2002

The following table sets forth the percentages of revenues that items in the accompanying consolidated statements of operations constitute for the indicated periods (dollars in millions, except per share and share data):

	Year Ended December 31,					
	2004		2003		2002	
Revenues	\$ 4,977	100%	\$ 4,819	100%	\$ 4,566	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization)	2,080	42%	1,952	40%	1,807	40%
Selling, general and administrative	971	19%	940	20%	963	21%
Depreciation and amortization	1,495	30%	1,453	30%	1,436	31%
Impairment of franchises	2,433	49%			4,638	102%
(Gain) loss on sale of assets, net	(86)	(2)%	5		3	
Option compensation expense, net	31	1%	4		5	
Special charges, net	104	2%	21		36	1%
Unfavorable contracts and other settlements	(5)		(72)	(1)%		
	7,023	141%	4,303	89%	8,888	195%
Income (loss) from operations	(2,046)	(41)%	516	11%	(4,322)	(95)%
Interest expense, net	(1,670)		(1,557)		(1,503)	
Gain (loss) on derivative instruments and hedging activities, net	69		65		(115)	
Loss on debt to equity conversions	(23)					
Gain (loss) on extinguishment of debt	(31)		267			
Other, net	3		(16)		(4)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(3,698)		(725)		(5,944)	
Minority interest	19		377		3,176	
Loss before income taxes and cumulative effect of accounting change	(3,679)		(348)		(2,768)	
Income tax benefit	103		110		460	
Loss before cumulative effect of accounting change	(3,576)		(238)		(2,308)	
Cumulative effect of accounting change, net of tax	(765)				(206)	
Net loss	(4,341)		(238)		(2,514)	
Dividends on preferred stock redeemable	(4)		(4)		(3)	
Net loss applicable to common stock	\$ (4,345)		\$ (242)		\$ (2,517)	

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Loss per common share, basic and diluted	\$ (14.47)	\$ (0.82)	\$ (8.55)
	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding	300,291,877	294,597,519	294,440,261
	<u> </u>	<u> </u>	<u> </u>

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues. Revenues increased by \$158 million, or 3%, from \$4.8 billion for the year ended December 31, 2003 to \$5.0 billion for the year ended December 31, 2004. This increase is principally the result of an increase of 318,800 and 2,800 high-speed Internet customers and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 439,800 analog video customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed Internet customers are 230,800 analog video

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customers, 83,300 digital video customers and 37,800 high-speed Internet customers sold in the cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 (collectively, with the cable system sale to WaveDivision Holdings, LLC in October 2003, referred to in this section as the System Sales). The System Sales reduced the increase in revenues by \$160 million.

Average monthly revenue per analog video customer increased from \$61.92 for the year ended December 31, 2003 to \$68.02 for the year ended December 31, 2004 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

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

	Year Ended December 31,					
	2004		2003		2004 over 2003	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$3,373	68%	\$3,461	72%	\$ (88)	(3)%
High-speed Internet	741	15%	556	12%	185	33%
Advertising sales	289	6%	263	5%	26	10%
Commercial	238	4%	204	4%	34	17%
Other	336	7%	335	7%	1	
	<u>\$4,977</u>	<u>100%</u>	<u>\$4,819</u>	<u>100%</u>	<u>\$ 158</u>	<u>3%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues decreased by \$88 million, or 3%, from \$3.5 billion for the year ended December 31, 2003 to \$3.4 billion for the year ended December 31, 2004. Approximately \$116 million of the decrease was the result of the System Sales and approximately an additional \$65 million related to a decline in analog video customers. These decreases were offset by increases of approximately \$66 million resulting from price increases and incremental video revenues from existing customers and approximately \$27 million resulting from an increase in digital video customers.

Revenues from high-speed Internet services provided to our non-commercial customers increased \$185 million, or 33%, from \$556 million for the year ended December 31, 2003 to \$741 million for the year ended December 31, 2004. Approximately \$163 million of the increase related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$35 million related to the increase in average price of the service. The increase in high-speed Internet revenues was reduced by approximately \$12 million as a result of the System Sales.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$26 million, or 10%, from \$263 million for the year ended December 31, 2003 to \$289 million for the year ended December 31, 2004 primarily as a result of an increase in national advertising campaigns and election related advertising. The increase was offset by a decrease of \$7 million as a result of the System Sales. For the years ended December 31, 2004 and 2003, we received \$16 million and \$15 million, respectively, in advertising revenue from vendors.

Commercial revenues consist primarily of revenues from cable video and high-speed Internet services to our commercial customers. Commercial revenues increased \$34 million, or 17%, from \$204 million for the year ended December 31, 2003, to \$238 million for the year ended December 31, 2004, primarily as a result of an increase in commercial high-speed Internet revenues. The increase was reduced by approximately \$14 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, telephone revenue, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the year ended December 31, 2004 and 2003, franchise fees represented approximately 49% and 48%, respectively, of total other revenues. Other revenues increased \$1 million

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from \$335 million for the year ended December 31, 2003 to \$336 million for the year ended December 31, 2004. The increase was primarily the result of an increase in home shopping and infomercial revenue and was partially offset by approximately \$11 million as a result of the System Sales.

Operating expenses. Operating expenses increased \$128 million, or 7%, from \$2.0 billion for the year ended December 31, 2003 to \$2.1 billion for the year ended December 31, 2004. The increase in operating expenses was reduced by approximately \$59 million as a result of the System Sales. Programming costs included in the accompanying consolidated statements of operations were \$1.3 billion and \$1.2 billion, representing 63% and 64% of total operating expenses for the years ended December 31, 2004 and 2003, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 1,319	27%	\$ 1,249	26%	\$ 70	6%
Advertising sales	98	2%	88	2%	10	11%
Service	663	13%	615	12%	48	8%
	<u>\$2,080</u>	<u>42%</u>	<u>\$ 1,952</u>	<u>40%</u>	<u>\$ 128</u>	<u>7%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels and pay-per-view programming. The increase in programming costs of \$70 million, or 6%, for the year ended December 31, 2004 over the year ended December 31, 2003 was a result of price increases, particularly in sports programming, an increased number of channels carried on our systems, and an increase in digital video customers, partially offset by a decrease in analog video customers. Additionally, the increase in programming costs was reduced by \$42 million as a result of the System Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$59 million and \$62 million for the years ended December 31, 2004 and 2003, respectively. Programming costs for the year ended December 31, 2004 also include a \$5 million reduction related to the settlement of a dispute with TechTV, Inc., a related party. See Note 22 to the consolidated financial statements included elsewhere in this prospectus.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased \$10 million, or 11%, primarily as a result of increased salary, benefit and commission costs. The increase in advertising sales expenses was reduced by \$2 million as a result of the System Sales. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider fees, maintenance and pole rental expense. The increase in service costs of \$48 million, or 8%, resulted primarily from additional activity associated with ongoing infrastructure maintenance. The increase in service costs was reduced by \$15 million as a result of the System Sales.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$31 million, or 3%, from \$940 million for the year ended December 31, 2003 to \$971 million for the year ended December 31, 2004. The increase in selling, general and administrative expenses was reduced by \$22 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 849	17%	\$ 833	18%	\$ 16	2%
Marketing	122	2%	107	2%	15	14%

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<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
\$971	19%	\$940	20%	\$ 31	3%
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	

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General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$16 million, or 2%, resulted primarily from increases in costs associated with our commercial business of \$21 million, third party call center costs resulting from increased emphasis on customer service of \$10 million and bad debt expense of \$10 million offset by decreases in costs associated with salaries and benefits of \$21 million and rent expense of \$3 million.

Marketing expenses increased \$15 million, or 14%, as a result of an increased investment in marketing and branding campaigns.

Depreciation and amortization. Depreciation and amortization expense increased by \$42 million, or 3%, to \$1.5 billion in 2004. The increase in depreciation related to an increase in capital expenditures, which was partially offset by lower depreciation as the result of the System Sales.

Impairment of franchises. We performed an impairment assessment during the third quarter of 2004. The use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation, primarily as a result of increased competition, led to the recognition of a \$2.4 billion impairment charge for the year ended December 31, 2004.

(Gain) loss on sale of assets, net. Gain on sale of assets of \$86 million for the year ended December 31, 2004 primarily represents the pretax gain of \$106 million realized on the sale of systems to Atlantic Broadband Finance, LLC which closed in March and April 2004 offset by losses recognized on the disposition of plant and equipment. Loss on sale of assets of \$5 million for the year ended December 31, 2003 represents the loss recognized on the disposition of plant and equipment offset by a gain of \$21 million recognized on the sale of cable systems in Port Orchard, Washington which closed on October 1, 2003.

Option compensation expense, net. Option compensation expense of \$31 million for the year ended December 31, 2004 primarily represents \$22 million related to options granted and expensed in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. Additionally, during the year ended December 31, 2004, we expensed approximately \$8 million related to a stock option exchange program, under which our employees were offered the right to exchange all stock options (vested and unvested) issued under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. The exchange offer closed in February 2004. Option compensation expense of \$4 million for the year ended December 31, 2003 primarily represents options expensed in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. See Note 19 to our consolidated financial statements included elsewhere in this prospectus for more information regarding our option compensation plans.

Special charges, net. Special charges of \$104 million for the year ended December 31, 2004 represents approximately \$85 million of aggregate value of the Charter Class A common stock and warrants to purchase Charter Class A common stock contemplated to be issued as part of a settlement of the consolidated federal class actions, state derivative actions and federal derivative action lawsuits, approximately \$10 million of litigation costs related to the tentative settlement of a South Carolina national class action suit, all of which settlements are subject to final documentation and court approval and approximately \$12 million of severance and related costs of our workforce reduction and realignment. Special charges for the year ended December 31, 2004 were offset by \$3 million received from a third party in settlement of a dispute. Special charges of \$21 million for the year ended December 31, 2003 represents approximately \$26 million of severance and related costs of our workforce reduction partially offset by a \$5 million credit from a settlement from the Internet service provider Excite@Home related to the conversion of about 145,000 high-speed Internet customers to our Charter Pipeline service in 2001.

Unfavorable contracts and other settlements. Unfavorable contracts and other settlements of \$5 million for the year ended December 31, 2004 relates to changes in estimated legal reserves established

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in connection with prior business combinations, which based on an evaluation of current facts and circumstances, are no longer required.

Unfavorable contracts and other settlements of \$72 million for the year ended December 31, 2003 represents the settlement of estimated liabilities recorded in connection with prior business combinations. The majority of this benefit (approximately \$52 million) is due to the renegotiation in 2003 of a major programming contract, for which a liability had been recorded for the above market portion of that agreement in connection with a 1999 and a 2000 acquisition. The remaining benefit relates to the reversal of previously recorded liabilities, which are no longer required.

Interest expense, net. Net interest expense increased by \$113 million, or 7%, from \$1.6 billion for the year ended December 31, 2003 to \$1.7 billion for the year ended December 31, 2004. The increase in net interest expense was a result of an increase in our average borrowing rate from 7.99% in the year ended December 31, 2003 to 8.66% in the year ended December 31, 2004 partially offset by a decrease of \$306 million in average debt outstanding from \$18.9 billion in 2003 to \$18.6 billion in 2004.

Gain (loss) on derivative instruments and hedging activities, net. Net gain on derivative instruments and hedging activities increased \$4 million from a gain of \$65 million for the year ended December 31, 2003 to a gain of \$69 million for the year ended December 31, 2004. The increase is primarily the result of an increase in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which increased from a gain of \$57 million for the year ended December 31, 2003 to a gain of \$65 million for the year ended December 31, 2004. This was coupled with a decrease in gains on interest rate agreements, as a result of hedge ineffectiveness on designated hedges, which decreased from \$8 million for the year ended December 31, 2003 to \$4 million for the year ended December 31, 2004.

Loss on debt to equity conversions. Loss on debt to equity conversions of \$23 million for the year ended December 31, 2004 represents the loss recognized from privately negotiated exchanges of a total of \$30 million principal amount of Charter's 5.75% convertible senior notes held by two unrelated parties for shares of Charter Class A common stock. The exchange resulted in the issuance of more shares in the exchange transaction than would have been issuable under the original terms of the convertible senior notes.

Gain (loss) on extinguishment of debt. Loss on extinguishment of debt of \$31 million for the year ended December 31, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating refinancing in April 2004 and the redemption of our 5.75% convertible senior notes due 2005 in December 2004. Gain on extinguishment of debt of \$267 million for the year ended December 31, 2003 represents the gain realized on the purchase of an aggregate \$609 million principal amount of our outstanding convertible senior notes and \$1.3 billion principal amount of Charter Holdings' senior notes and senior discount notes in consideration for an aggregate of \$1.6 billion principal amount of 10.25% notes due 2010 issued by our indirect subsidiary, CCH II. The gain is net of the write-off of deferred financing costs associated with the retired debt of \$27 million.

Other, net. Net other expense decreased by \$19 million from \$16 million in 2003 to income of \$3 million in 2004. Other expense in 2003 included \$11 million associated with amending a revolving credit facility of our subsidiaries and costs associated with terminated debt transactions that did not recur in 2004. In addition, gains on equity investments increased \$7 million in 2004 over 2003.

Minority interest. Minority interest represents the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and since June 6, 2003, the pro rata share of the profits and losses of CC VIII. See *Certain Relationships and Related Transactions* *Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries* *Equity Put Rights* *CC VIII*. Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, Charter began to absorb substantially all future losses before income taxes that

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otherwise would have been allocated to minority interest. For the year ended December 31, 2003, 53.5% of our losses were allocated to minority interest. As a result of negative equity at Charter Holdco during the year ended December 31, 2004, no additional losses were allocated to minority interest, resulting in an additional \$2.4 billion of net losses. Under our existing capital structure, future losses will be substantially absorbed by Charter.

Income tax benefit. Income tax benefit of \$103 million and \$110 million was recognized for the years ended December 31, 2004 and 2003, respectively. The income tax benefits were realized as a result of decreases in certain deferred tax liabilities related to our investment in Charter Holdco as well as decreases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

The income tax benefit recognized in the year ended December 31, 2004 was directly related to the impairment of franchises as discussed above. The deferred tax liabilities decreased as a result of the write-down of franchise assets for financial statement purposes, but not for tax purposes. We do not expect to recognize a similar benefit associated with the impairment of franchises in future periods. 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.

The income tax benefit recognized in the year ended December 31, 2003 was directly related to the tax losses allocated to Charter from Charter Holdco. In the second quarter of 2003, Charter started receiving tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable III Inc. and Charter Investment, Inc. in accordance with the Special Loss Allocations provided under the Charter Holdco limited liability company agreement. We do not expect to recognize a similar benefit related to our investment in Charter Holdco after 2003 related to tax loss allocations received from Charter Holdco, due to limitations associated with our ability to offset future tax benefits against the remaining deferred tax liabilities. 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.

Cumulative effect of accounting change, net of tax. Cumulative effect of accounting change of \$765 million (net of minority interest effects of \$19 million and tax effects of \$91 million) in 2004 represents the impairment charge recorded as a result of our adoption of EITF Topic D-108.

Net loss. Net loss increased by \$4.1 billion from \$238 million in 2003 to \$4.3 billion in 2004 as a result of the factors described above. The impact to net loss in 2004 of the impairment of franchises, cumulative effect of accounting change and the reduction in losses allocated to minority interest was to increase net loss by approximately \$3.7 billion. The impact to net loss in 2003 of the gain on the sale of systems, unfavorable contracts and settlements and gain on debt exchange, net of income tax impact, was to decrease net loss by \$168 million.

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

Loss per common share. The loss per common share increased by \$13.65, from \$0.82 per common share for the year ended December 31, 2003 to \$14.47 per common share for the year ended December 31, 2004 as a result of the factors described above.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Revenues increased by \$253 million, or 6%, from \$4.6 billion for the year ended December 31, 2002 to \$4.8 billion for the year ended December 31, 2003. This increase is principally the result of an increase of 427,500 high-speed Internet customers, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 147,500 and 10,900 in analog and digital video customers, respectively. Included within the decrease of analog and digital video customers and reducing the increase of high-speed Internet customers are 25,500 analog video customers, 12,500 digital video customers and 12,200 high-speed Internet customers sold in the Port Orchard, Washington sale on October 1, 2003.

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Average monthly revenue per analog video customer increased from \$56.91 for the year ended December 31, 2002 to \$61.92 for the year ended December 31, 2003 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

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

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$3,461	72%	\$3,420	75%	\$ 41	1%
High-speed Internet	556	12%	337	7%	219	65%
Advertising sales	263	5%	302	7%	(39)	(13)%
Commercial	204	4%	161	3%	43	27%
Other	335	7%	346	8%	(11)	(3)%
	<u>\$4,819</u>	<u>100%</u>	<u>\$4,566</u>	<u>100%</u>	<u>\$253</u>	<u>6%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Video revenues increased by \$41 million, or 1%, for the year ended December 31, 2003 compared to the year ended December 31, 2002. Video revenues increased approximately \$65 million due to price increases and incremental video revenues from existing customers and \$82 million as a result of increases in the average number of digital video customers, which were partially offset by a decrease of approximately \$106 million as a result of a decline in analog video customers.

Revenues from high-speed Internet services provided to our non-commercial customers increased \$219 million, or 65%, from \$337 million for the year ended December 31, 2002 to \$556 million for the year ended December 31, 2003. Approximately \$206 million of the increase related to the increase in the average number of customers, whereas approximately \$13 million related to the increase in the average price of the service. The increase in customers was primarily due to the addition of high-speed Internet customers in our existing service areas. We were also able to offer this service to more of our customers, as the estimated percentage of homes passed that could receive high-speed Internet service increased from 82% as of December 31, 2002 to 87% as of December 31, 2003 as a result of our system upgrades.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales decreased \$39 million, or 13%, from \$302 million for the year ended December 31, 2002, to \$263 million for the year ended December 31, 2003, primarily as a result of a decrease in advertising from vendors of approximately \$64 million, offset partially by an increase in local advertising sales revenues of approximately \$25 million. For the years ended December 31, 2003 and 2002, we received \$15 million and \$79 million, respectively, in advertising revenue from vendors.

Commercial revenues consist primarily of revenues from video and high-speed Internet services to our commercial customers. Commercial revenues increased \$43 million, or 27%, from \$161 million for the year ended December 31, 2002, to \$204 million for the year ended December 31, 2003, primarily due to an increase in commercial high-speed Internet revenues.

Other revenues consist of revenues from franchise fees, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the years ended December 31, 2003 and 2002, franchise fees represented approximately 48% and 46%, respectively, of total other revenues. Other revenues decreased \$11 million, or 3%, from \$346 million for the year ended December 31, 2002 to \$335 million for the year ended December 31, 2003. The decrease was due primarily to a decrease in franchise fees after an FCC ruling in March 2002, no longer requiring the collection of franchise fees for high-speed Internet services. Franchise fee revenues are collected from customers and remitted to franchise authorities.

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The decrease in accounts receivable of 27% compared to the increase in revenues of 6% is primarily due to the timing of collection of receivables from programmers for fees associated with the launching of their networks, coupled with our tightened credit and collections policy. These fees from programmers are not recorded as revenue but, rather, are recorded as reductions of programming expense on a straight-line basis over the term of the contract. Programmer receivables decreased \$40 million, or 57%, from \$70 million as of December 31, 2002 to \$30 million as of December 31, 2003.

Operating expenses. Operating expenses increased \$145 million, or 8%, from \$1.8 billion for the year ended December 31, 2002 to \$2.0 billion for the year ended December 31, 2003. Programming costs included in the accompanying consolidated statements of operations were \$1.2 billion and \$1.2 billion, representing 64% and 65% of total operating expenses for the years ended December 31, 2003 and 2002, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 1,249	26%	\$ 1,166	26%	\$ 83	7%
Advertising sales	88	2%	87	2%	1	1%
Service	615	12%	554	12%	61	11%
	<u>\$ 1,952</u>	<u>40%</u>	<u>\$ 1,807</u>	<u>40%</u>	<u>\$ 145</u>	<u>8%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels and pay-per-view programs. The increase in programming costs of \$83 million, or 7%, was due to price increases, particularly in sports programming, and due to an increased number of channels carried on our systems, partially offset by decreases in analog and digital video customers. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels against programming costs of \$62 million and \$57 million for the years ended December 31, 2003 and 2002, respectively.

Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries and benefits and commissions. Advertising sales expenses increased \$1 million, or 1%, primarily due to increased sales commissions, taxes and benefits. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider fees, maintenance and pole rental expense. The increase in service costs of \$61 million, or 11%, resulted primarily from additional activity associated with ongoing infrastructure maintenance and customer service, including activities associated with our promotional programs.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased by \$23 million, or 2%, from \$963 million for the year ended December 31, 2002 to \$940 million for the year ended December 31, 2003. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2003		2002		2003 over 2002	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 833	18%	\$ 810	18%	\$ 23	3%
Marketing	107	2%	153	3%	(46)	(30)%
	<u>\$ 940</u>	<u>20%</u>	<u>\$ 963</u>	<u>21%</u>	<u>\$ (23)</u>	<u>(2)%</u>

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General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$23 million, or 3%, resulted primarily from increases in salaries and benefits of \$4 million, call center costs of \$25 million and internal network costs of \$16 million. These

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increases were partially offset by a decrease in bad debt and collection expense of \$27 million as a result of our strengthened credit policies.

Marketing expenses decreased \$46 million, or 30%, due to reduced promotional activity related to our service offerings including reductions in advertising, telemarketing and direct sales activities.

Depreciation and amortization. Depreciation and amortization expense increased by \$17 million, or 1%, from \$1.4 billion in 2002 to \$1.5 billion in 2003 due primarily to an increase in depreciation expense related to additional capital expenditures in 2003 and 2002.

Impairment of franchises. We performed our annual impairment assessments as of October 1, 2002 and 2003. Revised estimates of future cash flows and the use of a lower projected long-term growth rate in our valuation led to a \$4.6 billion impairment charge in the fourth quarter of 2002. Our 2003 assessment performed on October 1, 2003 did not result in an impairment.

Loss on sale of assets, net. Loss on sale of assets for the year ended December 31, 2003 represents \$26 million of losses related to the disposition of fixed assets offset by the \$21 million gain recognized on the sale of cable systems in Port Orchard, Washington on October 1, 2003. Loss on sale of assets for the year ended December 31, 2002 represents losses related to the disposition of fixed assets.

Option compensation expense, net. Option compensation expense decreased by \$1 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. Option compensation expense includes expense related to exercise prices on certain options that were issued prior to our initial public offering in 1999 that were less than the estimated fair values of our common stock at the time of grant. Compensation expense was recognized over the vesting period of such options and was recorded until the last vesting period lapsed in April 2004. On January 1, 2003, we adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, using the prospective method under which we will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date.

Special charges, net. Special charges of \$21 million for the year ended December 31, 2003 represent approximately \$26 million of severance and related costs of our ongoing initiative to reduce our workforce partially offset by a \$5 million credit from a settlement from the Internet service provider Excite@Home related to the conversion of about 145,000 high-speed Internet customers to our Charter Pipeline service in 2001. In the fourth quarter of 2002, we recorded a special charge of \$35 million, of which \$31 million was associated with our workforce reduction program. The remaining \$4 million is related to legal and other costs associated with our shareholder lawsuits and governmental investigations.

Unfavorable contracts and other settlements. Unfavorable contracts and other settlements of \$72 million for the year ended December 31, 2003 represents the settlement of estimated liabilities recorded in connection with prior business combinations. The majority of this benefit (approximately \$52 million) is due to the renegotiation in 2003 of a major programming contract, for which a liability had been recorded for the above-market portion of that agreement in connection with a 1999 and a 2000 acquisition. The remaining benefit relates to the reversal of previously recorded liabilities, which, based on an evaluation of current facts and circumstances, are no longer required.

Interest expense, net. Net interest expense increased by \$54 million, or 4%, from \$1.5 billion for the year ended December 31, 2002 to \$1.6 billion for the year ended December 31, 2003. The increase in net interest expense was a result of increased average debt outstanding in 2003 of \$18.9 billion compared to \$17.8 billion in 2002, partially offset by a decrease in our average borrowing rate from 8.02% in 2002 to 7.99% in 2003. The increased debt was primarily used for capital expenditures.

Gain (loss) on derivative instruments and hedging activities, net. Net gain on derivative instruments and hedging activities increased \$180 million from a loss of \$115 million for the year ended December 31, 2002 to a gain of \$65 million for the year ended December 31, 2003. The increase is primarily due to an increase in gains on interest rate agreements, which do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which increased from a loss

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of \$101 million for the year ended December 31, 2002 to a gain of \$57 million for the year ended December 31, 2003.

Gain (loss) on extinguishment of debt. Gain on extinguishment of debt of \$267 million for the year ended December 31, 2003 represents the gain realized on the purchase, in a non-monetary transaction, of a total of \$609 million principal amount of our outstanding convertible senior notes and \$1.3 billion principal amount of Charter Holdings' senior notes and senior discount notes in consideration for a total of \$1.6 billion principal amount of 10.25% notes due 2010 issued by our indirect subsidiary, CCH II. The gain is net of the write-off of deferred financing costs associated with the retired debt of \$27 million.

Other expense, net. Other expense increased by \$12 million from \$4 million in 2002 to \$16 million in 2003. This increase is primarily due to increases in costs associated with amending a revolving credit facility of our subsidiaries and costs associated with terminated debt transactions.

Minority interest. Minority interest represents the allocation of losses to the minority interest based on ownership of Charter Holdco, the 10% dividend on preferred membership units in our indirect subsidiary, Charter Helicon, LLC and the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and since June 6, 2003, the pro rata share of the profits of CC VIII. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.

Income tax benefit. Income tax benefit of \$110 million and \$460 million was recognized for the years ended December 31, 2003 and 2002, respectively. The income tax benefits were realized as a result of decreases in certain deferred tax liabilities related to our investment in Charter Holdco as well as decreases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

The income tax benefit recognized in the year ended December 31, 2003 was directly related to the tax losses allocated to Charter from Charter Holdco. In the second quarter of 2003, Charter started receiving tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable III Inc. and Charter Investment, Inc. in accordance with the Special Loss Allocations provided under the Charter Holdco limited liability company agreement. We do not expect to recognize a similar benefit after 2003 related to tax loss allocations received from Charter Holdco, due to limitations associated with our ability to offset future tax benefits against the remaining deferred tax liabilities. 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.

The income tax benefit recognized in the year ended December 31, 2002 was directly related to the impairment of franchises associated with the adoption of SFAS No. 142.

Cumulative effect of accounting change, net of tax. Cumulative effect of accounting change in 2002 represents the impairment charge recorded as a result of adopting SFAS No. 142.

Net loss. Net loss decreased by \$2.3 billion, or 91%, from \$2.5 billion in 2002 to \$238 million in 2003 as a result of the factors described above. The impact of the gain on sale of system, unfavorable contracts and settlements and gain on debt exchange, net of minority interest and income tax impacts, was to decrease net loss by \$168 million in 2003. The impact of the impairment of franchises and the cumulative effect of accounting change, net of minority interest and income tax impacts, was to increase net loss by \$1.6 billion in 2002.

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

Loss per common share. Loss per common share decreased by \$7.73, from \$8.55 per common share for the year ended December 31, 2002 to \$0.82 per common share for the year ended December 31, 2003 as a result of the factors described above.

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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

We have a significant level of debt. In 2006, \$50 million of our debt matures, and in 2007, an additional \$385 million matures. In 2008 and beyond, significant additional amounts will become due under our remaining long-term debt obligations.

In September 2005, Charter Holdings and its wholly owned subsidiaries, CCH I and CIH, completed the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities. Holders of Charter Holdings notes due in 2009 and 2010 exchanged \$3.4 billion principal amount of notes for \$2.9 billion principal amount of new 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011 and 2012 exchanged \$845 million principal amount of notes for \$662 million principal amount of 11% CCH I senior secured notes due 2015. In addition, holders of Charter Holdings notes due 2011 and 2012 exchanged \$2.5 billion principal amount of notes for \$2.5 billion principal amount of various series of new CIH notes. Each series of new CIH notes has the same interest rate and provisions for payment of cash interest as the series of old Charter Holdings notes for which such CIH notes were exchanged. In addition, the maturities for each series were extended three years.

Our business requires significant cash to fund debt service costs, capital expenditures and ongoing operations. We have historically funded our debt service costs, operating activities and capital requirements through cash flows from operating activities, borrowings under our credit facilities, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the nine months ended September 30, 2005, we generated \$118 million of net cash flows from operating activities after paying cash interest of \$1.2 billion. In addition, we used approximately \$815 million for purchases of property, plant and equipment. Finally, we had net cash flows used in financing activities of \$17 million. We expect that our mix of sources of funds will continue to change in the future based on overall needs relative to our cash flow and on the availability of funds under our credit facilities, our access to the debt and equity markets, the timing of possible asset sales and our ability to generate cash flows from operating activities. We continue to explore asset dispositions as one of several possible actions that we could take in the future to improve our liquidity, but we do not presently consider future asset sales as a significant source of liquidity.

In October 2005, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, entered into a senior bridge loan agreement with JPMorgan Chase Bank, N.A., Credit Suisse, Cayman Islands Branch and Deutsche Bank AG Cayman Islands Branch whereby the lenders have committed to make loans to CCO Holdings in an aggregate amount of \$600 million. CCO Holdings may, subject to certain conditions, including the satisfaction of certain of the conditions to borrowing under the credit facilities, draw upon the facility between January 2, 2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the bridge loan. In January 2006, upon the issuance of \$450 million principal amount of CCH II notes, the commitment under the bridge loan agreement was reduced to \$435 million.

We expect that cash on hand, cash flows from operating activities and the amounts available under our credit facilities and bridge loan will be adequate to meet our cash needs for 2006. Although our subsidiaries, CCH II and CCH II Capital Corp., recently sold \$450 million principal amount of 10.250% senior notes due 2010, you should not assume that we will be able to access additional sources of external liquidity on similar terms, if at all. We believe that cash flows from operating activities and amounts available under our credit facilities and bridge loan will not be sufficient to fund our operations and satisfy our interest and principal repayment obligations in 2007 and beyond. We are working with our financial advisors to address this funding requirement. However, there can be no assurance that such funding will be

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available to us. In addition, Paul G. Allen, Charter's Chairman and controlling shareholder, and his affiliates are not obligated to purchase equity from, contribute to or loan funds to us.

Credit Facilities and Covenants

Our ability to operate depends upon, among other things, our continued access to capital, including credit under the Charter Operating credit facilities. These credit facilities, along with our indentures and bridge loan, contain certain restrictive covenants, some of which require us to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from our independent auditors. As of September 30, 2005, we are in compliance with the covenants under our indentures and credit facilities and we expect to remain in compliance with those covenants and the bridge loan covenants for the next twelve months. As of September 30, 2005, our total potential borrowing availability under our credit facilities totaled \$786 million, although the actual availability at that time was only \$648 million because of limits imposed by covenant restrictions. In addition, effective January 2, 2006, we have additional borrowing availability of \$600 million as a result of the bridge loan. In January 2006, upon the issuance of \$450 million principal amount of CCH II notes, the commitment under the bridge loan agreement was reduced to \$435 million. Continued access to our credit facilities and bridge loan is subject to our remaining in compliance with the covenants of these credit facilities and bridge loan, including covenants tied to our operating performance. If our operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities, bridge loan or indentures governing our debt occurs, funding under the credit facilities and bridge loan may not be available and defaults on some or potentially all of our debt obligations could occur. An event of default under the covenants governing any of our debt instruments could result in the acceleration of our payment obligations under that debt and, under certain circumstances, in cross-defaults under our other debt obligations, which could have a material adverse effect on our consolidated financial condition and results of operations. See Risk Factors Risks Related to Significant Indebtedness of Us and Our Subsidiaries Charter Operating may not be able to access funds under its credit facilities if it fails to satisfy the covenant restrictions in its credit facilities, which could adversely affect our financial condition and our ability to conduct our business.

Specific Limitations

Our ability to make interest payments on our convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of our convertible senior notes of \$25 million and \$863 million, respectively, will depend on our ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including Charter Holdings, CIH, CCH I, CCH II, CCO Holdings and Charter Operating. During the nine months ended September 30, 2005, Charter Holdings distributed \$60 million to Charter Holdco. As of September 30, 2005, Charter Holdco was owed \$57 million in intercompany loans from its subsidiaries, which were available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$123 million of governmental securities pledged as security for the next five semi-annual interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter and Charter Holdco) for payment of principal on parent company notes are restricted by the indentures governing the CIH notes, CCH I notes, CCH II notes, CCO Holdings notes and Charter Operating notes, unless under their respective indentures there is no default and a specified leverage ratio test is met at the time of such event. For the quarter ended September 30, 2005, there was no default under any of the aforementioned indentures. However, CCO Holdings did not meet its leverage ratio test of 4.5 to 1.0 based on September 30, 2005 financial results. As a result, distributions from CCO Holdings to CCH II, CCH I, CIH, Charter Holdings, CCHC, Charter Holdco or Charter for payment of principal of the respective parent company's debt are currently restricted and will continue to be restricted until that test is met. Distributions by Charter Operating and CCO Holdings for payment of principal on parent company notes are further restricted by the covenants in the credit facilities and bridge loan, respectively. However, distributions for payment of the respective parent company's interest are permitted.

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The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, or to CCHC, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended September 30, 2005, there was no default under Charter Holdings' indentures and other specified tests were met. However, Charter Holdings did not meet the leverage ratio of 8.75 to 1.0 based on September 30, 2005 financial results. As a result, distributions from Charter Holdings to Charter, Charter Holdco or CCHC for payment of interest or principal are currently restricted and will continue to be restricted until that test is met. During this restriction period, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

Our significant amount of debt could negatively affect our ability to access additional capital in the future. No assurances can be given that we will not experience liquidity problems if we do not obtain sufficient additional financing on a timely basis as our debt becomes due or because of adverse market conditions, increased competition or other unfavorable events. If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under our credit facilities, bridge loan or through additional debt or equity financings, we would consider:

issuing equity that would significantly dilute existing shareholders;

issuing convertible debt or some other securities that may have structural or other priority over our existing notes and may also significantly dilute Charter's existing shareholders;

further reducing our expenses and capital expenditures, which may impair our ability to increase revenue;

selling assets; or

requesting waivers or amendments with respect to our credit facilities and bridge loan, the availability and terms of which would be subject to market conditions.

If the above strategies are not successful, we could be forced to restructure our obligations or seek protection under the bankruptcy laws. In addition, if we need to raise additional capital through the issuance of equity or find it necessary to engage in a recapitalization or other similar transaction, our shareholders could suffer significant dilution and our noteholders might not receive principal and interest payments to which they are contractually entitled.

Issuance of Charter Operating Notes in Exchange for Charter Holdings Notes; Repurchase of Convertible Notes

In March and June 2005, our subsidiary, Charter Operating, consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placement transactions, approximately \$333 million principal amount of its 8.375% senior second lien notes due 2014 in exchange for approximately \$346 million of the Charter Holdings 8.25% senior notes due 2007. In addition, during the nine months ended September 30, 2005, we repurchased, in private transactions, from a small number of institutional holders, a total of \$131 million principal amount of our 4.75% convertible senior notes due 2006. Approximately \$25 million principal amount of these notes remain outstanding.

Sale of Assets

In July 2005, we closed the sale of certain cable systems in Texas and West Virginia and closed the sale of an additional cable system in Nebraska in October 2005 for a total sales price of approximately \$37 million, representing a total of approximately 33,000 customers.

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In March 2004, we closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. We closed the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. The total net proceeds from the sale of all of these systems were approximately \$735 million. The proceeds were used to repay a portion of our revolving credit facilities.

Summary of Outstanding Contractual Obligations

The following table summarizes our payment obligations as of December 31, 2004 under our long-term debt and certain other contractual obligations and commitments (dollars in millions):

	Payments by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Contractual Obligations					
Long-Term Debt Principal Payments(1)	\$ 19,791	\$ 30	\$ 917	\$ 5,898	\$ 12,946
Long-Term Debt Interest Payments(2)	10,109	1,454	3,348	3,332	1,975
Payments on Interest Rate Instruments(3)	81	50	31		
Capital and Operating Lease Obligations(1)	88	23	30	17	18
Programming Minimum Commitments(4)	1,579	318	719	542	
Other(5)	272	62	97	46	67
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 31,920	\$ 1,937	\$ 5,142	\$ 9,835	\$ 15,006
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (1) The table presents maturities of long-term debt outstanding as of December 31, 2004 and does not reflect the effects of the March 2005 redemption of the CC V Holdings, LLC notes, the exchange of \$3.4 billion principal amount of Charter Holdings notes due in 2009 and 2010 and \$845 million principal amount of Charter Holdings notes due 2011 and 2012 for \$3.5 billion principal amount of new CCH I notes due 2015 or the exchange of \$2.5 billion principal amount of Charter Holdings notes due 2011 and 2012 for \$2.5 billion principal amount of new CIH notes with maturities extended three years. Refer to Description of Certain Indebtedness and Notes 9 and 23 to our December 31, 2004 consolidated financial statements included in this prospectus 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, 2004 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, 2004. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.
- (3) Represents amounts we will be required to pay under our interest rate hedge agreements estimated using the average implied forward LIBOR rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2004.
- (4) We pay programming fees under multi-year contracts ranging generally from three to six 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 statements of operations were \$1.3 billion, \$1.2 billion and \$1.2 billion for the years ended December 31, 2004, 2003 and 2002, 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.

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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 also 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 the years ended December 31, 2004, 2003 and 2002, was \$43 million, \$40 million and \$41 million, respectively.

We pay franchise fees under multi-year franchise agreements based on a percentage of revenues earned 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 statements of operations were \$164 million, \$162 million and \$160 million for the years ended December 31, 2004, 2003 and 2002, respectively.

We also have \$166 million in letters of credit, primarily to our various worker's compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount we may borrow under our credit facilities.

Historical Operating, Financing and Investing Activities

We held \$22 million in cash and cash equivalents as of September 30, 2005 compared to \$650 million as of December 31, 2004. For the nine months ended September 30, 2005, we generated \$118 million of net cash flows from operating activities after paying cash interest of \$1.2 billion. In addition, we used approximately \$815 million for purchases of property, plant and equipment. Finally, we had net cash flows used in financing activities of \$17 million.

Operating Activities. Net cash provided by operating activities decreased \$265 million, or 69%, from \$383 million for the nine months ended September 30, 2004 to \$118 million for the nine months ended September 30, 2005. For the nine months ended September 30, 2005, net cash provided by operating activities decreased primarily as a result of changes in operating assets and liabilities that used \$144 million more cash during the nine months ended September 30, 2005 than the corresponding period in 2004, combined with an increase in cash interest expense of \$155 million over the corresponding prior period partially offset by an increase in revenue over cash costs. The change in operating assets and liabilities is primarily the result of the finalization of the class action litigation settlement in the third quarter of 2005.

Net cash provided by operating activities decreased \$293 million, or 38%, from \$765 million for the year ended December 31, 2003 to \$472 million for the year ended December 31, 2004. For the year ended December 31, 2004, net cash provided by operating activities decreased primarily as a result of changes in operating assets and liabilities that provided \$83 million less cash during the year ended December 31, 2004 than the corresponding period in 2003 and an increase in cash interest expense of \$203 million over the corresponding prior period. The change in operating assets and liabilities is primarily the result of the benefit in the year ended December 31, 2003 from collection of receivables from programmers related to network launches, while accounts receivable remained essentially flat in the year ended December 31, 2004.

Net cash provided by operating activities for the years ended December 31, 2003 and 2002 was \$765 million and \$748 million, respectively. Operating activities provided \$17 million more cash in 2003 than in 2002 primarily due to an increase in revenue over cash costs year over year partially offset by changes in operating assets and liabilities that provided \$82 million less cash in 2003 than in 2002.

Investing Activities. Net cash used by investing activities for the nine months ended September 30, 2005 was \$729 million and net cash provided by investing activities for the nine months ended September 30, 2004 was \$50 million. Investing activities used \$779 million more cash during the nine months ended September 30, 2005 than the corresponding period in 2004 primarily as a result of

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increased cash used for capital expenditures in 2005 coupled with proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC in 2004.

Net cash used in investing activities for the year ended December 31, 2004 and 2003 was \$243 million and \$817 million, respectively. Investing activities used \$574 million less cash during the year ended December 31, 2004 than the corresponding period in 2003 primarily as a result of cash provided by proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC and increased cash used for capital expenditures.

Net cash used in investing activities for the years ended December 31, 2003 and 2002 was \$817 million and \$2.4 billion, respectively. Investing activities used \$1.5 billion less cash in 2003 than in 2002 primarily as a result of reductions in capital expenditures and acquisitions. Purchases of property, plant and equipment used \$1.3 billion less cash in 2003 than in 2002 as a result of reduced rebuild and upgrade activities and our efforts to reduce capital expenditures. Payments for acquisitions used \$139 million less cash in 2003 than in 2002.

Financing Activities. Net cash used in financing activities decreased \$414 million from \$431 million for the nine months ended September 30, 2004 to \$17 million for the nine months ended September 30, 2005. The decrease in cash used during the nine months ended September 30, 2005 as compared to the corresponding period in 2004, was primarily the result of a decrease in net repayments of long-term debt and in payments for debt issuance costs.

Net cash provided by financing activities for the year ended December 31, 2004 was \$294 million and the net cash used in financing activities for the year ended December 31, 2003 was \$142 million. The increase in cash provided during the year ended December 31, 2004, as compared to the corresponding period in 2003, was primarily the result of an increase in borrowings of long-term debt and proceeds from issuance of debt reduced by repayments of long-term debt.

Net cash used in financing activities was \$142 million for the year ended December 31, 2003, whereas net cash provided by financing activities for the year ended December 31, 2002 was \$1.9 billion. Financing activities provided \$2.1 billion less cash in 2003 than in 2002. The decrease in cash provided in 2003 compared to 2002 was primarily due to a decrease in borrowings of long-term debt.

Capital Expenditures

We have significant ongoing capital expenditure requirements. However, we experienced a significant decline in such requirements starting in 2003. This decline was primarily the result of a substantial reduction in rebuild costs as our network had been largely upgraded and rebuilt in prior years. Capital expenditures were \$815 million, \$639 million, \$924 million, \$854 million and \$2.2 billion for the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, respectively. The majority of the capital expenditures in 2004 and 2003 related to our customer premise equipment costs. The majority of the capital expenditures in 2002 related to our rebuild and upgrade program and purchases of customer premise equipment. Capital expenditures for the nine months ended September 30, 2005 increased as compared to the nine months ended September 30, 2004 as a result of increased spending on support capital related to our investment in service improvements and scalable infrastructure related to telephone services, VOD and digital simulcast. See the table below for more details.

Upgrading our cable systems has enabled us to offer digital television, high-speed Internet services, VOD, interactive services, additional channels and tiers, expanded pay-per-view options and telephone services to a larger customer base. Our capital expenditures are funded primarily from cash flows from operating activities, the issuance of debt and borrowings under credit facilities. In addition, during the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, our liabilities related to capital expenditures increased \$36 million and decreased \$23 million, \$43 million, \$33 million and \$55 million, respectively.

During 2005, we expect capital expenditures to be approximately \$1.0 billion to \$1.1 billion. The increase in capital expenditures for 2005 compared to 2004 is the result of expected increases in telephone

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services, deployment of advanced digital set-top terminals and capital expenditures to replace plant and equipment destroyed by hurricanes Katrina and Rita. We expect that the nature of these expenditures will continue to be composed primarily of purchases of customer premise equipment, support capital and for scalable infrastructure costs. We expect to fund capital expenditures for 2005 primarily from cash flows from operating activities and borrowings under our credit facilities.

We have adopted capital expenditure disclosure guidance, which was developed by eleven publicly traded cable system operators, including Charter, with the support of the National Cable & Telecommunications Association (NCTA). The disclosure is intended to provide more consistency in the reporting of operating statistics in capital expenditures and customers among peer companies in the cable industry. These disclosure guidelines are not required disclosure under GAAP, nor do they impact our accounting for capital expenditures under GAAP.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002 (dollars in millions):

	Nine Months Ended September 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
Customer premise equipment(a)	\$ 322	\$ 345	\$ 451	\$ 380	\$ 748
Scalable infrastructure(b)	138	55	108	67	261
Line extensions(c)	114	94	131	131	101
Upgrade/ Rebuild(d)	35	28	49	132	777
Support capital(e)	206	117	185	144	280
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital expenditures(f)	\$ 815	\$ 639	\$ 924	\$ 854	\$ 2,167
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (a) Customer premise equipment includes costs incurred at the customer residence to secure new customers, revenue units and additional bandwidth revenues. It also includes customer installation costs in accordance with SFAS 51 and customer premise equipment (e.g., set-top terminals and cable modems, etc.).
- (b) Scalable infrastructure includes costs, not related to customer premise equipment or our network, to secure growth of new customers, revenue units and additional bandwidth revenues or provide service enhancements (e.g., headend equipment).
- (c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).
- (d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.
- (e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).
- (f) Represents all capital expenditures made during the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, respectively.

Interest Rate Risk

We are exposed to various market risks, including fluctuations in interest rates. We use interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of our subsidiaries. Our policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, we agree to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon

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notional principal amount. Interest rate collar agreements are used to limit our exposure to, and to derive benefits from, interest rate fluctuations on variable rate debt to within a certain range of rates. Interest rate risk management agreements are not held or issued for speculative or trading purposes.

As of September 30, 2005 and December 31, 2004, our long-term debt totaled approximately \$19.1 billion and \$19.5 billion, respectively. This debt was comprised of approximately \$5.5 billion and \$5.5 billion of credit facility debt, \$12.7 billion and \$13.0 billion accreted value of high-yield notes and \$866 million and \$990 million accreted value of convertible senior notes, respectively.

As of September 30, 2005 and December 31, 2004, the weighted average interest rate on the credit facility debt was approximately 7.5% and 6.8%, respectively, the weighted average interest rate on the high-yield notes was approximately 10.2% and 9.9%, respectively, and the weighted average interest rate on the convertible senior notes was approximately 5.8% and 5.7%, respectively, resulting in a blended weighted average interest rate of 9.2% and 8.8%, respectively. The interest rate on approximately 80% and 83% of the total principal amount of our debt was effectively fixed including the effects of our interest rate hedge agreements as of September 30, 2005 and December 31, 2004, respectively. The fair value of our high-yield notes was \$11.6 billion and \$12.2 billion at September 30, 2005 and December 31, 2004, respectively. The fair value of our convertible senior notes was \$718 million and \$1.1 billion at September 30, 2005 and December 31, 2004, respectively. The fair value of our credit facilities was \$5.5 billion and \$5.5 billion at September 30, 2005 and December 31, 2004, respectively. The fair value of high-yield and convertible notes is based on quoted market prices and the fair value of the credit facilities is based on dealer quotations.

We do not hold or issue derivative instruments for trading purposes. We do, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, net gain (loss) on derivative instruments and hedging activities includes gains of \$2 million, \$3 million, \$4 million and \$8 million and losses of \$14 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, a gain of \$14 million, \$31 million, \$42 million and \$48 million and losses of \$65 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as gain (loss) on derivative instruments and hedging activities in our statements of operations. For the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002, net gain (loss) on derivative instruments and hedging activities includes gains of \$41 million, \$45 million, \$65 million and \$57 million and losses of \$101 million, respectively, for interest rate derivative instruments not designated as hedges.

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The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of September 30, 2005 (dollars in millions):

	2005	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value at September 30, 2005
Debt									
Fixed Rate	\$	\$ 25	\$ 105	\$ 114	\$ 1,547	\$ 1,693	\$ 9,576	\$ 13,060	\$ 11,802
Average Interest Rate		4.75%	8.25%	10.00%	7.48%	10.29%	10.44%	10.04%	
Variable Rate	\$ 7	\$ 30	\$ 280	\$ 629	\$ 779	\$ 1,536	\$ 2,802	\$ 6,063	\$ 6,059
Average Interest Rate	6.81%	7.88%	7.73%	7.78%	7.88%	8.33%	8.20%	8.12%	
Interest Rate Instruments									
Variable to Fixed Swaps	\$ 500	\$ 873	\$ 775	\$	\$	\$	\$	\$ 2,148	\$ 13
Average Pay Rate	7.49%	8.23%	8.04%					7.99%	
Average Receive Rate	7.17%	7.82%	7.83%					7.67%	

The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts. The estimated fair value approximates the costs (proceeds) to settle the outstanding contracts. Interest rates on variable debt are estimated using the average implied forward London Interbank Offering Rate (LIBOR) rates for the year of maturity based on the yield curve in effect at September 30, 2005.

At September 30, 2005 and December 31, 2004, we had outstanding \$2.1 billion and \$2.7 billion and \$20 million and \$20 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

Certain provisions of Charter's 5.875% convertible senior notes issued in November 2004 were considered embedded derivatives for accounting purposes and were required to be accounted for separately from the convertible senior notes. In accordance with SFAS No. 133, these derivatives are marked to market with gains or losses recorded in interest expense on our condensed consolidated statement of operations. For the nine months ended September 30, 2005, we recognized gains of \$26 million, which reduced interest expense related to these derivatives. At September 30, 2005 and December 31, 2004, \$2 million and \$10 million, respectively, is recorded in accounts payable and accrued expenses relating to the short-term portion of these derivatives and \$3 million and \$21 million, respectively, is recorded in other long-term liabilities related to the long-term portion.

Recently Issued Accounting Standards

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 153, *Exchanges of Non-monetary Assets - An Amendment of APB No. 29*. This statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance - that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. We adopted this pronouncement effective April 1, 2005. The exchange transaction discussed in Note 3 to our consolidated financial statements included elsewhere in this prospectus, was accounted for under this standard.

In December 2004, the FASB issued the revised SFAS No. 123, *Share-Based Payment*, which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. This statement will be effective for us beginning January 1, 2006. Because we adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, we do not expect this revised standard to have a material impact on our financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. This interpretation clarifies that the term - conditional asset retirement obligation

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as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This pronouncement is effective for fiscal years ending after December 15, 2005. The adoption of this interpretation is not expected to 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.

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BUSINESS

Overview

We are a broadband communications company operating in the United States, with approximately 6.17 million customers at September 30, 2005. Through our broadband network of coaxial and fiber optic cable, we offer our customers traditional cable video programming (analog and digital, which we refer to as video service), high-speed cable Internet access, advanced broadband cable services (such as video on demand (VOD), high definition television service and interactive television) and, in some of our markets, we offer telephone service. See Business Products and Services for further description of these terms, including customers.

At September 30, 2005, we served approximately 5.91 million analog video customers, of which approximately 2.75 million were also digital video customers. We also served approximately 2.12 million high-speed Internet customers (including approximately 244,000 who received only high-speed Internet services). We also provided telephone service to approximately 89,900 customers as of that date.

At September 30, 2005, our investment in cable properties, long-term debt, accumulated deficit and total shareholders deficit were \$15.8 billion, \$19.1 billion, \$9.8 billion and \$5.0 billion, respectively. Our working capital deficit was \$882 million at September 30, 2005. For the nine months ended September 30, 2005, our revenues, net loss applicable to common stock and loss per common share were approximately \$3.9 billion, \$634 million and \$2.06, respectively.

We have a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the interest costs we incur because of our high level of debt, the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties, and the impairment of our franchise intangibles. We expect that these expenses (other than impairment of franchises) will remain significant, and we therefore expect to continue to report net losses for the foreseeable future. Additionally, because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in the first quarter of 2004, we absorb substantially all future losses before income taxes that otherwise would have been allocated to minority interest. This resulted in an additional \$2.4 billion and \$301 million of net losses for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively. Under our existing capital structure, future losses will continue to be absorbed by Charter.

Charter was organized as a Delaware corporation in 1999 and completed an initial public offering of its Class A common stock in November 1999. Charter is a holding company whose principal assets are an approximate 48% equity interest and a 100% voting interest in Charter Holdco, the indirect parent of Charter Holdings. Charter also holds certain preferred equity and indebtedness of Charter Holdco that mirror the terms of securities issued by Charter. Charter's only business is to act as the sole manager of Charter Holdco and its subsidiaries. As sole manager, Charter controls the affairs of Charter Holdco and its subsidiaries. Certain of our subsidiaries commenced operations under the Charter Communications name in 1994, and our growth to date has been primarily due to acquisitions and business combinations, most notably acquisitions completed from 1999 through 2001, pursuant to which we acquired a total of approximately 5.5 million customers. We do not expect to make any significant acquisitions in the foreseeable future, but plan to evaluate opportunities to consolidate our operations through exchanges of cable systems with other cable operators, as they arise. We may also sell certain assets from time to time. Paul G. Allen owns approximately 49% of Charter Holdco through affiliated entities. His membership units are convertible at any time for shares of our Class A common stock on a one-for-one basis. Paul G. Allen controls Charter with an as-converted common equity interest of approximately 54% and a beneficial voting control interest of approximately 91% as of September 30, 2005.

Business Strategy

Our principal financial goal is to maximize our return on invested capital. To do so, we will focus on increasing revenues, growing our customer base, improving customer retention and enhancing customer

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satisfaction by providing reliable, high-quality service offerings, superior customer service and attractive bundled offerings.

Specifically, in the near term, we are focusing on:

improving the overall value to our customers of our service offerings, relative to pricing;

developing more sophisticated customer care capabilities through investment in our customer care and marketing infrastructure, including targeted marketing capabilities;

executing growth strategies for new services, including digital simulcast, VOD, telephone, and digital video recorder service (DVR);

managing our operating costs by exercising discipline in capital and operational spending; and

identifying opportunities to continue to improve our balance sheet and liquidity.

We have begun an internal operational improvement initiative aimed at helping us gain new customers and retain existing customers, which is focused on customer care, technical operations and sales. We intend to increase efforts to focus management attention on instilling a customer service oriented culture throughout the company and to give those areas of our operations increased priority of resources for staffing levels, training budgets and financial incentives for employee performance in those areas.

We believe that our high-speed Internet service will continue to provide a substantial portion of our revenue growth in the near future. We also plan to continue to expand our marketing of high-speed Internet service to the business community, which we believe has shown an increasing interest in high-speed Internet service and private network services. Additionally, we plan to continue to prepare additional markets for telephone launches in 2006.

We believe we offer our customers an excellent choice of services through a variety of bundled packages, particularly with respect to our digital video and high-speed Internet services as well as telephone in certain markets. Our digital platform enables us to offer a significant number and variety of channels, and we offer customers the opportunity to choose among groups of channel offerings, including premium channels, and to combine selected programming with other services such as high-speed Internet, high definition television (in selected markets) and VOD (in selected markets).

We continue to pursue opportunities to improve our liquidity. Our efforts in this regard resulted in the completion of a number of transactions since 2004, as follows:

the January 2006 sale by our subsidiaries, CCH II and CCH II Capital Corp., of an additional \$450 million principal amount of their 10.250% senior notes due 2010;

the October 2005 entry by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, into a \$600 million senior bridge loan agreement with various lenders (which was reduced to \$435 million as a result of the issuance of CCH II notes);

the September 2005 exchange by Charter Holdings, CCH I and CIH of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;

the August 2005 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of \$300 million of 8 3/4% senior notes due 2013;

the March and June 2005 issuance of \$333 million of Charter Operating notes in exchange for \$346 million of Charter Holdings notes;

the March and June 2005 repurchase of \$131 million of our 4.75% convertible senior notes due 2006 leaving \$25 million in principal amount outstanding;

the March 2005 redemption of all of CC V Holdings, LLC s outstanding 11.875% senior discount notes due 2008 at a total cost of \$122 million;

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the December 2004 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp. of \$550 million of senior floating rate notes due 2010;

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the November 2004 sale of \$862.5 million of 5.875% convertible senior notes due 2009 and the December 2004 redemption of all of our outstanding 5.75% convertible senior notes due 2005 (\$588 million principal amount);

the April 2004 sale of \$1.5 billion of senior second lien notes by our subsidiary, Charter Operating, together with the concurrent refinancing of its credit facilities; and

the sale in the first half of 2004 of non-core cable systems for \$735 million, the proceeds of which were used to reduce indebtedness.

Charter Background

In 1998, Mr. Allen acquired approximately 99% of the non-voting economic interests in Marcus Cable, which owned various operating subsidiaries that served approximately 1.1 million customers. Thereafter, in December 1998, Mr. Allen acquired, through a series of transactions, approximately 94% of the equity interests of Charter Investment, Inc., which controlled various operating subsidiaries that serviced approximately 1.2 million customers.

In March and April of 1999, Mr. Allen acquired the remaining interests in Marcus Cable and, through a series of transactions, combined the Marcus companies with the Charter companies. As a consequence, the former operating subsidiaries of Marcus Cable and all of the cable systems they owned came under the ownership of Charter Holdings.

In July 1999, Charter was formed as a wholly owned subsidiary of Charter Investment, Inc., and in November 1999, Charter completed its initial public offering.

During 1999 and 2000, Charter completed 16 cable system acquisitions for a total purchase price of \$14.7 billion including \$9.1 billion in cash, \$3.3 billion of assumed debt, \$1.9 billion of equity interests issued and Charter cable systems valued at \$420 million. These transactions resulted in a net total increase of approximately 3.9 million customers as of their respective dates of acquisition.

In February 2001, Charter entered into several agreements with AT&T Broadband, LLC involving several strategic cable system transactions that resulted in a net addition of customers for our systems. In the AT&T transactions, which closed in June 2001, Charter acquired cable systems from AT&T Broadband serving approximately 551,000 customers for a total of \$1.74 billion consisting of \$1.71 billion in cash and a Charter cable system valued at \$25 million. In 2001, Charter also acquired all of the outstanding stock of Cable USA, Inc. and the assets of certain of its related affiliates in exchange for consideration valued at \$100 million (consisting of Series A preferred stock with a face amount of \$55 million and the remainder in cash and assumed debt).

During 2002, Charter purchased additional cable systems in Illinois serving approximately 28,000 customers, for a total cash purchase price of approximately \$63 million.

For additional information regarding Charter's acquisitions see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions.

In 2003 and 2004, Charter sold certain non-core cable systems serving approximately 264,100 customers in Florida, Pennsylvania, Maryland, Delaware, West Virginia and Washington for an aggregate consideration of approximately \$826 million.

Products and Services

We offer our customers traditional cable video programming (analog and digital video) as well as high-speed Internet services and in some areas advanced broadband services such as high definition television, VOD and interactive television. We sell our video programming and high-speed Internet services on a subscription basis, with prices and related charges, that vary primarily based on the types of service selected, whether the services are sold as a bundle versus on an à la carte basis, and the equipment necessary to receive the services, with some variation in prices depending on geographic location. In addition, we offer telephone service to a limited number of customers.

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The following table summarizes our customer statistics for analog and digital video, residential high-speed Internet, and residential telephone as of September 30, 2005 and 2004:

	Approximate as of	
	September 30, 2005(a)	September 30, 2004(a)
Cable Video Services:		
Analog Video:		
Residential (non-bulk) analog video customers(b)	5,636,100	5,825,000
Multi-dwelling (bulk) and commercial unit customers(c)	270,200	249,600
	<hr/>	<hr/>
Analog video customers(b)(c)	5,906,300	6,074,600
	<hr/>	<hr/>
Digital Video:		
Digital video customers(d)	2,749,400	2,688,900
Non-Video Cable Services:		
Residential high-speed Internet customers(e)	2,120,000	1,819,900
Residential telephone customers(f)	89,900	40,200

The September 30, 2005 statistics presented above reflect the minimal loss of customers related to hurricanes Katrina and Rita. In the fourth quarter of 2005, we had approximately 8,200 net losses of analog video customers related to systems impacted by hurricanes Katrina and Rita. We are currently estimating additional net analog video customer losses of approximately 10,000 to 15,000 related to hurricanes Katrina and Rita.

After giving effect to the sale of certain non-strategic cable systems in July 2005, September 30, 2004 analog video customers, digital video customers and high-speed Internet customers would have been 6,046,900, 2,677,600 and 1,819,300, respectively.

- (a) Customers include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts (such as our employees). In addition, at September 30, 2005 and 2004, customers include approximately 44,400 and 46,000 persons whose accounts were over 60 days past due in payment, approximately 9,800 and 5,500 persons whose accounts were over 90 days past due in payment, and approximately 6,000 and 2,000 of which were over 120 days past due in payment, respectively.
- (b) Residential (non-bulk) analog video customers include all customers who receive video services, except for complimentary accounts (such as our employees).
- (c) Included within video customers are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit (EBU) basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. The EBU method of estimating analog video customers is consistent with the methodology used in determining costs paid to programmers and has been consistently applied year over year. As we increase our effective analog prices to residential customers without a corresponding increase in the prices charged to commercial service or multi-dwelling customers, our EBU count will decline even if there is no real loss in commercial service or multi-dwelling customers.
- (d) Digital video customers include all households that have one or more digital set-top terminals. Included in digital video customers on September 30, 2005 and 2004 are approximately 8,900 and 10,700 customers, respectively, that receive digital video service directly through satellite transmission.
- (e) Residential high-speed Internet customers represent those customers who subscribe to our high-speed Internet service. At September 30, 2005 and 2004, approximately 1,876,000 and 1,614,400 of these high-speed Internet customers, respectively, also receive video services from us and are included within our video statistics above.
- (f) Residential telephone customers include all households receiving telephone service.

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Video Services

Our video service offerings include the following:

Basic Analog Video. All of our video customers receive a package of basic programming, which generally consists of local broadcast television, local community programming, including governmental and public access, and limited satellite-delivered or non-broadcast channels, such as weather, shopping and religious services. Our basic channel line-up generally has between 15 and 30 channels.

Expanded Basic Video. This expanded programming level includes a package of satellite-delivered or non-broadcast channels and generally has between 30 and 50 channels in addition to the basic channel line-up.

Premium Channels. These channels provide commercial-free movies, sports and other special event entertainment programming. Although we offer subscriptions to premium channels on an individual basis, we offer an increasing number of premium channel packages and we offer premium channels with our advanced services.

Pay-Per-View. These channels allow customers to pay on a per event basis to view a single showing of a recently released movie, a one-time special sporting event, music concert or similar event on a commercial-free basis.

Digital Video. We offer digital video service to our customers in several different service combination packages. All of our digital packages include a digital set-top terminal, an interactive electronic programming guide, an expanded menu of pay-per-view channels and the option to also receive digital packages which range from 4 to 30 additional video channels. We also offer our customers certain digital packages with one or more premium channels that give customers access to several different versions of the same premium channel. Some digital tier packages focus on the interests of a particular customer demographic and emphasize, for example, sports, movies, family or ethnic programming. In addition to video programming, digital video service enables customers to receive our advanced services such as VOD and high definition television. Other digital packages bundle digital television with our advanced services, such as high-speed Internet services.

Video On Demand and Subscription Video on Demand. We offer VOD service, which allows customers to access hundreds of movies and other programming at any time with digital picture quality. In some systems we also offer subscription VOD (SVOD) for a monthly fee or included in a digital tier premium channel subscription.

High Definition Television. High definition television offers our digital customers video programming at a higher resolution than the standard analog or digital video image.

Digital Video Recorder. DVR service enables customers to digitally record programming and to pause and rewind live programming.

High-Speed Internet Services

We offer high-speed Internet services to our residential and commercial customers primarily via cable modems attached to personal computers. We generally offer our high-speed Internet service as Charter High-Speed Internet™. We also offer traditional dial-up Internet access in a very limited number of our markets.

We ended the third quarter of 2005 with 19% penetration of high-speed Internet homes passed, an increase from 17% penetration of high-speed Internet homes passed at September 30, 2004. This gave us a percentage increase in high-speed Internet customers of 16% and an increase in high-speed Internet revenues of 25% in the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004.

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We continue to deploy voice communications services using VoIP to transmit digital voice signals over our systems. At September 30, 2005, our telephone service was available to approximately 2.4 million homes and we were marketing to approximately 78% of those homes. We will continue to prepare additional markets for telephone launches in 2006.

Commercial Services

We offer integrated network solutions to commercial and institutional customers. These solutions include high-speed Internet and video services. In addition, we offer high-speed Internet services to small businesses.

Sale of Advertising

We receive revenues from the sale of local advertising on satellite-delivered networks such as MTV[®], CNN[®] and ESPN[®]. In any particular market, we generally insert local advertising on up to 39 channels. Our system rebuilds have increased the number of available channels on which we are able to insert local advertising. We also provide cross-channel advertising to some programmers.

From time to time, certain of our vendors, including equipment vendors, have purchased advertising from us. For the nine months ended September 30, 2005 and the years ending December 31, 2004, 2003 and 2002, we had advertising revenues from vendors of approximately \$12 million, \$16 million, \$15 million and \$79 million, respectively. These revenues resulted from purchases at market rates pursuant to binding agreements.

Pricing of Our Products and Services

Our revenues are derived principally from the monthly fees our customers pay for the services we offer. A one-time installation fee, which is sometimes waived or discounted during certain promotional periods, is charged to new customers. The prices we charge vary based on the level of service the customer chooses and the geographic market. Most of our pricing is reviewed and adjusted on an annual basis.

In accordance with the Federal Communications Commission's rules, the prices we charge for cable-related equipment, such as set-top terminals and remote control devices, and for installation services are based on actual costs plus a permitted rate of return.

Although our cable service offerings vary across the markets we serve because of various factors including competition and regulatory factors, our services, when offered on a stand-alone basis, are typically offered at monthly price ranges, excluding franchise fees and other taxes, as follows:

Service	Price Range as of September 30, 2005		
Analog video packages	\$ 7.00	-	\$ 54.00
Premium channels	\$10.00	-	\$ 15.00
Pay-per-view events	\$ 2.99	-	\$179.00
Digital video packages (including high-speed Internet service for higher tiers)	\$34.00	-	\$113.00
High-speed Internet service	\$21.95	-	\$ 59.99
Video on demand (per selection)	\$ 0.99	-	\$ 29.99
High definition television	\$ 3.99	-	\$ 9.99
Digital video recorder	\$ 6.99	-	\$ 14.99

In addition, from time to time we offer free service or reduced-price service during promotional periods in order to attract new customers.

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The following table sets forth the technological capacity of our systems as of September 30, 2005 based on a percentage of homes passed:

Less than 550 Megahertz	550 Megahertz to 660 Megahertz	750 Megahertz	870 Megahertz	Two-way Capability	Two-way Enabled
8%	5%	42%	45%	92%	87%

As a result of the upgrade of our systems over the past several years, approximately 92% of the homes passed by our systems have bandwidth of 550 megahertz or greater. This bandwidth capacity enables us to offer digital television, high-speed Internet services and other advanced services. It also enables us to offer up to 82 analog channels, and even more channels when our bandwidth is used for digital signal transmissions. Our increased bandwidth also permits two-way communication for Internet access, interactive services, and potentially, telephone services.

As part of our systems upgrade and partly as a result of system sales, we reduced the number of headends that serve our customers from 1,138 at January 1, 2001 to 732 at September 30, 2005. Because headends are the control centers of a cable system, where incoming signals are amplified, converted, processed and combined for transmission to the customer, reducing the number of headends reduces related equipment, service personnel and maintenance expenditures. We believe that the headend consolidation, together with our other upgrades, allows us to provide enhanced picture quality and greater system reliability. As a result of the upgrade, approximately 86% of our customers were served by headends serving at least 10,000 customers as of September 30, 2005.

As of September 30, 2005, our cable systems consisted of approximately 221,000 strand miles, including approximately 57,700 strand miles of fiber optic cable, passing approximately 12.3 million households and serving approximately 6.2 million customers.

We adopted the hybrid fiber coaxial cable (HFC) architecture as the standard for our systems upgrades. HFC architecture combines the use of fiber optic cable with coaxial cable. Fiber optic cable is a communication medium that uses glass fibers to transmit signals over long distances with minimum signal loss or distortion. Fiber optic cable has excellent broadband frequency characteristics, noise immunity and physical durability and can carry hundreds of video, data and voice channels over extended distances. Coaxial cable is less expensive and requires a more extensive signal amplification in order to obtain the desired transmission levels for delivering channels. In most systems, we deliver our signals via fiber optic cable from the headend to a group of nodes, and use coaxial cable to deliver the signal from individual nodes to the homes passed served by that node. Our system design enables a maximum of 500 homes passed to be served by a single node. Currently, our average node serves approximately 385 homes passed. Our system design provides for six strands of fiber to each node, with two strands activated and four strands reserved for spares and future services. The design also provides reserve capacity for the addition of future services.

The primary advantages of HFC architecture over traditional coaxial-only cable networks include:

increased bandwidth capacity, for more channels and other services;

dedicated bandwidth for two-way services, which avoids reverse signal interference problems that can occur with two-way communication capability; and

improved picture quality and service reliability.

We currently maintain a national network operations center to monitor our data networks and to further our strategy of providing high quality service. Centralized monitoring is increasingly important as we increase the number of high-speed Internet customers utilizing two-way high-speed Internet service. Our local dispatch centers focus primarily on monitoring the HFC plant.

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Management of Our Systems

Many of the functions associated with our financial management are centralized, including accounting, billing, finance and acquisitions, payroll, accounts payable and benefits administration, information system design and support, internal audit, purchasing, marketing, programming contract administration and Internet service, network and circuits administration. We operate with four divisions. Each division is supported by operational, financial, marketing and engineering functions.

Customer Care

We have 36 customer service locations, including 14 divisional contact centers that serve approximately 97% of our customers. Our customer care centers are managed divisionally by a Vice President of Customer Care and are supported by a corporate care team, which oversees and supports deployment and execution of care strategies and initiatives on a company-wide basis. This reflects a substantial consolidation of our customer care function from over 300 service centers in 2001. We believe that this consolidation will allow us to improve the consistency of our service delivery and customer satisfaction by reducing or eliminating the logistical challenges and poor economies of scale inherent in maintaining and supervising a larger number of separately managed service centers.

Specifically, through this consolidation, we are now able to service our customers 24 hours a day, seven days a week and utilize technologically advanced equipment that we believe enhances interactions with our customers through more intelligent call routing, data management, and forecasting and scheduling capabilities. We believe this consolidation also allows us to more effectively provide our customer care specialists with ongoing training intended to improve complaint resolution, equipment troubleshooting, sales of new and additional services, and customer retention.

We believe that, despite our consolidation, we have not yet sufficiently improved in the area of customer care, and that this lack of improvement has in part led to a continued net loss of customers. Accordingly, we have begun an internal operational improvement initiative aimed at helping us gain new customers and retain existing customers, which is focused on customer care, among other areas. We have and we intend to continue to increase our efforts to focus management attention on instilling a customer service oriented culture throughout the company and to give those areas of our operations increased priority of resources for staffing levels, training budgets and financial incentives for employee performance in those areas.

In a further effort to better serve our customers, we have also entered into outsource partnership agreements with two key outsource providers. We believe the establishment of these relationships expands our ability to achieve our service objectives and increases our ability to support marketing activities by providing additional capacity available to support customer inquiries.

We also utilize our website to enhance customer care by enabling customers to view and pay their bills online, obtain useful information and perform various equipment troubleshooting procedures.

Sales and Marketing

In the third quarter of 2004, Charter shifted primary responsibility for implementing sales and marketing strategies to the divisional and system level, with a single corporate team to ensure compliance with guidelines established by the corporate marketing department designed to promote national branding consistency. Our marketing infrastructure is intended to promote interaction, information flow and sharing of best practices between our corporate office and our field offices, which make strategic decisions as to when and how marketing programs will be implemented.

Due to our focus in 2003 on certain other operational matters and due to certain financial constraints, we reduced spending in 2003 on marketing our products and services. Marketing expenditures increased 14% for the year ended December 31, 2004 to \$122 million. Marketing expenditures increased 5% to \$104 million for the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. We expect marketing expenditures to continue to increase for the remainder of 2005.

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We monitor government regulation, customer perception, competition, pricing and product preferences, among other factors, to increase our responsiveness to our customers. Our coordinated marketing strategies include door-to-door solicitation, telemarketing, media advertising, e-marketing, direct mail solicitation and retail locations. In 2004, we increased our focus on marketing and selling our services through consumer electronics retailers and other retailers that sell televisions or cable modems.

In January 2004, we introduced the first national branding campaign in Charter's history. The "Get Hooked" branding initiative was a key focal point of our national marketing campaigns in 2004, with the aim of promoting deeper market penetration and increased revenue per customer. In 2004, our corporate team produced eight national "Get Hooked" marketing campaigns designed to:

Promote awareness and loyalty among existing customers and attract new customers;

Announce the availability of our advanced services as we roll them out in our systems;

Promote our advanced services (such as DVR, high definition television, telephone, VOD and SVOD) with the goal that our customers will view their cable connection as one-stop shopping for video, voice, high-speed Internet and interactive services; and

Promote our bundling of digital video and high-speed Internet services and pricing strategies.

Programming

General

We believe that offering a wide variety of programming is an important factor that influences a customer's decision to subscribe to and retain our cable services. We rely on market research, customer demographics and local programming preferences to determine channel offerings in each of our markets. We obtain basic and premium programming from a number of suppliers, usually pursuant to a written contract. Our programming contracts generally continue for a fixed period of time, usually from three to ten years, and are subject to negotiated renewal. Some program suppliers offer financial incentives to support the launch of a channel and ongoing marketing support or launch fees. We also negotiate volume discount pricing structures. Programming costs are usually payable each month based on calculations performed by us and are subject to adjustment based on the results of periodic audits by the programmers.

Costs

Programming tends to be made available to us for a license fee, which is generally paid based on the number of customers to whom we make such programming available. Such license fees may include volume discounts available for higher numbers of customers, as well as discounts for channel placement or service penetration. Some channels are available without cost to us for a limited period of time, after which we pay for the programming. For home shopping channels, we receive a percentage of the amount our customers spend on home shopping purchases.

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases. We expect them to continue to increase due to a variety of factors, including annual increases imposed by programmers and additional programming being provided to customers as a result of system rebuilds and bandwidth reallocation, both of which increase channel capacity.

In particular, sports programming costs have increased significantly over the past several years. In addition, contracts to purchase sports programming sometimes contain built-in cost increases for programming added during the term of the contract.

Historically, we have absorbed increased programming costs in large part through increased prices to our customers. However, with the impact of competition and other marketplace factors, there is no assurance that we will be able to continue to do so. In order to maintain or mitigate reductions of margins despite increasing programming costs, we plan to continue to migrate certain program services from our analog level of service to our digital tiers. As we migrate our programming to our digital tier packages, certain programming that was previously available to all of our customers via an analog signal, may be part of an elective digital tier package. As a result, the customer base upon which we pay programming fees

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will proportionately decrease, and the overall expense for providing that service would likewise decrease. Reductions in the size of certain programming customer bases may result in the loss of specific volume discount benefits.

As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of December 31, 2005 approximately 15% of our current programming contracts were expired, and approximately another 4% are scheduled to expire at or before the end of 2006. We plan to seek to renegotiate the terms of our agreements with certain programmers as these agreements come due for renewal. 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. In addition, our inability to fully pass these programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins.

Franchises

As of September 30, 2005, our systems operated pursuant to a total of approximately 4,100 franchises, permits and similar authorizations issued by local and state governmental authorities. Each franchise, permit or similar authorization is awarded by a governmental authority and such governmental authority often must approve a transfer to another party. Most franchises are subject to termination proceedings in the event of a material breach. In addition, most franchises require us to pay the granting authority a franchise fee of up to 5.0% of revenues as defined in the various agreements, which is the maximum amount that may be charged under the applicable federal law. We are entitled to and generally do pass this fee through to the customer.

Prior to the scheduled expiration of most franchises, we initiate renewal proceedings with the granting authorities. This process usually takes three years but can take a longer period of time. The Communications Act provides for an orderly franchise renewal process in which granting authorities may not unreasonably withhold renewals. In connection with the franchise renewal process, many governmental authorities require the cable operator to make certain commitments. Historically we have been able to renew our franchises without incurring significant costs, although any particular franchise may not be renewed on commercially favorable terms or otherwise. Our failure to obtain renewals of our franchises, especially those in the major metropolitan areas where we have the most customers, could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants. Approximately 11% of our franchises, covering approximately 10% of our analog video customers were expired as of September 30, 2005. Approximately 2% of additional franchises, covering approximately 4% of additional analog video customers will expire on or before December 31, 2005, if not renewed prior to expiration. We expect to renew substantially all of these franchises.

Under the Telecommunications Act of 1996 (the 1996 Telecom Act), state and local authorities are prohibited from limiting, restricting or conditioning the provision of telecommunications services. They may, however, impose competitively neutral requirements and manage the public rights-of-way. Granting authorities may not require a cable operator to provide telecommunications services or facilities, other than institutional networks, as a condition of an initial franchise grant, a franchise renewal, or a franchise transfer. The 1996 Telecom Act also limits franchise fees to an operator's cable-related revenues and clarifies that they do not apply to revenues that a cable operator derives from providing new telecommunications services. In a March 2002 decision, the Federal Communications Commission (FCC) held that revenue derived from the provision of cable modem service should not be added to franchise fee payments already limited by federal law to 5% of traditional cable service revenue. The same decision tentatively limited local franchising authority regulation of cable modem service. The FCC decision was appealed and ultimately affirmed by the Supreme Court in a June 2005 ruling.

Different legislative proposals have been introduced in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has already passed in at least

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one state but is now subject to court challenge. Although various legislative proposals provide some regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants due to a number of varying factors including efforts to withhold streamlined cable franchising from incumbents until after the expiration of their existing franchises. The FCC recently initiated a proceeding to determine whether local franchising authorities are impeding the development of competitive cable services through unreasonable franchising requirements and whether any such impediments should be preempted. At this time, we are not able to determine what impact such proceeding may have on us.

Competition

We face competition in the areas of price, service offerings, and service reliability. We compete with other providers of television signals and other sources of home entertainment. In addition, as we continue to expand into additional services such as high-speed Internet access and telephone, we face competition from other providers of each type of service. We operate in a very competitive business environment, which can adversely affect our business and operations.

In terms of competition for customers, we view ourselves as a member of the broadband communications industry, which encompasses multi-channel video for television and related broadband services, such as high-speed Internet and other interactive video services. In the broadband industry, our principal competitor for video services throughout our territory is direct broadcast satellite (DBS), and in markets where it is available, our principal competitor for Internet services is digital subscriber line (DSL). We do not consider other cable operators to be significant one-on-one competitors in the market overall, as traditional overbuilds are infrequent and spotty geographically (although in a particular market, a cable operator overbuilder would likely be a significant competitor at the local level). As of September 30, 2005, we are aware of traditional overbuild situations in service areas covering approximately 5% of our total homes passed and potential overbuilds in areas servicing approximately 2% of our total homes passed.

Although cable operators tend not to be direct competitors for customers, their relative size may affect the competitive landscape in terms of how a cable company competes against non-cable competitors in the marketplace as well as in relationships with vendors who deal with cable operators. For example, a larger cable operator might have better access to and pricing for the multiple types of services cable companies offer. Also, a larger entity might have different access to financial resources and acquisition opportunities.

Our key competitors include:

Direct Broadcast Satellite

Direct broadcast satellite (DBS) is a significant competitor to cable systems. The DBS industry has grown rapidly over the last several years, far exceeding the growth rate of the cable television industry, and now serves more than 24 million subscribers nationwide. DBS service allows the subscriber to receive video services directly via satellite using a relatively small dish antenna. Consistent with increasing consolidation in the communications industry, News Corp., one of the world's largest media companies, acquired a controlling interest in DIRECTV, Inc. (DirecTV) in 2003, the largest domestic DBS company. This business combination could further strengthen DirecTV's competitive posture, particularly through favorable programming arrangements with various News Corp. affiliates and subsidiaries, such as the Fox television network. Additionally, EchoStar Communications Corporation (EchoStar) and DirecTV both have entered into joint marketing agreements with major telecommunications companies to offer bundled packages combining phone, data and video services.

Video compression technology and high powered satellites allow DBS providers to offer more than 200 digital channels from a single satellite, thereby surpassing the typical analog cable system. In 2003, major DBS competitors offered a greater variety of channel packages, and were especially competitive at the lower end pricing, such as a monthly price of approximately \$30 for 75 channels compared to approximately \$40 for the closest comparable package in most of our markets. In addition, while we continue to believe that the initial investment by a DBS customer exceeds that of a cable customer, the

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initial equipment cost for DBS has decreased substantially, as the DBS providers have aggressively marketed offers to new customers of incentives for discounted or free equipment, installation and multiple units. DBS providers are able to offer service nationwide and are able to establish a national image and branding with standardized offerings, which together with their ability to avoid franchise fees of up to 5% of revenues and property tax, leads to greater efficiencies and lower costs in the lower tiers of service. However, we believe that many consumers continue to prefer our stronger local presence in our markets. We believe that cable-delivered VOD and SVOD service are superior to DBS service because cable headends can store thousands of titles which customers can access and control independently, whereas DBS technology can only make available a much smaller number of titles with DVR-like customer control. We also believe that our higher tier products, particularly our bundled premium packages, are price-competitive with DBS packages and that many consumers prefer our ability to economically bundle video packages with data packages. Further, cable providers have the potential in some areas to provide a more complete whole house communications package when combining video, high-speed Internet and voice. We believe that this ability to bundle, combined with the introduction of more new products that DBS cannot readily offer (local high definition television and local interactive television) differentiates us from DBS competitors and could enable us to win back some of our former customers who migrated to satellite. However, recent joint marketing arrangements between DBS providers and telecommunications carriers allow similar bundling of services in certain areas. Competition from DBS service providers may also present greater challenges in areas of lower population density, and we believe that our systems serve a higher concentration of such areas than those of other major cable service providers.

DBS companies historically were prohibited from retransmitting popular local broadcast programming. However, a change to the copyright laws in 1999, which was continued in 2004, eliminated this legal impediment. As a result, DBS companies now may retransmit such programming, once they have secured retransmission consent from the popular broadcast stations they wish to carry, and honor mandatory carriage obligations of less popular broadcast stations in the same television markets. In response to the legislation, DirecTV and EchoStar have been carrying the major network stations in many of the nation's television markets. DBS, however, is limited in the local programming it can provide because of the current capacity limitations of satellite technology. DBS companies do not offer local broadcast programming in every U.S. market, although the number of markets covered is substantial and increasing.

DBS providers have made attempts at widespread deployment of high-speed Internet access services via satellite but those services have been technically constrained and of limited appeal. However, DBS providers have entered into joint marketing arrangements with telecommunications carriers allowing them to offer terrestrial DSL services in many markets.

DSL and Other Broadband Services

Digital subscriber line (DSL) service allows Internet access to subscribers at data transmission speeds greater than those available over conventional telephone lines. DSL service therefore is competitive with high-speed Internet access over cable systems. Most telephone companies which already have plant, an existing customer base, and other operational functions in place (such as, billing, service personnel, etc.) offer DSL service. DSL actively markets its service and many providers have offered promotional pricing with a one-year service agreement. The FCC has determined that DSL service is an information service, which will remove DSL service from many traditional telecommunications regulations. It is also possible that federal legislation could reduce regulation of Internet services offered by incumbent telephone companies. Legislative action and the FCC's decisions and policies in this area are subject to change. We expect DSL to remain a significant competitor to our data services. In addition, the further deployment of fiber by telephone companies into their networks will enable them to provide higher bandwidth Internet service than provided over traditional DSL lines.

In addition to terrestrially based DSL, satellite-based delivery options are in development. Local wireless Internet services have also begun to operate in many markets using unlicensed radio spectrum. This service option, popularly known as wi-fi, offers another alternative to cable-based Internet access.

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High-speed Internet access facilitates the streaming of video into homes and businesses. As the quality and availability of video streaming over the Internet improves, video streaming likely will compete with the traditional delivery of video programming services over cable systems. It is possible that programming suppliers will consider bypassing cable operators and market their services directly to the consumer through video streaming over the Internet.

We believe that pricing for residential and commercial Internet services on our system is generally comparable to that for similar DSL services and that some residential customers prefer our ability to bundle Internet services with video services. However, DSL providers may currently be in a better position to offer data services to businesses since their networks tend to be more complete in commercial areas. They also have the ability to bundle telephone with Internet services for a higher percentage of their customers, and that ability is appealing to many consumers. Joint marketing arrangements between DSL providers and DBS providers may allow some additional bundling of services. Moreover, major telephone companies, such as SBC and Verizon, are now deploying fiber deep into their networks that will enable them to offer high bandwidth video services over their networks, in addition to established voice and Internet services.

Broadcast Television

Cable television has long competed with broadcast television, which consists of television signals that the viewer is able to receive without charge using an off-air antenna. The extent of such competition is dependent upon the quality and quantity of broadcast signals available through off-air reception compared to the services provided by the local cable system. Traditionally, cable television has provided a higher picture quality and more channel offerings than broadcast television. However, the recent licensing of digital spectrum by the FCC will provide traditional broadcasters with the ability to deliver high definition television pictures and multiple digital-quality program streams, as well as advanced digital services such as subscription video and data transmission.

Traditional Overbuilds

Cable systems are operated under non-exclusive franchises granted by local authorities. More than one cable system may legally be built in the same area. It is possible that a franchising authority might grant a second franchise to another cable operator and that such a franchise might contain terms and conditions more favorable than those afforded us. In addition, entities willing to establish an open video system, under which they offer unaffiliated programmers non-discriminatory access to a portion of the system's cable system, may be able to avoid local franchising requirements. Well financed businesses from outside the cable industry, such as public utilities that already possess fiber optic and other transmission lines in the areas they serve, may over time become competitors. There are a number of cities that have constructed their own cable systems, in a manner similar to city-provided utility services. There also has been interest in traditional overbuilds by private companies. Constructing a competing cable system is a capital intensive process which involves a high degree of risk. We believe that in order to be successful, a competitor's overbuild would need to be able to serve the homes and businesses in the overbuilt area on a more cost-effective basis than we can. Any such overbuild operation would require either significant access to capital or access to facilities already in place that are capable of delivering cable television programming.

As of September 30, 2005, we are aware of overbuild situations impacting approximately 5% of our total homes passed and potential overbuild situations in areas servicing approximately 2% of our total homes passed. Additional overbuild situations may occur in other systems. In response to such overbuilds, these systems have been designated priorities for the upgrade of cable plant and the launch of new and enhanced services. As of September 30, 2005, we have upgraded many of these systems to at least 750 megahertz two-way HFC architecture.

Telephone Companies and Utilities

The competitive environment has been significantly affected by technological developments and regulatory changes enacted under the 1996 Telecom Act, which is designed to enhance competition in the cable television and local telephone markets. Federal cross-ownership restrictions historically limited entry

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by local telephone companies into the cable business. The 1996 Telecom Act modified this cross-ownership restriction, making it possible for local exchange carriers, who have considerable resources, to provide a wide variety of video services competitive with services offered by cable systems.

Telephone companies can lawfully enter the cable television business, and although activity in this area historically has been quite limited, recent announcements by telephone companies indicate a growing interest in offering a video product. Local exchange carriers do already provide facilities for the transmission and distribution of voice and data services, including Internet services, in competition with our existing or potential interactive services ventures and businesses. Some telephone companies have begun more extensive deployment of fiber in their networks that will enable them to begin providing video services, as well as telephone and Internet access service. At least one major telephone company, SBC, plans to provide Internet protocol video over its upgraded network. SBC contends that its use of this technology should allow it to provide video service without a cable franchise as required under Title VI of the Communications Act. Telephone companies deploying fiber more extensively are attempting through various means (including federal and state legislation) to weaken or streamline the franchising requirements applicable to them.

If telephone companies are successful in avoiding or weakening the franchise and other regulatory requirements that are applicable to cable operators like Charter, their competitive posture would be enhanced. We cannot predict the likelihood of success of the broadband services offered by our competitors or the impact on us of such competitive ventures. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of established cable systems.

As we expand our offerings to include Internet access and other telecommunications services, we will be subject to competition from other telecommunications providers. The telecommunications industry is highly competitive and includes competitors with greater financial and personnel resources, who have brand name recognition and long-standing relationships with regulatory authorities and customers. Moreover, mergers, joint ventures and alliances among franchise, wireless or private cable operators, local exchange carriers and others may result in providers capable of offering cable television, Internet, and telecommunications services in direct competition with us. For example, major local exchange carriers have entered into arrangements with EchoStar and DirecTV in which they will market packages combining phone service, DSL and DBS services.

Additionally, we are subject to competition from utilities which possess fiber optic transmission lines capable of transmitting signals with minimal signal distortion. Utilities are also developing broadband over power line technology, which will allow the provision of Internet and other broadband services to homes and offices.

Private Cable

Additional competition is posed by satellite master antenna television systems, or SMATV systems, serving multiple dwelling units, or MDUs, such as condominiums, apartment complexes, and private residential communities. These private cable systems may enter into exclusive agreements with such MDUs, which may preclude operators of franchise systems from serving residents of such private complexes. Private cable systems can offer both improved reception of local television stations and many of the same satellite-delivered program services that are offered by cable systems. SMATV systems currently benefit from operating advantages not available to franchised cable systems, including fewer regulatory burdens and no requirement to service low density or economically depressed communities. Exemption from regulation may provide a competitive advantage to certain of our current and potential competitors.

Wireless Distribution

Cable systems also compete with wireless program distribution services such as multi-channel multipoint distribution systems or wireless cable, known as MMDS, which uses low-power microwave frequencies to transmit television programming over-the-air to paying customers. MMDS services, however, require unobstructed line of sight transmission paths and MMDS ventures have been quite limited to date.

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The FCC completed its auction of the remaining Multichannel Video Distribution & Data Service (MVDDS) licenses in December 2005. MVDDS is a new terrestrial video and data fixed wireless service that the FCC hopes will spur competition to the cable and DBS industries.

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 drop 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.

Historically, our subsidiaries have owned the real property and buildings for our data centers, customer contact centers and our divisional administrative offices. Since early 2003 we have reduced our total real estate portfolio square footage by approximately 17% and have decreased our operating annual lease costs by approximately 30%. We plan to continue reducing our number of administrative offices and lease the space, where possible, while attempting to sell those existing locations that we believe are no longer required. Our subsidiaries generally have leased 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 real property and building for our principal executive offices.

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

Employees

As of September 30, 2005, we had approximately 17,000 full-time equivalent employees. At September 30, 2005, approximately 100 of our employees were represented by collective bargaining agreements. We have never experienced a work stoppage.

The corporate office, which includes employees of Charter and Charter Holdco, is responsible for coordinating and overseeing our operations. The corporate office performs certain financial and administrative functions on a centralized basis such as accounting, taxes, billing, finance and acquisitions, payroll and benefit administration, information system design and support, internal audit, purchasing, marketing and programming contract administration and oversight and coordination of external auditors and consultants. The corporate office performs these services on a cost reimbursement basis pursuant to a management services agreement. See *Certain Relationships and Related Transactions* Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries *Intercompany Management Arrangements* and *Mutual Services Agreements*.

Legal Proceedings

Securities Class Actions and Derivative Suits

Fourteen putative federal class action lawsuits (the *Federal Class Actions*) were filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages were sought by the plaintiffs. In general, the lawsuits alleged

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that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects. The Federal Class Actions were specifically and individually identified in public filings made by Charter prior to the date of this prospectus. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Court subsequently consolidated the Federal Class Actions into a single action (the Consolidated Federal Class Action) for pretrial purposes. On August 5, 2004, the plaintiff's representatives, Charter and the individual defendants who were the subject of the suit entered into a Memorandum of Understanding setting forth agreements in principle to settle the Consolidated Federal Class Action. These parties subsequently entered into Stipulations of Settlement dated as of January 24, 2005 (described more fully below) which incorporate the terms of the August 5, 2004 Memorandum of Understanding.

The Consolidated Federal Class Action is entitled:

In re Charter Communications, Inc. Securities Litigation, MDL Docket No. 1506 (All Cases), StoneRidge Investments Partners, LLC, Individually and On Behalf of All Others Similarly Situated, v. Charter Communications, Inc., Paul Allen, Jerald L. Kent, Carl E. Vogel, Kent Kalkwarf, David G. Barford, Paul E. Martin, David L. McCall, Bill Shreffler, Chris Fenger, James H. Smith, III, Scientific-Atlanta, Inc., Motorola, Inc. and Arthur Andersen, LLP, Consolidated Case No. 4:02-CV-1186-CAS.

On September 12, 2002, a shareholders derivative suit (the State Derivative Action) was filed in the Circuit Court of the City of St. Louis, State of Missouri (the Missouri State Court), against Charter and its then current directors, as well as its former auditors. The plaintiffs alleged that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures.

The consolidated State Derivative Action is entitled:

Kenneth Stacey, Derivatively on behalf of Nominal Defendant Charter Communications, Inc., v. Ronald L. Nelson, Paul G. Allen, Marc B. Nathanson, Nancy B. Peretsman, William Savoy, John H. Tory, Carl E. Vogel, Larry W. Wangberg, Arthur Andersen, LLP and Charter Communications, Inc.

On March 12, 2004, an action substantively identical to the State Derivative Action was filed in the Missouri State Court against Charter and certain of its current and former directors, as well as its former auditors. On July 14, 2004, the Court consolidated this case with the State Derivative Action.

This action is entitled:

Thomas Schimmel, Derivatively on behalf on Nominal Defendant Charter Communications, Inc., v. Ronald L. Nelson, Paul G. Allen, Marc B. Nathanson, Nancy B. Peretsman, William D. Savoy, John H. Tory, Carl E. Vogel, Larry W. Wangberg, and Arthur Andersen, LLP, and Charter Communications, Inc.

Separately, on February 12, 2003, a shareholders derivative suit (the Federal Derivative Action), was filed against Charter and its then current directors in the United States District Court for the Eastern District of Missouri. The plaintiff in that suit alleged that the individual defendants breached their fiduciary duties and grossly mismanaged Charter by failing to establish and maintain adequate internal controls and procedures.

The Federal Derivative Action is entitled:

Arthur Cohn, Derivatively on behalf of Nominal Defendant Charter Communications, Inc., v. Ronald L. Nelson, Paul G. Allen, Marc B. Nathanson, Nancy B. Peretsman, William Savoy, John H. Tory, Carl E. Vogel, Larry W. Wangberg, and Charter Communications, Inc.

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As noted above, Charter and the individual defendants entered into a Memorandum of Understanding on August 5, 2004 setting forth agreements in principle regarding settlement of the Consolidated Federal Class Action, the State Derivative Action(s) and the Federal Derivative Action (the Actions). Charter and various other defendants in those actions subsequently entered into Stipulations of Settlement dated as of January 24, 2005, setting forth a settlement of the Actions in a manner consistent with the terms of the Memorandum of Understanding. The Stipulations of Settlement, along with various supporting documentation, were filed with the Court on February 2, 2005. On May 23, 2005 the United States District Court for the Eastern District of Missouri conducted the final fairness hearing for the Actions, and on June 30, 2005, the Court issued its final approval of the settlements. Members of the class had 30 days from the issuance of the June 30 order approving the settlement to file an appeal challenging the approval. Two notices of appeal were filed relating to the settlement. Those appeals were directed to the amount of fees that the attorneys for the class were to receive and to the fairness of the settlement. At the end of September 2005, Stipulations of Dismissal were filed with the Eighth Circuit Court of Appeals resulting in the dismissal of both appeals with prejudice. Procedurally, therefore the settlements are final.

As amended, the Stipulations of Settlement provide that, in exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter would pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which will include the fees and expenses of plaintiffs' counsel. Of this amount, \$64 million would be paid in cash (by Charter's insurance carriers) and the \$80 million balance was to be paid (subject to Charter's right to substitute cash therefor described below) in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million, with such values in each case being determined pursuant to formulas set forth in the Stipulations of Settlement. However, Charter had the right, in its sole discretion, to substitute cash for some or all of the aforementioned securities on a dollar for dollar basis. Pursuant to that right, Charter elected to fund the \$80 million obligation with 13.4 million shares of Charter Class A common stock (having an aggregate value of approximately \$15 million pursuant to the formula set forth in the Stipulations of Settlement) with the remaining balance (less an agreed upon \$2 million discount in respect of that portion allocable to plaintiffs' attorneys' fees) to be paid in cash. In addition, Charter had agreed to issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million; however, by agreement with its carrier, Charter has paid \$4.5 million in cash in lieu of issuing such shares. Charter delivered the settlement consideration to the claims administrator on July 8, 2005, and it will be held in escrow pending any appeals of the approval. On July 14, 2005, the Circuit Court for the City of St. Louis dismissed with prejudice the State Derivative Action. The claims administrator is responsible for disbursing the settlement consideration.

As part of the settlements, Charter has committed to a variety of corporate governance changes, internal practices and public disclosures, some of which have already been undertaken and none of which are inconsistent with measures Charter is taking in connection with the recent conclusion of the SEC investigation.

Government Investigations

In August 2002, Charter became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, and its reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office publicly stated that Charter was not a target of the investigation. Charter was also advised by the U.S. Attorney's Office that no current officer or member of its board of directors was a target of the investigation. On July 24, 2003, a federal grand jury charged four former officers of Charter with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. Each of the indicted former officers pled guilty to single conspiracy counts related to the original mail and wire fraud charges and were sentenced April 22, 2005.

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Charter fully cooperated with the investigation, and following the sentencings, the U.S. Attorney's Office for the Eastern District of Missouri announced that its investigation was concluded and that no further indictments would issue.

Indemnification

Charter was generally required to indemnify, under certain conditions, each of the named individual defendants in connection with the matters described above pursuant to the terms of its bylaws and (where applicable) such individual defendants' employment agreements. In accordance with these documents, in connection with the grand jury investigation, a now-settled SEC investigation and the above-described lawsuits, some of Charter's current and former directors and current and former officers have been advanced certain costs and expenses incurred in connection with their defense. See Certain Relationships and Related Transactions Other Miscellaneous Relationships Indemnification Advances. On February 22, 2005, Charter filed suit against four of its former officers who were indicted in the course of the grand jury investigation. These suits seek to recover the legal fees and other related expenses advanced to these individuals. All four officers have filed counterclaims.

Other Litigation

In addition to the matters set forth above, Charter is also party to other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims are not expected to have a material adverse effect on our consolidated financial condition, results of operations or our liquidity.

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REGULATION AND LEGISLATION

The following summary addresses the key regulatory and legislative developments affecting the cable industry. Cable system operations are extensively regulated by the FCC, some state governments and most local governments. A failure to comply with these regulations could subject us to substantial penalties. Our business can be dramatically impacted by changes to the existing regulatory framework, whether triggered by legislative, administrative, or judicial rulings. Congress and the FCC have expressed a particular interest in increasing competition in the communications field generally and in the cable television field specifically. 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 local telephone market. We could be materially disadvantaged in the future if we are subject to regulations that do not equally impact our key competitors. Congress and the FCC have frequently revisited the subject of communications regulation, and they are likely to do so in the future. In addition, franchise agreements with local governments must be periodically renewed, and new operating terms may be imposed. Future legislative, regulatory, or judicial changes could adversely affect our operations. We can provide no assurance that the already extensive regulation of our business will not be expanded in the future.

Cable Rate Regulation

The cable industry has operated under a federal rate regulation regime for more than a decade. The regulations currently restrict the prices that cable systems charge for basic service and associated equipment. All other cable offerings are now universally exempt from rate regulation. Although rate regulation operates pursuant to a federal formula, local governments, commonly referred to as local franchising authorities, are primarily responsible for administering this regulation. The majority of our local franchising authorities have never certified to regulate basic cable rates, but they retain the right to do so (and order rate reductions and refunds), except in those specific communities facing effective competition. Federal law defines effective competition as existing in a variety of circumstances that historically were rarely satisfied, but are increasingly likely to be satisfied with the recent increase in DBS competition. We already have secured official recognition by the FCC of effective competition in many of our communities.

There have been frequent calls to impose expanded rate regulation on the cable industry. Confronted with rapidly increasing cable programming costs, it is possible that Congress may adopt new constraints on the retail pricing or packaging of cable programming. For example, there has been considerable legislative and regulatory interest in requiring cable to offer historically bundled programming services on an à la carte basis or to at least offer a separately available child-friendly Family Tier. Such constraints could adversely affect our operations.

The federal rate regulations also require cable operators to maintain a geographically uniform rate within each community, except in those communities facing effective competition. As we attempt to respond to a changing marketplace with competitive pricing practices, we may face legal restraints and challenges that impede our ability to compete.

Must Carry/ Retransmission Consent

Federal law currently includes must carry regulations, which require cable systems to carry certain local broadcast television stations that the cable operator would not select voluntarily. Alternatively, popular commercial television stations can prohibit cable carriage unless the cable operator first negotiates for retransmission consent, which may be conditioned on significant payments or other concessions. Either option has a potentially adverse effect on our business. The burden associated with must carry could increase significantly if cable systems were required to simultaneously carry both the analog and digital signals of each television station (dual carriage), as the broadcast industry transitions from an analog to a digital format.

The burden could also increase significantly if cable systems become required to carry multiple program streams included within a single digital broadcast transmission (multicast carriage). Additional government-mandated broadcast carriage obligations could disrupt existing programming commitments,

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interfere with our preferred use of limited channel capacity and limit our ability to offer services that would maximize customer appeal and revenue potential. Although the FCC issued a decision in February 2005, confirming an earlier ruling against mandating either dual carriage or multicast carriage, that decision has been appealed. In addition, the FCC could modify its position or Congress could legislate additional carriage obligations. In particular, broadcast carriage burdens may increase as Congress and the FCC attempt to transition broadcasters to digital spectrum and reclaim analog spectrum. Legislation is now pending establishing February 2009 as the deadline to complete that transition at which time cable operators may need to take additional operational steps to ensure that customers not otherwise equipped to receive digital programming, retain access to broadcast programming.

Access Channels

Local franchise agreements often require cable operators to set aside certain channels for public, educational and governmental access programming. Federal law also requires cable systems to designate a portion of their channel capacity for commercial leased access by unaffiliated third parties. Increased activity in this area could further burden the channel capacity of our cable systems.

Access to Programming

The FCC has extended a regulation prohibiting video programmers affiliated with cable companies from favoring cable operators over new competitors and requiring such programmers to sell their satellite-delivered programming to other multichannel video distributors. This provision limits the ability of vertically integrated cable programmers to offer exclusive programming arrangements to cable companies. DBS providers traditionally had no similar restriction on exclusive programming, but the FCC recently imposed that restriction as part of its approval of the DirecTV-News Corp. merger. The FCC has also adopted regulations to avoid unreasonable conduct in retransmission consent negotiations between broadcasters and multichannel video programming distributors, including cable and DBS. It imposed special conditions on the DirecTV-News Corp. merger, including a requirement that Fox affiliated broadcast stations enter into commercial arbitration for disputes over retransmission consent. Given the heightened competition and media consolidation that Charter faces, it is possible that we will find it increasingly difficult to gain access to popular programming at favorable terms. Such difficulty could adversely impact our business.

Ownership Restrictions

Federal regulation of the communications field traditionally included a host of ownership restrictions, which limited the size of certain media entities and restricted their ability to enter into competing enterprises. Through a series of legislative, regulatory, and judicial actions, most of these restrictions recently were eliminated or substantially relaxed. For example, historic restrictions on local exchange carriers offering cable service within their telephone service area, as well as those prohibiting broadcast stations from owning cable systems within their broadcast service area, no longer exist. Changes in this regulatory area could alter the business landscape in which we operate, as formidable new competitors (including electric utilities, local exchange carriers, and broadcast/media companies) may increasingly choose to offer cable services.

The FCC previously adopted regulations precluding any cable operator from serving more than 30% of all domestic multichannel video subscribers and from devoting more than 40% of the activated channel capacity of any cable system to the carriage of affiliated national video programming services. These cable ownership restrictions were invalidated by the courts, and the FCC is now considering adoption of replacement regulations.

Internet Service

Over the past several years, proposals have been advanced that would require cable operators offering Internet service to provide non-discriminatory access to unaffiliated Internet service providers. In a June

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2005 ruling, commonly referred to as *Brand X*, the Supreme Court upheld an FCC decision (and overruled a conflicting Ninth Circuit opinion) making it much less likely that any non-discriminatory open access requirements (which are generally associated with common carrier regulation of telecommunications services) will be imposed on the cable industry by local, state or federal authorities. The Supreme Court held that the FCC was correct in classifying cable-provided Internet service as an information service, rather than a telecommunications service. This favorable regulatory classification limits the ability of various governmental authorities to impose open access requirements on cable-provided Internet service. Given the recency of the *Brand X* decision, however, the nature of any legislative or regulatory response remains uncertain. The imposition of open access requirements could materially affect our business.

As the Internet has matured, it has become the subject of increasing regulatory interest. There is now a host of federal laws affecting Internet service, including the Digital Millennium Copyright Act, which affords copyright owners certain rights against us that could adversely affect our relationship with any customer accused of violating copyright laws. Recently enacted Anti-Spam legislation also imposes new obligations on our operations. The adoption of new Internet regulations could adversely affect our business.

Phone Service

The 1996 Telecom Act created a more favorable regulatory environment for us to provide telecommunications services. In particular, it limited the regulatory role of local franchising authorities and established requirements ensuring that we could interconnect with other telephone companies to provide a viable service. Many implementation details remain unresolved, and there are substantial regulatory changes being considered that could impact, in both positive and negative ways, our primary telecommunications competitors and our own entry into the field of phone service. The FCC and state regulatory authorities are considering, for example, whether common carrier regulation traditionally applied to incumbent local exchange carriers should be modified. The FCC recently decided that alternative voice technologies, like certain types of VoIP, should be regulated only at the federal level, rather than by individual states. While this decision appears to be a positive development for VoIP offerings, it is unclear whether and how the FCC will apply certain types of common carrier regulations, such as intercarrier compensation and universal service obligations to alternative voice technology. The treatment of these regulations and other regulatory matters will affect our potential expansion into phone service.

Pole Attachments

The Communications Act requires most utilities to provide cable systems with access to poles and conduits and simultaneously regulates the rates charged for this access. The Act specifies that significantly higher rates apply if the cable plant is providing telecommunications service, as well as traditional cable service. The FCC has clarified that a cable operator's favorable pole rates are not endangered by the provision of Internet access, and that determination was upheld by the United States Supreme Court. It remains possible that the underlying pole attachment formula, or its application to Internet and telecommunications offerings, will be modified in a manner that substantially increases our pole attachment costs.

Cable Equipment

The FCC has undertaken several steps to promote competition in the delivery of cable equipment and compatibility with new digital technology. The FCC has expressly ruled that cable customers must be allowed to purchase set-top terminals from third parties and established a multi-year phase-in during which security functions (which would remain in the operator's exclusive control) would be unbundled from the basic converter functions, which could then be provided by third party vendors. The first phase of implementation has already passed. A prohibition on cable operators leasing digital set-top terminals that integrate security and basic navigation functions is now scheduled to go into effect as of July 1, 2007. Charter is among the cable operators challenging that prohibition in court.

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The FCC has adopted rules implementing an agreement between major cable operators and manufacturers of consumer electronics on plug and play specifications for one-way digital televisions. The rules require cable operators to provide CableCard security modules and support to customer owned digital televisions and similar devices already equipped with built-in set-top terminal functionality. Cable operators must support basic home recording rights and copy protection rules for digital programming content. The FCC's plug and play rules are under appeal, although the appeal has been stayed pending FCC reconsideration.

The FCC adopted companion broadcast flag rules, requiring cable carriage of a code embedded in digital broadcast programming that will regulate the further use of copyright programming. However, the U.S. Circuit Court of Appeals for the D.C. Circuit recently held that the FCC lacks jurisdiction to impose the broadcast flag rules. Congress is presently considering bills to reinstate the broadcast flag rules, and to require the use of certain technology for analog connectors so as to prevent unauthorized copying and redistribution of programming.

The FCC is conducting additional related rulemakings, and the cable and consumer electronics industries are currently negotiating an agreement that would establish additional plug and play specifications for two-way digital televisions.

The FCC rules are subject to challenge and inter-industry negotiations are ongoing. It is unclear how this process will develop and how it will affect our offering of cable equipment and our relationship with our customers.

Other Communications Act Provisions and FCC Regulatory Matters

In addition to the Communications Act provisions and FCC regulations noted above, there are other statutory provisions and FCC regulations affecting our business. The Communications Act, for example, includes cable-specific privacy obligations. The Act carefully limits our ability to collect and disclose personal information.

FCC regulations include a variety of additional areas, including, among other things: (1) equal employment opportunity obligations; (2) customer service standards; (3) technical service standards; (4) mandatory blackouts of certain network, syndicated and sports programming; (5) restrictions on political advertising; (6) restrictions on advertising in children's programming; (7) restrictions on origination cablecasting; (8) restrictions on carriage of lottery programming; (9) sponsorship identification obligations; (10) closed captioning of video programming; (11) licensing of systems and facilities; (12) maintenance of public files; (13) emergency alert systems; and (14) obligations to accommodate law enforcement wire taps.

It is possible that Congress or the FCC will expand or modify its regulation of cable systems in the future, and we cannot predict at this time how that might impact our business. For example, there have been recent discussions about imposing indecency restrictions directly on cable programming.

Copyright

Cable systems are subject to federal copyright licensing covering carriage of television and radio broadcast signals. The possible modification or elimination of this compulsory copyright license is the subject of continuing legislative review and could adversely affect our ability to obtain desired broadcast programming. We cannot predict the outcome of this legislative activity. Moreover, the Copyright Office has not yet provided any guidance as to the how the compulsory copyright license should apply to newly offered digital broadcast signals.

Copyright clearances for non-broadcast programming services are arranged through private negotiations. Cable operators also must obtain music rights for locally originated programming and advertising from the major music performing rights organizations. These licensing fees have been the source of litigation in the past, and we cannot predict with certainty whether license fee disputes may arise in the future.

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Franchise Matters

Cable systems generally are operated pursuant to nonexclusive franchises granted by a municipality or other state or local government entity in order to cross public rights-of-way. Cable franchises generally are granted for fixed terms and in many cases include monetary penalties for noncompliance and may be terminable if the franchisee fails to comply with material provisions.

The specific terms and conditions of cable franchises vary materially between jurisdictions. Each franchise generally contains provisions governing cable operations, franchise fees, system construction, maintenance, technical performance, and customer service standards. A number of states subject cable systems to the jurisdiction of centralized state government agencies, such as public utility commissions. Although local franchising authorities have considerable discretion in establishing franchise terms, there are certain federal protections. For example, federal law caps local franchise fees and includes renewal procedures designed to protect incumbent franchisees from arbitrary denials of renewal. Even if a franchise is renewed, however, the local franchising authority may seek to impose new and more onerous requirements as a condition of renewal. Similarly, if a local franchising authority's consent is required for the purchase or sale of a cable system, the local franchising authority may attempt to impose more burdensome requirements as a condition for providing its consent.

Different legislative proposals have been introduced in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has already passed in at least one state but is now subject to court challenge. Although various legislative proposals provide some regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants due to a number of varying factors including efforts to withhold streamlined cable franchising from incumbents until after the expiration of their existing franchises. The FCC recently initiated a proceeding to determine whether local franchising authorities are impeding the deployment of competitive cable services through unreasonable franchising requirements and whether such impediments should be preempted. At this time, we are not able to determine what impact such proceeding may have on us.

Table of Contents**MANAGEMENT****Directors**

The persons listed below are directors of Charter.

Director	Position(s)
Paul G. Allen	Chairman of the board of directors
W. Lance Conn	Director
Nathaniel A. Davis	Director
Jonathan L. Dolgen	Director
Robert P. May	Director
David C. Merritt	Director
Marc B. Nathanson	Director
Jo Allen Patton	Director
Neil Smit	Director, President and Chief Executive Officer of Charter
John H. Tory	Director
Larry W. Wangberg	Director

The following sets forth certain biographical information with respect to the directors listed above.

Paul G. Allen, 53, has been Chairman of our board of directors since July 1999, and Chairman of the board of directors of Charter Investment, Inc. (a predecessor to, and currently an affiliate of, Charter) since December 1998. Mr. Allen, co-founder of Microsoft Corporation, has been a private investor for more than 15 years, with interests in over 50 technology, telecommunications, content and biotech companies. Mr. Allen's investments include Vulcan Inc., Vulcan Productions, Inc., the Portland Trail Blazers NBA and Seattle Seahawks NFL franchises, and investments in DreamWorks LLC and Oxygen Media. In addition, Mr. Allen is a director of Vulcan Programming Inc., Vulcan Ventures, Vulcan Inc., Vulcan Cable III Inc., numerous privately held companies and, until its sale in May 2004 to an unrelated third party, TechTV L.L.C.

W. Lance Conn, 37, was elected to our board of directors in September 2004. Since July 2004, Mr. Conn has served as Executive Vice President, Investment Management for Vulcan Inc., the investment and project management company that oversees a diverse multi-billion dollar portfolio of investments by Paul G. Allen. Prior to joining Vulcan Inc., Mr. Conn was employed by America Online, Inc., an interactive online services company, from March 1996 to May 2003. From 1997 to 2000, Mr. Conn served in various senior business development roles at America Online. In 2000, Mr. Conn began supervising all of America Online's European investments, alliances and business initiatives. In 2002, he became Senior Vice President of America Online U.S. where he led a company-wide effort to restructure and optimize America Online's operations. From September 1994 until February 1996, Mr. Conn was an attorney with the Shaw Pittman law firm in Washington, D.C. Mr. Conn holds a J.D. degree from the University of Virginia, a master's degree in history from the University of Mississippi and an A.B. in history from Princeton University.

Nathaniel A. Davis, 52, was elected to our board of directors on August 23, 2005. Since June 2003, Mr. Davis has been Managing Director and owner of RANND Advisory Group, a technology Consulting Group, which advises venture capital, telecom and other technology related firms. From January 2000 through May of 2003, he was President and Chief Operating Officer of XO Communication, Inc. XO Communications filed a petition to reorganize under Chapter 11 of the Bankruptcy Code in June 2002 and completed its restructuring and emerged from Chapter 11 in January 2003. From October 1998 to December 1999 he was Executive Vice President, Network and Technical Services of Nextel Communications, Inc. Prior to that, he worked for MCI Communications from 1982 until 1998 in a number of positions, including as Chief Financial Officer of MCIT from November 1996 until October

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1998. Prior to that, Mr. Davis served in a variety of roles that include Senior Vice President of Network Operations, Chief Operating Officer of MCImetro, Sr. Vice President of Finance, Vice President of Systems Development. Mr. Davis holds a B.S. degree from Stevens Institute of Technology, an M.S. from Moore School of Engineering and an M.B.A. from the Wharton School at the University of Pennsylvania. He is a member of the boards of XM Satellite Radio Holdings, Inc. and of Mutual of America Capital Management Corporation.

Jonathan L. Dolgen, 60, was elected to our board of directors in October 2004. Since July 2004, Mr. Dolgen has also been a Senior Advisor to Viacom Inc. (Old Viacom), a worldwide entertainment and media company, where he provided advisory services to the Chief Executive Officer of Old Viacom, or others designated by him, on an as requested basis. Effective December 31, 2005, Old Viacom was separated into two publicly traded companies, Viacom Inc. (New Viacom) and CBS Corporation. Since the separation of Old Viacom, Mr. Dolgen provides advisory services to the Chief Executive Officer of New Viacom, or others designated by him, on an as requested basis. Since July 2004, Mr. Dolgen has been a private investor and since September 2004, Mr. Dolgen has been a principal of Wood River Ventures, LLC, a private start-up entity that seeks investment and other opportunities primarily in the media sector. Mr. Dolgen is also a member of the board of directors of Expedia, Inc. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group, a unit of Old Viacom, where he oversaw various operations of Old Viacom s businesses, which during 2003 and 2004 primarily included the operations engaged in motion picture production and distribution, television production and distribution, regional theme parks, theatrical exhibition and publishing. As a result of the separation of Old Viacom, Old Viacom s motion picture production and distribution and theatrical exhibition businesses became part of New Viacom s businesses, and the remainder of Old Viacom s businesses overseen by Mr. Dolgen remained with CBS Corporation. Mr. Dolgen began his career in the entertainment industry in 1976, and until joining the Viacom Entertainment Group, served in executive positions at Columbia Pictures Industries, Inc., Twentieth Century Fox and Fox, Inc., and Sony Pictures Entertainment. Mr. Dolgen holds a B.S. degree from Cornell University and a J.D. degree from New York University.

Robert P. May, 56, was elected to our board of directors in October 2004 and was our Interim President and Chief Executive Officer from January until August 2005. Mr. May was named Chief Executive Officer and a director of Calpine Corporation, a power company, in December 2005. Calpine filed a petition under Chapter 11 of the Bankruptcy Code on December 20, 2005. He served on the board of directors of HealthSouth Corporation, a national provider of healthcare services, from October 2002 until October 2005, and was its Chairman from July 2004 until October 2005. Mr. May also served as HealthSouth Corporation s Interim Chief Executive Officer from March 2003 until May 2004, and as Interim President of its Outpatient and Diagnostic Division from August 2003 to January 2004. Since March 2001, Mr. May has been a private investor and principal of RPM Systems, which provides strategic business consulting services. From March 1999 to March 2001, Mr. May served on the board of directors and was Chief Executive of PNV Inc., a national telecommunications company. Prior to his employment at PNV Inc., Mr. May was Chief Operating Officer and a member of the board of directors of Cablevision Systems Corporation from October 1996 to February 1998, and from 1973 to 1993 he held several senior executive positions with Federal Express Corporation, including President, Business Logistics Services. Mr. May was educated at Curry College and Boston College and attended Harvard Business School s Program for Management Development. He is a member of Deutsche Bank of Americas Advisory Board.

David C. Merritt, 51, was elected to our board of directors in July 2003, and was also appointed as Chairman of the Audit Committee at that time. Since October 2003, Mr. Merritt has been a Managing Director of Salem Partners, LLC, an investment banking firm. He was a Managing Director in the Entertainment Media Advisory Group at Gerard Klauer Mattison & Co., Inc., a company that provided financial advisory services to the entertainment and media industries from January 2001 through April 2003. From July 1999 to November 2000, he served as Chief Financial Officer of CKE Associates, Ltd., a privately held company with interests in talent management, film production, television production, music and news media. He also served as a director of Laser-Pacific Media Corporation from January 2001 until October 2003 and served as Chairman of its audit committee. In December 2003, he became a director of

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Outdoor Channel Holdings, Inc. and serves as Chairman of its audit committee. Mr. Merritt joined KPMG in 1975 and served in a variety of capacities during his years with the firm, including national partner in charge of the media and entertainment practice and before joining CKE Associates, Mr. Merritt was an audit and consulting partner of KPMG for 14 years. In February 2006, Mr. Merritt became a director of Calpine Corporation. Mr. Merritt holds a B.S. degree in Business and Accounting from California State University Northridge.

Marc B. Nathanson, 60, has been a director of Charter since January 2000 and serves as Vice Chairman of our board of directors, a non-executive position. Mr. Nathanson is the Chairman of Mapleton Investments LLC, an investment vehicle formed in 1999. He also founded and served as Chairman and Chief Executive Officer of Falcon Holding Group, Inc., a cable operator, and its predecessors, from 1975 until 1999. He served as Chairman and Chief Executive Officer of Enstar Communications Corporation, a cable operator, from 1988 until November 1999. Prior to 1975, Mr. Nathanson held executive positions with Teleprompter Corporation, Warner Cable and Cypress Communications Corporation. In 1995, he was appointed by the President of the United States to the Broadcasting Board of Governors, and from 1998 through September 2002, served as its Chairman. Mr. Nathanson holds a bachelors degree in Mass Communications from the University of Denver and a masters degree in Political Science from University of California/ Santa Barbara.

Jo Allen Patton, 47, has been a director of Charter since April 2004. Ms. Patton joined Vulcan Inc. as Vice President in 1993, and since that time she has served as an officer and director of many affiliates of Mr. Allen, including her current position as President and Chief Executive Officer of Vulcan Inc. since July 2001. Ms. Patton is also President of Vulcan Productions, an independent feature film and documentary production company, Vice Chair of First & Goal, Inc., which developed and operated the Seattle Seahawks NFL stadium, and serves as Executive Director of the six Paul G. Allen Foundations. Ms. Patton is a co-founder of the Experience Music Project museum, as well as the Science Fiction Museum and Hall of Fame. Ms. Patton is the sister of Mr. Allen.

Neil Smit, 47, was elected a director and President and Chief Executive Officer of Charter on August 22, 2005. He had previously worked at Time Warner, Inc. since 2000, most recently serving as the President of Time Warner's America Online Access Business. He also served at America Online (AOL) as Executive Vice President, Member Development, Senior Vice President of AOL's product and programming team, Chief Operating Officer of AOL Local, Chief Operating Officer of MapQuest. Prior to that he was a regional vice president with Nabisco and was with Pillsbury in a number of management positions. Mr. Smit has a bachelor's of science degree from Duke University and a master's degree with a focus in international business from Tufts University's Fletcher School of Law and Diplomacy.

John H. Tory, 51, has been a director of Charter since December 2001. Mr. Tory served as the Chief Executive Officer of Rogers Cable Inc., Canada's largest broadband cable operator, from 1999 until 2003. From 1995 to 1999, Mr. Tory was President and Chief Executive Officer of Rogers Media Inc., a broadcasting and publishing company. Prior to joining Rogers, Mr. Tory was a Managing Partner and member of the executive committee at Tory Tory DesLauriers & Binnington, one of Canada's largest law firms. Mr. Tory serves on the board of directors of Rogers Telecommunications Limited and Cara Operations Limited and is Chairman of Cara Operations' Audit Committee. Mr. Tory was educated at University of Toronto Schools, Trinity College (University of Toronto) and Osgoode Hall Law School. Effective September 18, 2004, Mr. Tory was elected Leader of the Ontario Progressive Conservative Party. On March 17, 2005, he was elected a Member of the Provincial Parliament and on March 29, 2005, became the Leader of Her Majesty's Loyal Opposition. On June 29, 2005, Mr. Tory formally notified Charter that he intends to resign from its board of directors. The date for his departure has not yet been determined, but he has indicated that he will continue to serve on Charter's board, as well as the audit committee, at least until a replacement director is named.

Larry W. Wangberg, 63, has been a director of Charter since January 2002. From August 1997 to May 2004, Mr. Wangberg was a director of TechTV L.L.C., a cable television network controlled by Paul Allen. He also served as its Chairman and Chief Executive Officer from August 1997 through July 2002. In May

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2004, TechTV L.L.C. was sold to an unrelated party. Prior to joining TechTV L.L.C., Mr. Wangberg was Chairman and Chief Executive Officer of StarSight Telecast Inc., an interactive navigation and program guide company which later merged with Gemstar International, from 1994 to 1997. Mr. Wangberg was Chairman and Chief Executive Officer of Times Mirror Cable Television and Senior Vice President of its corporate parent, Times Mirror Co., from 1983 to 1994. He currently serves on the boards of Autodesk Inc. and ADC Telecommunications, Inc. Mr. Wangberg holds a bachelor's degree in Mechanical Engineering and a master's degree in Industrial Engineering, both from the University of Minnesota.

Audit Committee

The Audit Committee, which has a written charter approved by the board of directors, consists of Nathaniel Davis, John Tory and David Merritt, all of whom are independent in accordance with the applicable corporate governance listing standards of the NASDAQ National Market. Charter's board of directors has determined that, in its judgment, David Merritt is an audit committee financial expert within the meaning of the applicable federal regulations.

Mr. Lillis resigned from Charter's board of directors, effective March 28, 2005 and prior to that time, Mr. Lillis was one of three independent members of the Audit Committee. On August 23, 2005, Nathaniel Davis, who is independent in accordance with the applicable corporate governance listing standards of the NASDAQ National Market, was elected to the Audit Committee.

On June 29, 2005, Mr. Tory formally notified Charter that he intends to resign from its board of directors and the board committees on which he serves. The date for Mr. Tory's departure has not yet been determined, but he has indicated that he will continue to serve on Charter's board and its committees at least until a replacement director is named.

Director Compensation

Each non-employee member of our board receives an annual retainer of \$40,000 in cash plus restricted stock, vesting one year after the date of grant, with a value on the date of grant of \$50,000. In addition, the Audit Committee chair receives \$25,000 per year, and the chair of each other committee receives \$10,000 per year. Prior to February 22, 2005, all committee members also received \$1,000 for attendance at each committee meeting. Beginning on February 22, 2005 each director also receives \$1,000 for telephonic attendance at each meeting of the full board and \$2,000 for in-person attendance. Each director of Charter is entitled to reimbursement for costs incurred in connection with attendance at board and committee meetings. Vulcan has informed us that, in accordance with its internal policy, Mr. Conn turns over to Vulcan all cash compensation he receives for his participation on Charter's board of directors or committees thereof.

Directors who were employees did not receive additional compensation in 2004 or 2005. Mr. Vogel and Mr. Smit, who were our President and Chief Executive Officer in 2005, were the only directors who were also employees during 2005. Mr. May, who was our Interim President and Chief Executive Officer from January 2005 until August 2005, was not an employee. However, he received fees and a bonus pursuant to an agreement. See Employment Arrangements.

Our Bylaws provide that all directors are entitled to indemnification to the maximum extent permitted by law from and against any claims, damages, liabilities, losses, costs or expenses incurred in connection with or arising out of the performance by them of their duties for us or our subsidiaries. In addition, we have been informed by Vulcan that the bylaws of Vulcan, Inc. also provide that Ms. Patton and Messrs. Allen and Conn are entitled to similar indemnification in connection with their service on our Board of Directors and committees thereof.

Table of Contents**Executive Officers**

The following persons are executive officers of Charter Communications, Inc.:

Executive Officers	Position
Paul G. Allen	Chairman of the Board of Directors
Neil Smit	President and Chief Executive Officer
Wayne H. Davis	Executive Vice President and Chief Technical Officer
Jeffrey T. Fisher	Executive Vice President and Chief Financial Officer
Sue Ann R. Hamilton	Executive Vice President, Programming
Michael J. Lovett	Executive Vice President and Chief Operating Officer
Paul E. Martin	Senior Vice President, Principal Accounting Officer and Corporate Controller
Robert A. Quigley	Executive Vice President and Chief Marketing Officer
Grier C. Raclin	Executive Vice President, General Counsel and Corporate Secretary

Information regarding our executive officers who do not serve as directors is set forth below.

Wayne H. Davis, 52, Executive Vice President and Chief Technical Officer. Prior to his current position, Mr. Davis served as Senior Vice President, Engineering and Technical Operations, and as Assistant to the President/ Vice President of Management Services since July 2002 and prior to that, he was Vice President of Engineering/ Operations for Charter's National Region from December 2001. Before joining Charter, Mr. Davis held the position of Vice President of Engineering for Comcast Corporation, Inc. Prior to that, he held various engineering positions including Vice President of Engineering for Jones Intercable Inc. He began his career in the cable industry in 1980. He attended the State University of New York at Albany. Mr. Davis serves as an advisory board member of Cedar Point Communications, and as a board member of @Security Broadband Corp., a company in which Charter owns an equity investment interest. Mr. Davis is also a member of the Society of Cable Telecommunications Engineers.

Jeffrey T. Fisher, 43, Executive Vice President and Chief Financial Officer. Mr. Fisher was appointed to the position of Executive Vice President and Chief Financial Officer, effective February 6, 2006. Prior to joining Charter, Mr. Fisher was employed by Delta Airlines, Inc. from 1998 to 2006 in a number of positions including Senior Vice President - Restructuring from September 2005 until January 2006, President and General Manager of Delta Connection, Inc. from January to September 2005, Chief Financial Officer of Delta Connection from 2001 until January 2005, Vice President of Finance, Marketing and Sales Controller of Delta Airlines in 2001 and Vice President of Financial Planning and Analysis of Delta Airlines from 2000 to 2001. Delta Airlines filed a petition under Chapter 11 of the Bankruptcy Code on September 14, 2005. Mr. Fisher received a BBM degree from Embry Riddle University and a MBA in International Finance from University of Texas in Arlington, Texas.

Sue Ann R. Hamilton, 45, Executive Vice President, Programming. Ms. Hamilton joined Charter as Senior Vice President of Programming in March 2003 and was promoted to her current position in April 2005. From March 1999 to November 2002, Ms. Hamilton served as Vice President of Programming for AT&T Broadband, L.L.C. Prior to that, from October 1993 to March 1999, Ms. Hamilton held numerous management positions at AT&T Broadband, L.L.C. and Tele-Communications, Inc. (TCI), which was acquired by AT&T Broadband, L.L.C. in 1999. Prior to her cable television career with TCI, she was a partner with Kirkland & Ellis representing domestic and international clients in complex commercial transactions and securities matters. A magna cum laude graduate of Carleton College in Northfield, Minnesota, Ms. Hamilton received a J.D. degree from Stanford Law School, where she was Associate Managing Editor of the *Stanford Law Review* and Editor of the *Stanford Journal of International Law*.

Michael J. Lovett, 44, Executive Vice President and Chief Operating Officer. Mr. Lovett was promoted to his current position in April 2005. Prior to that he served as Executive Vice President, Operations and Customer Care from September 2004 through March 2005, and as Senior Vice President, Midwest Division Operations and as Senior Vice President of Operations Support, since joining Charter in August 2003 until September 2004. Mr. Lovett was Chief Operating Officer of Voyant Technologies, Inc.,

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a voice conferencing hardware/ software solutions provider, from December 2001 to August 2003. From November 2000 to December 2001, he was Executive Vice President of Operations for OneSecure, Inc., a startup company delivering management/monitoring of firewalls and virtual private networks. Prior to that, Mr. Lovett was Regional Vice President at AT&T from June 1999 to November 2000 where he was responsible for operations. Mr. Lovett was Senior Vice President at Jones Intercable from October 1989 to June 1999 where he was responsible for operations in nine states. Mr. Lovett began his career in cable television at Centel Corporation where he held a number of positions.

Paul E. Martin, 45, Senior Vice President, Principal Accounting Officer and Corporate Controller. Mr. Martin has been employed by Charter since March 2000, when he joined Charter as Vice President and Corporate Controller. In April 2002, Mr. Martin was promoted to Senior Vice President, Principal Accounting Officer and Corporate Controller and in August 2004 was named Interim co-Chief Financial Officer and in April 2005 was named Interim Chief Financial Officer and ceased being Interim Chief Financial Officer on February 6, 2006, upon the appointment of Jeffrey Fisher as the new Chief Financial Officer. Prior to joining us in March 2000, Mr. Martin was Vice President and Controller for Operations and Logistics for Fort James Corporation, a manufacturer of paper products. From 1995 to February 1999, Mr. Martin was Chief Financial Officer of Rawlings Sporting Goods Company, Inc. Mr. Martin received a B.S. degree with honors in Accounting from the University of Missouri - St. Louis.

Robert A. Quigley, 62, Executive Vice President and Chief Marketing Officer. Mr. Quigley joined Charter in his current position in December 2005. Prior to joining Charter, Mr. Quigley was President and CEO at Quigley Consulting Group, LLC, a private consulting group, from April 2005 to December 2005. From March 2004 to March 2005, he was Executive Vice President of Sales and Marketing at Cardean Education Group (formerly UNext com LLC), a private online education company. From February 2000 to March 2004, Mr. Quigley was Executive Vice President of America OnLine and Chief Operating Officer of its Consumer Marketing division. Prior to America OnLine, he was owner, President and CEO of Wordsquare Publishing Co. from July 1994 to February 2000. Mr. Quigley is a graduate of Wesleyan University with a B.A. in History and is a member of the Direct Marketing Association Board of Directors.

Grier C. Raclin, 53, Executive Vice President, General Counsel and Corporate Secretary. Mr. Raclin joined Charter in his current position in October 2005. Prior to joining Charter, Mr. Raclin had served as the Chief Legal Officer and Corporate Secretary of Savvis Communications Corporation since January 2003. Prior to joining Savvis, Mr. Raclin served as Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary from 2000 to 2002 and as Senior Vice President of Corporate Affairs, General Counsel and Corporate Secretary from 1997 to 2000 of Global TeleSystems Inc. (GTS). In 2001, GTS filed, in pre-arranged proceedings, a petition for reorganization (moratorium), offering a composition, in The Netherlands and a petition under Chapter 11 of the United States Bankruptcy Code, both in connection with the sale of the company to KPNQwest. Mr. Raclin earned a law degree from Northwestern University Law School, attended business school at the University of Chicago Executive Program and earned a B.S. degree from Northwestern University.

Compensation Committee Interlocks and Insider Participation

At the beginning of 2005, Mr. Lillis and Mr. Merritt served as the Option Plan Committee which administered the 1999 Charter Communications Option Plan and the Charter Communications, Inc. 2001 Stock Incentive Plan and the Compensation Committee consisted of Messrs. Allen, Lillis and Nathanson. The Option Plan Committee and the Compensation Committee merged in February 2005 and the committee then consisted of Messrs. Allen, Merritt and Nathanson. Mr. May joined the committee in August 2005. The Compensation Committee is currently comprised of Messrs. Allen, May, Merritt and Nathanson.

No member of the Compensation Committee or the Option Plan Committee was an officer or employee of Charter or any of its subsidiaries during 2005, except for Mr. Allen who served as a non-employee chairman of the Compensation Committee and Mr. May who served in a non-employee capacity

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as Interim President and Chief Executive Officer from January 2005 until August 2005. Mr. May joined the Compensation Committee in August 2005 after his service as Interim President and Chief Executive Officer. Also, Mr. Nathanson was an officer of certain of our subsidiaries prior to their acquisition by Charter in 1999 and held the title of Vice Chairman of Charter's board of directors, a non-executive, non-salaried position in 2005. Mr. Allen is the 100% owner and a director of Vulcan Inc. and certain of its affiliates, which employed Mr. Savoy, one of our directors until April 27, 2004, as an executive officer in the past and currently employs Mr. Conn and Ms. Patton as executive officers. Mr. Allen also was a director of and indirectly owned 98% of TechTV, of which Mr. Wangberg, one of our directors, was a director until the sale of TechTV to an unrelated third party in May 2004. Transactions between Charter and members of the Compensation Committee are more fully described in Director Compensation and in Certain Relationships and Related Transactions Other Miscellaneous Relationships.

During 2005, (1) none of our executive officers served on the compensation committee of any other company that has an executive officer currently serving on Charter's board of directors, Compensation Committee or Option Plan Committee and (2) none of our executive officers served as a director of another entity, one of whose executive officers served on Charter's Compensation Committee or Option Plan Committee, except for Carl Vogel who served as a director of Digeo, Inc., an entity of which Paul Allen is a director and by virtue of his position as Chairman of the board of directors of Digeo, Inc. is also a non-employee executive officer. Mr. Lovett was appointed a director of Digeo, Inc. in December 2005.

Executive Compensation**Summary Compensation Table**

The following table sets forth information regarding the compensation to those executive officers listed below for services rendered for the fiscal years ended December 31, 2003, 2004 and 2005. These officers consist of three individuals who served as Chief Executive Officer, and each of the other four most highly compensated executive officers as of December 31, 2005.

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Long-Term Compensation Award		All Other Compensation (\$)(2)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Securities Underlying Options (#)	
Neil Smit(3) President and Chief Executive Officer	2005	415,385	1,200,000(10)		3,278,500(22)	3,333,333	23,236(29)
Robert P. May(4) Former Interim President and Chief Executive Officer	2005		750,000(11)	1,360,239(17)	180,000(23)		
	2004			10,000(17)	50,000(23)		
Carl E. Vogel(5) Former President and Chief Executive Officer	2005	115,385		1,428(18)			1,697,451(30)
	2004	1,038,462	500,000(12)	38,977(18)	4,729,400(24)	580,000	3,239
	2003	1,000,000	150,000(13)	40,345(18)		750,000	3,239
Michael J. Lovett(6) Executive Vice President and Chief Operating Officer	2005	516,153		14,898(19)	265,980(25)	216,000	59,013(31)
	2004	291,346	241,888	7,797(19)	355,710(25)	172,000	6,994
	2003	81,731	60,000	2,400(19)		100,000	1,592
Paul E. Martin(7) Senior Vice President, Principal Accounting Officer and Corporate Controller	2005	350,950	100,000(14)		52,650(26)	83,700	7,047
	2004	193,173	25,000(14)		269,100(26)	77,500	6,530
	2003	167,308	14,000				4,048
Wayne H. Davis(8) Executive Vice President and Chief Technical Officer	2005	409,615			108,810(27)	145,800	3,527
	2004	269,231	61,370(15)		435,635(27)	135,000	2,278
	2003	212,885	47,500	581(20)		225,000	436
Sue Ann R. Hamilton(9) Executive Vice President Programming	2005	362,700			107,838(28)	145,000	6,351
	2004	346,000	13,045		245,575(28)	90,000	3,996
	2003	225,000	231,250(16)	4,444(21)		200,000	1,710

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- (1) Generally, bonus amounts for 2005 have not yet been determined by the Compensation Committee or Charter's Board of Directors.
- (2) Except as noted in notes 29 through 31 below, respectively, these amounts consist of matching contributions under our 401(k) plan, premiums for supplemental life insurance available to executives, and long-term disability available to executives.
- (3) Mr. Smit joined Charter on August 22, 2005 in his current position.
- (4) Mr. May served as Interim President and Chief Executive Officer from January 2005 through August 2005.
- (5) Mr. Vogel resigned from all of his positions with Charter and its subsidiaries on January 17, 2005.
- (6) Mr. Lovett joined Charter in August 2003 and was promoted to his current position in April 2005.
- (7) Mr. Martin joined Charter in March 2000. He has served as Charter's Interim Chief Financial Officer since August 2004 and continued to serve until February 6, 2006, upon appointment of Jeffrey Fisher as the new Chief Financial Officer.
- (8) Mr. Davis joined Charter in December 2001 and was promoted to his current position in June 2004.
- (9) Ms. Hamilton joined Charter in March 2003 and was promoted to her current position in April 2005.
- (10) Pursuant to his employment agreement, Mr. Smit will receive a minimum bonus of \$1,200,000 for 2005.
- (11) This bonus was paid in January 2006 pursuant to Mr. May's Executive Services Agreement. See Employment Arrangements.
- (12) Mr. Vogel's 2004 bonus was a mid-year discretionary bonus.
- (13) Mr. Vogel's 2003 bonus was determined in accordance with the terms of his employment agreement.
- (14) Includes (i) for 2005, a bonus of \$50,000 for his services as Interim Co-Chief Financial Officer and a discretionary bonus of \$50,000 and (ii) for 2004, a SOX implementation bonus of \$25,000.
- (15) Mr. Davis' 2004 bonus included a \$50,000 discretionary bonus.
- (16) Ms. Hamilton's 2003 bonus included a \$150,000 signing bonus.
- (17) Includes (i) for 2005, \$1,177,885 as compensation for services as Interim President and Chief Executive Officer pursuant to his Executive Services Agreement (see Employment Arrangements), \$67,000 as compensation for services as a director on Charter's Board of Directors, \$15,717 attributed to personal use of the corporate airplane and \$99,637 for reimbursement for transportation and living expenses pursuant to his Executive Services Agreement, and (ii) for 2004, compensation for services as a director on Charter's Board of Directors.
- (18) Includes (i) for 2005, \$1,428 attributed to personal use of the corporate airplane, (ii) for 2004, \$28,977 attributed to personal use of the corporate airplane and \$10,000 for tax advisory services, and (iii) for 2003, \$30,345 attributed to personal use of the corporate airplane and \$10,000 for tax advisory services.
- (19) Includes (i) for 2005, \$7,698 attributed to personal use of the corporate airplane and \$7,200 for automobile allowance, (ii) for 2004, \$597 attributed to personal use of the corporate airplane and \$7,200 for automobile allowance and (iii) for 2003, \$2,400 for automobile allowance.
- (20) Amount attributed to personal use of the corporate airplane.
- (21) Amount attributed to personal use of the corporate airplane.

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- (22) Pursuant to his employment agreement, Mr. Smit received 1,250,000 restricted shares in August 2005, which will vest on the third anniversary of the grant date and 1,562,500 restricted shares in August 2005, which will vest on the first anniversary of the grant date. See Employment Arrangements. At December 31, 2005, the value of all of the named officer's unvested restricted stock holdings was \$3,431,250, based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005.
- (23) Includes (i) for 2005, 100,000 restricted shares granted in April 2005 under our 2001 Stock Incentive Plan for Mr. May's services as Interim President and Chief Executive Officer that vested

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upon his termination in that position in August 2005 and 40,650 restricted shares granted in October 2005 under our 2001 Stock Incentive Plan for Mr. May's annual director grant which vests on the first anniversary of the grant date. At December 31, 2005, the value of all of the named officer's unvested restricted stock holdings was \$49,593, based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005, and (ii) for 2004, 19,685 restricted shares granted in October 2004 under our 2001 Stock Incentive Plan for Mr. May's annual director grant, which vested on its first anniversary of the grant date in October 2005.

- (24) Includes 340,000 performance shares granted in January 2004 under our Long-Term Incentive Program that were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria. Also includes 680,000 restricted shares issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and the other half of which were to vest over three years in equal one-third installments. Under the terms of the separation agreement described below in Employment Arrangements, his options and remaining restricted stock vested until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter. All performance shares were forfeited upon termination of employment. All remaining unvested restricted stock and stock options were cancelled on December 31, 2005. Therefore, at December 31, 2005, the value of all of the named officer's unvested restricted stock holdings was \$0, based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005.
- (25) Includes (i) for 2005, 129,600 performance shares granted in April 2005 under our Long-Term Incentive Program which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria and 75,000 restricted shares granted in April 2005 under the 2001 Stock Incentive Plan that will vest on the third anniversary of the grant date, and (ii) for 2004, 88,000 performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2005, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$356,972, based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005.
- (26) Includes (i) for 2005, 40,500 performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and (ii) for 2004, 37,500 performance shares granted in January 2004 under our Long-Term Incentive Program which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria and 17,214 restricted shares issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and the other half of which will vest over three years in equal one-third installments. At December 31, 2005, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$112,661, based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005.
- (27) Includes (i) for 2005, 83,700 performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and (ii) for 2004, 77,500 performance shares granted in January 2004 under our Long-Term Incentive Program which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria and 8,000 restricted shares issued in exchange for stock options held by the named officer pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and the other half of which will vest over three years in equal one-third installments. At December 31, 2005, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$204,797, based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005.

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- (28) These restricted shares consist of 83,700 and 47,500 performance shares granted in 2005 and 2004, respectively, under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2005, the value of all of the named officer's unvested restricted stock holdings (including performance shares) was \$160,064 based on a per share market value (closing sale price) of \$1.22 for Charter's Class A common stock on December 31, 2005.
- (29) In addition to items in Note 2 above, includes \$19,697 attributed to reimbursement for taxes (on a grossed up basis) paid in respect of prior reimbursements for relocation expenses.
- (30) In addition to items in Note 2 above, includes accrued vacation at time of termination and severance payments pursuant to Mr. Vogel's separation agreement (see Employment Arrangements).
- (31) In addition to items in Note 2 above, includes \$51,223 attributed to reimbursement for taxes (on a grossed up basis) paid in respect of prior reimbursements for relocation expenses.

2005 Option Grants

The following table shows individual grants of options made to individuals named in the Summary Compensation Table during 2005. All such grants were made under the 2001 Stock Incentive Plan and the exercise price was based upon the fair market value of Charter's Class A common stock on the respective grant dates.

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Employees in 2005	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation For Option Term(2)	
					5% (\$)	10% (\$)
Neil Smit	3,333,333	30.83%	\$1.18	8/22/2015	\$2,465,267	\$6,247,470
Robert P. May						
Carl E. Vogel						
Michael J. Lovett	216,000	2.00%	1.30	4/26/2015	175,914	445,802
Paul E. Martin	83,700	0.77%	1.30	4/26/2015	68,430	173,415
Wayne H. Davis	145,800	1.35%	1.30	4/26/2015	118,742	300,916
Sue Ann R. Hamilton	97,200	0.90%	1.53	3/25/2015	93,221	236,240
	47,800	0.44%	1.27	10/18/2015	38,208	96,826

- (1) Options are transferable under limited conditions, primarily to accommodate estate planning purposes. These options generally vest in four equal installments commencing on the first anniversary following the grant date.
- (2) This column shows the hypothetical gains on the options granted based on assumed annual compound price appreciation of 5% and 10% over the full ten-year term of the options. The assumed rates of 5% and 10% appreciation are mandated by the SEC and do not represent our estimate or projection of future prices.

Table of Contents**2005 Aggregated Option Exercises and Option Value**

The following table sets forth, for the individuals named in the Summary Compensation Table, (i) information concerning options exercised during 2005, (ii) the number of shares of our Class A common stock underlying unexercised options at year-end 2005, and (iii) the value of unexercised in-the-money options (i.e., the positive spread between the exercise price of outstanding options and the market value of our Class A common stock) on December 31, 2005.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2005 (#)(1)		Value of Unexercised In-the- Money Options at December 31, 2005 \$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Neil Smit				3,333,333	\$	\$ 133,333
Robert P. May						
Carl E. Vogel(3)			1,120,000			
Michael J. Lovett			93,000	395,000		
Paul E. Martin			145,125	193,075		
Wayne H. Davis			176,250	379,550		
Sue Ann R. Hamilton			122,500	312,500		

- (1) Options granted prior to 2001 and under the 1999 Charter Communications Option Plan, when vested, are exercisable for membership units of Charter Holdco which are immediately exchanged on a one-for-one basis for shares of our Class A common stock upon exercise of the option. Options granted under the 2001 Stock Incentive Plan and after 2000 are exercisable for shares of our Class A common stock.
- (2) Based on a per share market value (closing price) of \$1.22 as of December 31, 2005 for our Class A common stock.
- (3) Mr. Vogel's employment terminated on January 17, 2005. Under the terms of the separation agreement, his options continued to vest until December 31, 2005, and all vested options are exercisable until sixty (60) days thereafter.

Long-Term Incentive Plans Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights(#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold (#)	Target (#)	Maximum (#)
Neil Smit	0	n/a			
Robert P. May	0	n/a			
Carl E. Vogel	0	n/a			
Michael J. Lovett	129,600	1 year performance cycle 3 year vesting	90,720	129,600	259,200
Paul E. Martin	40,500	1 year performance cycle 3 year vesting	28,350	40,500	81,000
Wayne H. Davis	83,700	1 year performance cycle 3 year vesting	58,590	83,700	167,400
Sue Ann R. Hamilton	83,700	1 year performance cycle 3 year vesting	58,590	83,700	167,400

Option/ Stock Incentive Plans

The Plans. We have granted stock options, restricted stock and other incentive compensation under two plans the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan. The 1999

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Charter Communications Option Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and to our current and prospective non-employee directors. Membership units received upon exercise of any options are immediately exchanged for shares of Charter Class A common stock on a one-for-one basis.

The 2001 Stock Incentive Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 20,000,000 shares) as each term is defined in the 2001 Stock Incentive Plan. Employees, officers, consultants and directors of Charter and its subsidiaries and affiliates are eligible to receive grants under the 2001 Stock Incentive Plan. Generally, options expire 10 years from the grant date. Unless sooner terminated by our board of directors, the 2001 Stock Incentive Plan will terminate on February 12, 2011, and no option or award can be granted thereafter.

Together, the plans allow for the issuance of up to a total of 90,000,000 shares of our Class A common stock (or units exchangeable for our Class A common stock). Any shares covered by options that are terminated under the 1999 Charter Communications Option Plan will be transferred to the 2001 Stock Incentive Plan, and no new options will be granted under the 1999 Charter Communications Option Plan. At December 31, 2005, 1,317,520 shares had been issued under the plans upon exercise of options, 825,725 had been issued upon vesting of restricted stock granted under the plans, and 4,252,570 shares were subject to future vesting under restricted stock agreements. Of the remaining 83,604,185 shares covered by the plans, as of December 31, 2005, 29,126,744 were subject to outstanding options (34% of which were vested), and there were 11,719,032 performance shares granted under Charter's Long-Term Incentive Program or the February 20, 2004 exchange offer discussed later, which will vest on the third anniversary of the date of grant conditional upon Charter's performance against certain financial targets approved by Charter's board of directors at the time of the award. As of December 31, 2005, 42,758,409 shares remained available for future grants under the plans. As of December 31, 2005, there were 5,341 participants in the plans.

The plans authorize the repricing of options, which could include reducing the exercise price per share of any outstanding option, permitting the cancellation, forfeiture or tender of outstanding options in exchange for other awards or for new options with a lower exercise price per share, or repricing or replacing any outstanding options by any other method.

Long-Term Incentive Plan. In January 2004, the Compensation Committee of our board of directors approved our Long-Term Incentive Program, or LTIP, which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options, and more senior level employees were eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance shares vest on the third anniversary of the date of grant shares of Class A common stock are issued, conditional upon our performance against financial performance measures established by our management and approved by the board of directors or Compensation Committee as of the time of the award. We granted 6,899,600 performance shares in January 2004 under this program and recognized expense of \$8 million in the first three quarters of 2004. However, in the fourth quarter of 2004, we reversed the entire \$8 million of expense based on our assessment of the probability of achieving the financial performance measures established by management and required to be met for the performance shares to vest. In March and April 2005, Charter granted 2.8 million performance shares under the LTIP.

The 2001 Stock Incentive Plan must be administered by, and grants and awards to eligible individuals must be approved by our board of directors or a committee thereof consisting solely of non-employee directors as defined in Section 16b-3 under the Securities Exchange Act of 1934, as amended. The board of directors or such committee determines the terms of each stock option grant, restricted stock grant or other award at the time of grant, including the exercise price to be paid for the shares, the vesting

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schedule for each option, the price, if any, to be paid by the grantee for the restricted stock, the restrictions placed on the shares, and the time or times when the restrictions will lapse. The board of directors or such committee also has the power to accelerate the vesting of any grant or extend the term thereof.

Upon a change of control of Charter, the board of directors or the administering committee can shorten the exercise period of any option, have the survivor or successor entity assume the options with appropriate adjustments, or cancel options and pay out in cash. If an optionee's or grantee's employment is terminated without cause or for good reason following a change in control (as those terms are defined in the plans), unless otherwise provided in an agreement, with respect to such optionee's or grantee's awards under the plans, all outstanding options will become immediately and fully exercisable, all outstanding stock appreciation rights will become immediately and fully exercisable, the restrictions on the outstanding restricted stock will lapse, and all of the outstanding performance shares will vest and the restrictions on all of the outstanding performance shares will lapse as if all performance objectives had been satisfied at the maximum level.

February 2004 Option Exchange. In January 2004, we offered employees of Charter and its subsidiaries the right to exchange all stock options (vested and unvested) under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. Based on a sliding exchange ratio, which varied depending on the exercise price of an employee's outstanding options, if an employee would have received more than 400 shares of restricted stock in exchange for tendered options, we issued to that employee shares of restricted stock in the exchange. If, based on the exchange ratios, an employee would have received 400 or fewer shares of restricted stock in exchange for tendered options, we instead paid to the employee cash in an amount equal to the number of shares the employee would have received multiplied by \$5.00. The offer applied to options to purchase a total of 22,929,573 shares of Class A common stock, or approximately 48% of our 47,882,365 total options (vested and unvested) issued and outstanding as of December 31, 2003. Participation by employees was voluntary. Non-employee members of the board of directors of Charter or any of its subsidiaries were not eligible to participate in the exchange offer.

In the closing of the exchange offer on February 20, 2004, we accepted for cancellation eligible options to purchase approximately 18,137,664 shares of our Class A common stock. In exchange, we granted approximately 1,966,686 shares of restricted stock, including 460,777 performance shares to eligible employees of the rank of senior vice president and above, and paid a total cash amount of approximately \$4 million (which amount includes applicable withholding taxes) to those employees who received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options eligible to be exchanged under the program.

The cost of the stock option exchange program was approximately \$10 million, with a 2004 cash compensation expense of approximately \$4 million and a non-cash compensation expense of approximately \$6 million to be expensed ratably over the three-year vesting period of the restricted stock issued in the exchange.

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The participation of the Named Executive Officers in this exchange offer is reflected in the following table:

Name	Date	Number of Securities Underlying Options Exchanged	Market Price of Stock at Time of Exchange (\$)	Exercise Price at Time of Exchange (\$)	New Exercise Price (\$)	Length of Original Option Term Remaining at Date of Exchange
Carl E. Vogel Former President and Chief Executive Officer	2/25/04	3,400,000	4.37	13.68	(1)	7 years 7 months
Paul E. Martin	2/25/04	15,000	4.37	23.09	(2)	7 years 0 months
Senior Vice President, Interim Chief Financial Officer, Principal Accounting Officer and Corporate Controller		50,000	4.37	11.99		7 years 7 months
		40,000	4.37	15.03		6 years 2 months
Wayne H. Davis	2/25/04	40,000	4.37	23.09	(3)	7 years 0 months
Executive Vice President and Chief Technical Officer		40,000	4.37	12.27		7 years 11 months

- (1) On February 25, 2004, in exchange for 3,400,000 options tendered, 340,000 performance shares were granted with a three year performance cycle and three year vesting along with 340,000 restricted stock units with one-third of the shares vesting on each of the first three anniversaries of the grant date. On the grant date, the price of our common stock was \$4.37.
- (2) On February 25, 2004, in exchange for 105,000 options tendered, 8,607 performance shares were granted with a three year performance cycle and three year vesting along with 8,607 restricted stock units with one-third of the shares vesting on each of the first three anniversaries of the grant date. On the grant date, the price of our common stock was \$4.37.
- (3) On February 25, 2004, in exchange for 80,000 options tendered, 4,000 performance shares were granted with a three year performance cycle and three year vesting along with 4,000 restricted stock units with one-third of the shares vesting on each of the first three anniversaries of the grant date. On the grant date, the price of our common stock was \$4.37.

2005 Executive Cash Award Plan

In June 2005, Charter adopted the 2005 Executive Cash Award Plan to provide additional incentive to, and retain the services of, certain officers of Charter and its subsidiaries, to achieve the highest level of individual performance and contribute to the success of Charter. Eligible participants are employees of Charter or any of its subsidiaries who have been recommended by the CEO and designated and approved as Plan participants by the Compensation Committee of Charter's board of directors. At the time the Plan was adopted, the interim CEO recommended and the Compensation Committee designated and approved as Plan participants the permanent President and Chief Executive Officer position, Executive Vice President positions and selected Senior Vice President positions.

The Plan provides that each participant be granted an award which represents an opportunity to receive cash payments in accordance with the Plan. An award will be credited in book entry format to a participant's account in an amount equal to 100% of a participant's base salary on the date of Plan approval in 2005 and 20% of participant's base salary in each year 2006 through 2009, based on that participant's base salary as of May 1 of the applicable year. The Plan awards will vest at the rate of 50% of the plan award balance at the end of 2007 and 100% of the plan award balance at the end of 2009. Participants will be entitled to receive payment of the vested portion of the award if the participant remains employed by Charter continuously from the date of the participant's initial participation through

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the end of the calendar year in which his or her award becomes vested, subject to payment of pro-rated award balances to a participant who terminates due to death or disability or in the event Charter elects to terminate the Plan.

A participant's eligibility for, and right to receive, any payment under the Plan (except in the case of intervening death) is conditioned upon the participant first executing and delivering to Charter an agreement releasing and giving up all claims that participant may have against Charter and related parties arising out of or based upon any facts or conduct occurring prior to the payment date, and containing additional restrictions on post-employment use of confidential information, non-competition and non-solicitation and recruitment of customers and employees.

Employment Arrangements and Related Agreements

Charter and Neil Smit entered into an agreement as of August 9, 2005 whereby Mr. Smit will serve as Charter's President and Chief Executive Officer (the "Employment Agreement") for a term expiring on December 31, 2008, unless extended for an additional two years at Charter's option. Under the Employment Agreement, Mr. Smit will receive a \$1,200,000 base salary per year, through the third anniversary of the agreement, and thereafter \$1,440,000 per year for the remainder of the Employment Agreement. Mr. Smit shall be eligible to receive a performance-based target bonus of 125% of annualized salary, with a maximum bonus of 200% of annualized salary, as determined by the Compensation Committee of Charter's Board of Directors. However, for 2005 only, he will receive a minimum bonus of \$1,200,000, provided that he is employed by Charter on December 31, 2005. Under Charter's Long-Term Incentive Plan he will receive options to purchase 3,333,333 shares of Class A common stock, exercisable for 10 years, with annual vesting of one-third of the grant in each of the three years from the employment date; a performance share award for a maximum of 4,123,720 shares of Class A common stock, to be earned during a three-year performance cycle starting January 2006; and a restricted stock award of 1,562,500 shares of Class A common stock, with annual vesting over three years following employment date. In addition, Mr. Smit will receive another restricted stock award for 1,250,000 shares of Class A common stock vesting on the first anniversary of employment date.

Mr. Smit will receive full reimbursement for his relocation expenses and employee benefits consistent with those made generally available to other senior executives. In the event that Mr. Smit is terminated by Charter without cause or for good reason termination, as those terms are defined in the Employment Agreement, he will receive the greater of two times base salary or salary through the remainder to the term of the Employment Agreement; a pro rata bonus for the year of termination; full vesting of options and restricted shares; vesting of performance stock if targets are achieved; and a lump sum payment equal to twelve months of COBRA payments. The Employment Agreement contains non-compete provisions from six months to two years, depending on the type of termination. Charter will gross up federal taxes in the event that Mr. Smit is subject to any additional tax under Section 409A of the Internal Revenue Code.

Charter entered into an agreement with Robert P. May, effective January 17, 2005, whereby Mr. May served as Charter's Interim President and Chief Executive Officer (the "May Executive Services Agreement"). Under the May Executive Services Agreement, Mr. May received a \$1,250,000 base fee per year. Mr. May continued to receive the compensation and reimbursement of expenses to which he was entitled in his capacity as a member of the board of directors. Mr. May's employment agreement provided that Charter would provide equity incentives commensurate with his position and responsibilities, as determined by the board of directors. Accordingly, Mr. May was granted 100,000 shares of restricted stock under our 2001 Stock Incentive Plan. The 100,000 restricted shares vested on the date on which Mr. May's interim service as President and Chief Executive Officer terminated, August 22, 2005. Mr. May served as an independent contractor and was not entitled to any vacation or eligible to participate in any employee benefit programs of Charter. Charter reimbursed Mr. May for reasonable transportation costs from Mr. May's residence in Florida or other locations to Charter's offices and provided temporary living quarters or reimbursed expenses related thereto. The May Executive Services Agreement was terminated effective December 31, 2005 and upon termination of the Agreement, Mr. May was eligible for a bonus payment. On January 5, 2006, Charter paid him a bonus of \$750,000, with the possibility that such bonus

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would be increased by an additional percentage. The additional percentage, if any, would be equal to any percent increase in bonus paid to Charter executives under the 2005 Executive Bonus Plan as a result of an adjustment by the Board of Directors to a certain bonus parameter for all executives.

On April 1, 2005, we entered into an employment agreement with Mr. Lovett, pursuant to which he will be employed as Executive Vice President and Chief Operating Officer for a term commencing April 1, 2005 and expiring on April 1, 2008. The contract will be reviewed every 18 months thereafter and may be extended pursuant to such reviews. Under the agreement, Mr. Lovett will receive an annual base salary of \$575,000 and will be eligible to receive an annual bonus targeted at 80% of his base salary under our senior management bonus plan. We agreed to provide Mr. Lovett with equity incentives commensurate with his position and responsibilities, as determined by the board of directors in its discretion. Accordingly, Mr. Lovett has been granted 75,000 shares of restricted stock under our 2001 Stock Incentive Plan. The 75,000 restricted shares will vest one third on each of the first three anniversaries of the date of grant (unless there is an earlier termination event for Cause, as defined in the 2001 Stock Incentive Plan). If his employment is terminated without cause or if he terminates his employment due to a change in control or for good reason (as defined in the agreement), we will pay Mr. Lovett an amount equal to the aggregate base salary due to Mr. Lovett during the remainder of the term, within fifteen days of termination. In addition, if we terminate his employment without cause, Mr. Lovett will be entitled to receive a pro rated bonus for the fiscal year in which he is terminated based upon financial results through the month of termination. Mr. Lovett's agreement includes a covenant not to compete for the balance of the term and for two years thereafter. The agreement further provides that Mr. Lovett is entitled to receive certain relocation expenses and to participate in any benefit plan generally afforded to, and to receive vacation and sick pay on such terms as are offered to, our other senior executive officers.

As of January 20, 2006, Charter entered into an employment agreement with Mr. Fisher, Executive Vice President and Chief Executive Officer (the Employment Agreement). The Employment Agreement provides that Mr. Fisher will serve in an executive capacity as its Executive Vice President at a salary of \$500,000, to perform such executive, managerial and administrative duties as are assigned or delegated by President and/or Chief Executive Officer, including but not limited to serving as Chief Financial Officer. The term of the Employment Agreement is two years from the effective date. Under the Employment Agreement, Mr. Fisher will receive a signing bonus of \$100,000 and he shall be eligible to receive a performance-based target bonus of up to 70% of salary and to participate in the Long Term Incentive Plan and to receive such other employee benefits as are available to other senior executives. Mr. Fisher will participate in the 2005 Executive Cash Award Plan commencing in 2006 and, in addition, Charter will provide the same additional benefit to Mr. Fisher that he would have been entitled to receive under the Cash Award Plan if he had participated in the Plan at the time of the inception of the Plan in 2005. He will also receive a grant of 50,000 restricted shares of Charter's Class A common stock, vesting in equal installments over a three-year period from employment date; an award of options to purchase 1,000,000 shares of Charter's Class A common stock under terms of the stock incentive plan on the effective date of the Employment Agreement; and in the first quarter of 2006, an award of additional options to purchase 145,800 shares of Charter's Class A common stock under the stock incentive plan. Those options shall vest in equal installments over a four-year time period from the grant date. In addition, in the first quarter of 2006, he will receive 83,700 performance shares under the stock incentive plan and will be eligible to earn these shares over a three-year performance cycle from January 2006 to December 2008.

Mr. Fisher will receive relocation assistance pursuant to Charter's executive homeowner relocation plan and the costs for temporary housing. In the event that Mr. Fisher is terminated by Charter without cause or for good reason, as those terms are defined in the Employment Agreement, Mr. Fisher will receive his salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made.

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The Employment Agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) and a two-year non-solicitation clause.

On September 7, 2005, Charter entered into an employment agreement with Wayne Davis, Executive Vice President and Chief Technical Officer. The agreement provides that Mr. Davis shall be employed in an executive capacity to perform such duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$450,000. The term of this agreement is two years from the date of the agreement. Mr. Davis shall be eligible to participate in Charter's Long-Term Incentive Plan, Stock Option Plan and to receive such employee benefits as are available to other senior executives. In the event that he is terminated by Charter without cause or for good reason, as those terms are defined in the agreement, he will receive his salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The agreement contains one-year, non-compete provisions (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreements, and two-year non-solicitation clauses.

Effective January 9, 2006, Charter entered into a retention agreement with Mr. Martin, in which Mr. Martin agreed to remain as Interim Chief Financial Officer until at least March 31, 2006 or such time as Charter reassigns or terminates his employment, whichever occurs first (Termination Date). On the Termination Date, Charter will pay Mr. Martin a special retention bonus in a lump sum of \$116,200. This special retention bonus is in addition to any amounts due to Mr. Martin under the 2005 Executive Bonus Plan and to any other severance amounts, set forth below. Mr. Martin will not participate in any executive incentive or bonus plan for 2006 unless otherwise agreed to by the parties. In addition, pursuant to this agreement, Charter will treat (a) any termination of Mr. Martin's employment by Charter without Cause, and other than due to Death or Disability, as such terms are defined in his previously-executed Employment Agreement, after January 1, 2006, and (b) any termination by Mr. Martin of his employment for any reason after April 1, 2006 (including voluntary resignation), as if his employment terminated without Cause and Charter will pay as severance to Mr. Martin an amount calculated pursuant to his Employment Agreement on the basis of his base salary as Controller and without regard to any additional compensation he had been receiving as Interim Chief Financial Officer. He will also receive three months of outplacement assistance at a level and from a provider selected by Charter in its sole discretion.

On September 2, 2005, Charter entered into an employment agreement with Mr. Martin, Senior Vice President, Principal Accounting Officer and Corporate Controller. The agreement provides that Mr. Martin shall be employed in an executive capacity to perform such duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$240,625. The term of this agreement is two years from the date of the agreement. Mr. Martin shall be eligible to participate in Charter's Long-Term Incentive Plan, Stock Option Plan and to receive such employee benefits as are available to other senior executives. In the event that he is terminated by Charter without cause or for good reason, as those terms are defined in the agreement, he will receive his salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The agreement contains one-year, non-compete provisions (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreements, and two-year non-solicitation clauses.

Effective April 15, 2005, Charter also entered into an agreement governing the terms of the service of Mr. Martin as Interim Chief Financial Officer. Under the terms of the agreement, Mr. Martin will receive approximately \$13,700 each month for his service in the capacity of Interim Chief Financial Officer until a permanent Chief Financial Officer is employed. Under the agreement, Mr. Martin will also be eligible to receive an additional bonus opportunity of up to approximately \$13,600 per month served as Interim Chief

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Financial Officer, payable in accordance with Charter's 2005 Executive Bonus Plan. The amounts payable to Mr. Martin under the agreement are in addition to all other amounts Mr. Martin receives for his services in his capacity as Senior Vice President, Principal Accounting Officer and Corporate Controller. In addition, Mr. Martin received an additional special bonus of \$50,000 for his service as Interim co-Chief Financial Officer prior to April 15, 2005. This amount is in addition to the bonus agreed upon in 2004 for his service in that capacity through March 31, 2005.

On October 31, 2005, Charter entered into an employment agreement with Ms. Hamilton, Executive Vice President, Programming. The agreement provides that Ms. Hamilton shall be employed in an executive capacity to perform such duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$371,800. The term of this agreement is two years from the date of the agreement. She shall be eligible to participate in Charter's incentive bonus plan that applies to senior executives, Stock Option Plan and to receive such employee benefits as are available to other senior executives. In the event that Ms. Hamilton is terminated by Charter without cause or for good reason, as those terms are defined in the employment agreement, Hamilton will receive her salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreements, and two-year non-solicitation clauses.

On November 14, 2005, Charter executed an employment agreement with Mr. Raclin, effective as of October 10, 2005. The agreement provides that Mr. Raclin shall be employed in an executive capacity as Executive Vice President and General Counsel with management responsibility for Charter's legal affairs, governmental affairs, compliance and regulatory functions and to perform such other legal, executive, managerial and administrative duties as are assigned or delegated by the Chief Executive Officer or the equivalent position, at a salary of \$425,000, to be reviewed on an annual basis. The agreement also provides for a one time signing bonus of \$200,000, the grant of 50,000 restricted shares of Charter Class A common stock, an option to purchase 100,000 shares of Charter common stock under the Incentive Stock Plan, an option to purchase 145,800 shares of Charter common stock under the Long Term Incentive portion of the Incentive Stock Plan, and 62,775 performance shares under the Incentive Stock Plan. He shall be eligible to participate in the incentive bonus plan, the 2005 Executive Cash Award Plan and to receive such other employee benefits as are available to other senior executives. The term of this agreement is two years from the effective date of the agreement. In the event that Mr. Raclin is terminated by Charter without cause or by Mr. Raclin for good reason, as those terms are defined in the employment agreement, Mr. Raclin will receive (a) if such termination occurs before the first scheduled payout of the executive cash award plan (unless that failure is due to his failure to execute the required related agreement) or at any time within one year after a change of control as defined in the agreement, two (2) times his salary or (b) if such termination occurs at any other time, his salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreement, and a two-year non-solicitation clause. Mr. Raclin is entitled to relocation assistance pursuant to Charter's executive homeowner relocation plan and the costs for temporary housing until he consummates the purchase of a home in the St. Louis area or August 16, 2006, whichever occurs first.

On December 9, 2005, Charter executed an employment agreement with Mr. Quigley. The agreement provides that Mr. Quigley shall be employed in an executive capacity to perform such executive, managerial and administrative duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$450,000. He shall be eligible to participate in the

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incentive bonus plan, stock option plan and to receive such other employee benefits as are available to other senior executives. The term of this agreement is two years from the effective date of the agreement. In the event that Mr. Quigley's employment is terminated by Charter without cause or by Mr. Quigley for good reason, as those terms are defined in the employment agreement, Mr. Quigley will receive his salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreements, and two-year non-solicitation clauses. In addition, at the time of his employment, Charter agreed to pay him a signing bonus of \$200,000 deferred until January 2006; grant options to purchase 145,800 shares of Class A common stock under our 2001 Stock Incentive Plan; 83,700 performance shares under our 2001 Stock Incentive Plan; and 50,000 shares of restricted stock which will vest over a three year period.

Until his resignation in January 2005, Mr. Vogel was employed as President and Chief Executive Officer, earning a base annual salary of \$1,000,000 and was eligible to receive an annual bonus of up to \$500,000, a portion of which was based on personal performance goals and a portion of which was based on company performance measured against criteria established by the board of directors with Mr. Vogel. Pursuant to his employment agreement, Mr. Vogel was granted 3,400,000 options to purchase Class A common stock and 50,000 shares of restricted stock under our 2001 Stock Incentive Plan. In the February 2004 option exchange, Mr. Vogel exchanged his 3,400,000 options for 340,000 shares of restricted stock and 340,000 performance shares. Mr. Vogel's initial 50,000 restricted shares vested 25% on the grant date, with the remainder vesting in 36 equal monthly installments beginning December 2002. The 340,000 shares of restricted stock were to vest over a three-year period, with one-third of the shares vesting on each of the first three anniversaries of the grant date. The 340,000 performance shares were to vest at the end of a three-year period if certain financial criteria were met. Mr. Vogel's agreement provided that, if Mr. Vogel is terminated without cause or if Mr. Vogel terminated the agreement for good reason, he is entitled to his aggregate base salary due during the remainder of the term and full prorated benefits and bonus for the year in which termination occurs. Mr. Vogel's agreement included a covenant not to compete for the balance of the initial term or any renewal term, but no more than one year in the event of termination without cause or by Mr. Vogel with good reason. Mr. Vogel's agreement entitled him to participate in any disability insurance, pensions or other benefit plans afforded to employees generally or to our executives, including our LTIP. We agreed to reimburse Mr. Vogel annually for the cost of term life insurance in the amount of \$5 million, although he declined this reimbursement in 2003, 2004 and 2005. Mr. Vogel was entitled to reimbursement of fees and dues for his membership in a country club of his choice, which he declined in 2003, 2004 and 2005, and reimbursement for up to \$10,000 per year for tax, legal and financial planning services. His agreement also provided for a car and associated expenses for Mr. Vogel's use. Mr. Vogel's agreement provided for automatic one-year renewals and also provided that we would cause him to be elected to our board of directors without any additional compensation.

In February 2005, Charter entered into an agreement with Mr. Vogel setting forth the terms of his resignation. Under the terms of the agreement, Mr. Vogel received in February 2005 all accrued and unpaid base salary and vacation pay through the date of resignation and a lump sum payment equal to the remainder of his base salary during 2005 (totaling \$953,425). In addition, he received a lump sum cash payment of approximately \$358,000 in January 2006, which represented the agreed-upon payment of \$500,000 reduced to the extent of compensation attributable to certain competitive activities.

Mr. Vogel continued to receive certain health benefits during 2005 and will receive COBRA premiums for such health insurance coverage for 18 months thereafter. All of his outstanding stock options, as well as his restricted stock granted in 2004 (excluding 340,000 shares of restricted stock granted as performance units, which will automatically be forfeited), continued to vest through December 31, 2005. In addition, one-half of the remaining unvested portion of his 2001 restricted stock

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grant vested upon the effectiveness of the agreement, and the other half was forfeited. Mr. Vogel has 60 days after December 31, 2005 to exercise any outstanding vested stock options. Under the agreement, Mr. Vogel waived any further right to any bonus or incentive plan participation and provided certain releases of claims against Charter and its subsidiaries from any claims arising out of or based upon any facts occurring prior to the date of the agreement, but Charter will continue to provide Mr. Vogel certain indemnification rights and to include Mr. Vogel in its director and officer liability insurance for a period of six years. Charter and its subsidiaries also agreed to provide releases of certain claims against Mr. Vogel with certain exceptions reserved. Mr. Vogel has also agreed, with limited exceptions that he will continue to be bound by the covenant not to compete, confidentiality and non-disparagement provisions contained in his 2001 employment agreement.

In addition to the indemnification provisions which apply to all employees under our bylaws, Mr. Vogel's agreement provides that we will indemnify and hold him harmless to the maximum extent permitted by law from and against any claims, damages, liabilities, losses, costs or expenses in connection with or arising out of the performance by him of his duties. The above agreement also contains confidentiality and non-solicitation provisions.

We have established separation guidelines which generally apply to all employees in situations where management determines that an employee is entitled to severance benefits. Severance benefits are granted solely in management's discretion and are not an employee entitlement or guaranteed benefit. The guidelines provide that persons employed at the level of Senior Vice President may be eligible to receive between six and fifteen months of severance benefits and persons employed at the level of Executive Vice President may be eligible to receive between nine and eighteen months of severance benefits in the event of separation under certain circumstances generally including elimination of a position, work unit or general staff reduction. Separation benefits are contingent upon the signing of a separation agreement containing certain provisions including a release of all claims against us. Severance amounts paid under these guidelines are distinct and separate from any one-time, special or enhanced severance programs that may be approved by us from time to time.

Our senior executives are eligible to receive bonuses according to our 2005 Executive Bonus Plan. Under this plan, our executive officers and certain other management and professional employees are eligible to receive an annual bonus. Each participating employee would receive his or her target bonus if Charter (or such employee's division) meets specified performance measures for revenues, operating cash flow, free cash flow and customer satisfaction.

Limitation of Directors' Liability and Indemnification Matters

Our certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. The Delaware General Corporation Law provides that a corporation may eliminate or limit the personal liability of a director for monetary damages for breach of fiduciary duty as a director, except for liability for:

- (1) any breach of the director's duty of loyalty to the corporation and its shareholders;
- (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- (3) unlawful payments of dividends or unlawful stock purchases or redemptions; or
- (4) any transaction from which the director derived an improper personal benefit.

Our bylaws provide that we will indemnify all persons whom we may indemnify pursuant thereto to the fullest extent permitted by law.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We have reimbursed certain of our current and former directors, officers and employees in connection with their defense in certain legal actions. See Certain Relationships and Related Transactions Other Miscellaneous Relationships Indemnification Advances.

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The following table sets forth certain information regarding beneficial ownership of the Company's Class A common stock (Class A common stock) as of December 31, 2005 by:

each current director of the Company;

the current chief executive officer and individuals named in the Summary Compensation Table;

all persons currently serving as directors and officers of the Company, as a group; and

each person known by us to own beneficially 5% or more of our outstanding Class A common stock as of December 31, 2005.

With respect to the percentage of voting power set forth in the following table:

each holder of Class A common stock is entitled to one vote per share; and

each holder of the Company's Class B common stock (Class B common stock) is entitled to (i) ten votes per share of Class B common stock held by such holder and its affiliates and (ii) ten votes per share of Class B Common Stock for which membership units in Charter Holdco held by such holder and its affiliates are exchangeable.

The 50,000 shares of Class B common stock owned by Mr. Allen represents 100% of the outstanding Class B common stock.

Name and Address of Beneficial Owner	Number of Class A Shares (Voting and Investment Power)(1)	Unvested Restricted Class A Shares (Voting Power Only)(2)	Class A Shares Receivable on Exercise of Vested Options or Other Convertible Securities(3)	Number of Class B Shares Owned	Class B Shares Issuable upon Exchange or Conversion of Units(4)	% of Class A Shares (Voting and Investment Power)(4)(5)	% of Voting Power (5)(6)
Paul G. Allen(7)	29,126,463	39,063	10,000	50,000	363,794,364	50.38%	90.45%
Charter Investment, Inc.(8)					247,481,191	37.29%	*
Vulcan Cable III Inc.(9)					116,313,173	21.84%	*
Neil Smit		2,812,500				*	*
Robert P. May	119,685	40,650				*	*
W. Lance Conn	19,231	32,072				*	*
Nathaniel A. Davis		43,215				*	*
Jonathan L. Dolgen	19,685	40,650				*	*
David C. Merritt	25,705	39,063				*	*
Jo Allen Patton	10,977	40,323				*	*
Marc B. Nathanson	425,705	39,063	50,000			*	*
John H. Tory	30,005	39,063	40,000			*	*
Larry W. Wangberg	28,705	39,063	40,000			*	*
Michael J. Lovett	7,500	75,000	112,375			*	*
Wayne H. Davis	2,667	1,332	210,000			*	*
Sue Ann Hamilton			169,300			*	*
Paul E. Martin	11,738	2,869	162,500			*	*
All current directors and executive officers as a group (18 persons)	29,828,066	3,383,926	794,175	50,000	363,794,364	50.95%	90.56%
Carl E. Vogel(10)	113,334		1,265,000			*	*
Scott A. Bommer(11)	18,237,744					4.38%	*
Glenview Capital Management, LLC(12)	19,903,500					4.78%	*

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Glenview Capital GP, LLC(12)	19,903,500	4.78%	*
Lawrence M. Robbins(12)	19,903,500	4.78%	*
Steelhead Partners (13)	30,284,630	7.28%	*

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Name and Address of Beneficial Owner	Number of Class A Shares	Unvested Restricted Class A Shares	Class A Shares Receivable on Exercise of Vested Options or Other Convertible Securities(3)	Number of Class B Shares Owned	Class B Shares Issuable upon Exchange or Conversion of Units(4)	% of Class A Shares	% of Voting Power
	(Voting and Investment Power)(1)	(Voting Power Only)(2)				(Voting and Investment Power)(4)(5)	(5)(6)
J-K Navigator Fund, L.P.(13)	18,447,759					4.43%	*
James Michael Johnston(13)	24,835,077					5.97%	*
Brian Katz Klein(13)	24,835,077					5.97%	*
FMR Corp.(14)	38,515,187					9.25%	1.01%
Fidelity Management & Research Company(14)	14,961,471		20,487,601			8.12%	*
Edward C. Johnson 3d(14)	38,515,187					9.25%	1.01%
Standard Pacific Capital LLC(15)	21,804,756					5.24%	*
Kingdon Capital Management, LLC(16)	24,236,312					5.82%	*
* Less than 1%							

- (1) Includes shares for which the named person has sole voting and investment power; or shared voting and investment power with a spouse. Does not include shares that may be acquired through exercise of options.
- (2) Includes unvested shares of restricted stock issued under the Charter Communications, Inc. 2001 Stock Incentive Plan (including those issued in the February 2004 option exchange for those eligible employees who elected to participate), as to which the applicable director or employee has sole voting power but not investment power. Excludes certain performance units granted under the Charter 2001 Stock Incentive Plan with respect to which shares will not be issued until the third anniversary of the grant date and then only if Charter meets certain performance criteria (and which consequently do not provide the holder with any voting rights).
- (3) Includes shares of Class A common stock issuable (a) upon exercise of options that have vested or will vest on or before March 1, 2006 under the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan or (b) upon conversion of other convertible securities.
- (4) Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act. The beneficial owners at December 31, 2005 of Class B common stock, Charter Holdco membership units and convertible senior notes of Charter are deemed to be beneficial owners of an equal number of shares of Class A common stock because such holdings are either convertible into Class A shares (in the case of Class B shares and convertible senior notes) or exchangeable (directly or indirectly) for Class A shares (in the case of the membership units) on a one-for-one basis. Unless otherwise noted, the named holders have sole investment and voting power with respect to the shares listed as beneficially owned. As a result of the settlement of the CC VIII dispute, Mr. Allen received an accreting note exchangeable as of December 31, 2005 for 24,662,333 Charter Holdco units. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.
- (5) The calculation of this percentage assumes for each person that:

416,204,671 shares of Class A common stock are issued and outstanding as of December 31, 2005;

50,000 shares of Class B common stock held by Mr. Allen have been converted into shares of Class A common stock;

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the acquisition by such person of all shares of Class A common stock that such person or affiliates of such person has the right to acquire upon exchange of membership units in subsidiaries or conversion of Series A Convertible Redeemable Preferred Stock or 5.875% or 4.75% convertible senior notes;

the acquisition by such person of all shares that may be acquired upon exercise of options to purchase shares or exchangeable membership units that have vested or will vest by March 1, 2006; and

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that none of the other listed persons or entities has received any shares of Class A common stock that are issuable to any of such persons pursuant to the exercise of options or otherwise.

A person is deemed to have the right to acquire shares of Class A common stock with respect to options vested under the 1999 Charter Communications Option Plan. When vested, these options are exercisable for membership units of Charter Holdco, which are immediately exchanged on a one-for-one basis for shares of Class A common stock. A person is also deemed to have the right to acquire shares of Class A common stock issuable upon the exercise of vested options under the 2001 Stock Incentive Plan.

- (6) The calculation of this percentage assumes that Mr. Allen's equity interests are retained in the form that maximizes voting power (i.e., the 50,000 shares of Class B common stock held by Mr. Allen have not been converted into shares of Class A common stock; that the membership units of Charter Holdco owned by each of Vulcan Cable III Inc. and Charter Investment, Inc. have not been exchanged for shares of Class A common stock).

- (7) The total listed includes:

247,481,191 membership units in Charter Holdco held by Charter Investment, Inc.; and

116,313,173 membership units in Charter Holdco held by Vulcan Cable III Inc.

The listed total includes 24,662,333 shares of Class A common stock issuable as of December 31, 2005 upon exchange of units of Charter Holdco, which are issuable to Charter Investment, Inc. (which is owned by Mr. Allen) as a consequence of the settlement of the CC VIII dispute. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII. The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.

- (8) Includes 247,481,191 membership units in Charter Holdco, which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is: Charter Plaza, 12405 Powerscourt Drive, St. Louis, MO 63131.
- (9) Includes 116,313,173 membership units in Charter Holdco, which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.
- (10) Mr. Vogel terminated his employment effective on January 17, 2005. His stock options and restricted stock shown in this table continued to vest until December 31, 2005, and his options will be exercisable for another 60 days thereafter.
- (11) The equity ownership reported in this table is based upon the holder's Schedule 13G filed with the SEC March 28, 2005. The address of this person is 712 Fifth Avenue, 42nd Floor, New York, New York 10019. Mr. Bommer is the managing member of SAB Capital Advisors, L.L.C., which serves as general partner of SAB Capital Partners, L.P. and SAB Capital Partners II, L.P. (which in turn collectively hold 10,124,695 shares of Class A common stock). Mr. Bommer is also the managing member of SAB Capital Management, L.L.C., which serves as general partner of SAB Overseas Capital Management, L.P. (which in turn serves as investment manager to and has investment discretion over the securities held by a holder of 8,113,049 shares of Class A common stock).
- (12) The equity ownership reported in this table is based upon the holder's Schedule 13G filed with the SEC June 3, 2005. The address of the principal business office of the reporting person is: 399 Park Avenue, Floor 39, New York, New York 10022. The shares shown consist of: (A) 1,669,400 shares held for the account of Glenview Capital Partners; (B) 5,991,000 shares held for the account of Glenview Capital Master Fund; and (C) 12,243,100 shares held for the account of Glenview Institutional Partners. Glenview Capital Management serves as investment manager to each of Glenview Capital Partners, Glenview Institutional Partners, and Glenview Capital Master Fund. Glenview Capital GP is the general partner of Glenview Capital Partners and Glenview

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Institutional Partners. Glenview Capital GP also serves as the sponsor of the Glenview Capital Master Fund. Mr. Robbins is the Chief Executive Officer of Glenview Capital Management and Glenview Capital GP.

- (13) The equity ownership reported in this table is based upon the holder's Form 13F filed with the SEC January 25, 2006. The business address of the reporting person is: 1301 First Avenue, Suite 201, Seattle, WA 98101. Steelhead Partners, LLC acts as general partner of J-K Navigator Fund, L.P., and J. Michael Johnston and Brian K. Klein act as the member-managers of Steelhead Partners, LLC. Accordingly, shares shown as beneficially held by Steelhead Partners, LLC, Mr. Johnston and Mr. Klein include shares beneficially held by J-K Navigator Fund, L.P.
- (14) The equity ownership reported in this table is based on the holder's Schedule 13G filed with the SEC on September 12, 2005. The address of the person is: 82 Devonshire Street, Boston, Massachusetts 02109. Fidelity Management & Research Company is a wholly-owned subsidiary of FMR Corp. and is the beneficial owner of 35,449,072 shares as a result of acting as investment adviser to various investment companies and includes: 20,487,601 shares resulting from the assumed conversion of 5.875% senior notes. Edward C. Johnson 3d, chairman of FMR Corp., and FMR Corp. each has sole power to dispose of 38,515,187 shares.
- (15) The equity ownership in this table is based upon the holder's Schedule 13G filed with the SEC on November 9, 2005. The address of the reporting person is: 101 California Street, 36th Floor, San Francisco, CA 94111.
- (16) The equity ownership in this table is based upon the holder's Schedule 13G filed with the SEC on January 25, 2006. The address of the reporting person is: 152 West 57th Street, 50th Floor, New York, NY 10019

Securities Authorized for Issuance under Equity Compensation Plans

The following information is provided as of December 31, 2005 with respect to equity compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	29,126,744(1)	\$4.47	42,758,409
Equity compensation plans not approved by security holders	289,268(2)	\$3.91	
TOTAL	29,416,012	\$4.46	42,758,409

- (1) This total does not include 4,252,570 shares issued pursuant to restricted stock grants made under our 2001 Stock Incentive Plan, which were subject to vesting based on continued employment or 11,258,256 performance shares issued under our LTIP plan, which are subject to vesting based on continued employment and Charter's achievement of certain performance criteria.
- (2) Includes shares of Class A common stock to be issued upon exercise of options granted pursuant to an individual compensation agreement with a consultant.

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The following sets forth certain transactions in which we are involved and in which the directors, executive officers and affiliates of Charter have or may have a material interest. The transactions fall generally into three broad categories:

Transactions in which Mr. Allen has an interest that arise directly out of Mr. Allen's investment in Charter and Charter Holdco. A large number of the transactions described below arise out of Mr. Allen's direct and indirect (through Charter Investment, Inc., or the Vulcan entities, each of which Mr. Allen controls) investment in Charter and its subsidiaries, as well as commitments made as consideration for the investments themselves.

Transactions with third party providers of products, services and content in which Mr. Allen has or had a material interest. Mr. Allen has had numerous investments in the areas of technology and media. We have a number of commercial relationships with third parties in which Mr. Allen has or had an interest.

Other Miscellaneous Transactions. We have a limited number of transactions in which certain of the officers, directors and principal shareholders of Charter and its subsidiaries, other than Mr. Allen, have an interest.

A number of our debt instruments and those of our subsidiaries require delivery of fairness opinions for transactions with Mr. Allen or his affiliates involving more than \$50 million. Such fairness opinions have been obtained whenever required. All of our transactions with Mr. Allen or his affiliates have been considered for approval either by the board of directors of Charter or a committee of the board of directors. All of our transactions with Mr. Allen or his affiliates have been deemed by the board of directors or a committee of the board of directors to be in our best interest. Related party transactions are approved by our Audit Committee or another independent body of the board of directors in compliance with the listing requirements applicable to NASDAQ National Market listed companies. Except where noted below, we do not believe that these transactions present any unusual risks for us that would not be present in any similar commercial transaction.

The chart below summarizes certain information with respect to these transactions. Additional information regarding these transactions is provided following the chart.

Transaction	Interested Related Party	Description of Transaction
Intercompany Management Arrangements	Paul G. Allen	Subsidiaries of Charter Holdco paid Charter approximately \$84 million, \$90 million and \$95 million for management services rendered in 2003 and 2004 and the nine months ended September 30, 2005, respectively.
Mutual Services Agreement	Paul G. Allen	Charter paid Charter Holdco approximately \$73 million, \$74 million and \$64 million for services rendered in 2003 and 2004 and the nine months ended September 30, 2005, respectively.
Previous Management Agreement	Paul G. Allen	No fees were paid in 2003, 2004 or 2005, although total management fees accrued and payable to Charter Investment, Inc., exclusive of interest, were approximately \$14 million at December 31, 2003 and 2004 and September 30, 2005.

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Transaction	Interested Related Party	Description of Transaction
Channel Access Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	At Vulcan Ventures request, we will provide Vulcan Ventures with exclusive rights for carriage on eight of our digital cable channels as partial consideration for a 1999 capital contribution of approximately \$1.3 billion.
Equity Put Rights	Paul G. Allen	Certain sellers of cable systems that we acquired were granted, or previously had the right, as described below, to put to Paul Allen equity in us (in the case of Rifkin and Falcon), Charter Holdco (in the case of Rifkin) and CC VIII, LLC (in the case of Bresnan) and a preferred membership interest (in the case of Charter Helicon, LLC) issued to such sellers in connection with such acquisitions.
Previous Funding Commitment of Vulcan Inc.	Paul G. Allen W. Lance Conn Jo Allen Patton	Pursuant to a commitment letter dated April 14, 2003, Vulcan Inc., which is an affiliate of Paul Allen, agreed to lend, under certain circumstances, or cause an affiliate to lend to Charter Holdings or any of its subsidiaries a total amount of up to \$300 million, which amount included a subfacility of up to \$100 million for the issuance of letters of credit. In November 2003, the commitment was terminated. We incurred expenses to Vulcan Inc. totaling \$5 million in connection with the commitment prior to termination.
Mirror Securities		To comply with the organizational documents of Charter and Charter Holdco, Charter Holdco issued certain mirror securities to Charter, redeemed certain other mirror securities, and paid interest and dividends on outstanding mirror notes and preferred units.
TechTV Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton Larry W. Wangberg	We recorded approximately \$1 million, \$5 million and \$1 million from TechTV under the affiliation agreement in 2003, 2004 and the nine months ended September 30, 2005, respectively, related to launch incentives as a reduction of programming expense. We paid TechTV approximately \$80,600, \$2 million and \$2 million in 2003, 2004 and the nine months ended September 30, 2005, respectively.

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Transaction	Interested Related Party	Description of Transaction
Oxygen Media Corporation Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	We paid Oxygen Media approximately \$9 million, \$13 million and \$7 million under a carriage agreement in exchange for programming in 2003, 2004 and the nine months ended September 30, 2005, respectively. We recorded approximately \$1 million, \$1 million and \$0.1 million in 2003, 2004 and the nine months ended September 30, 2005, respectively, from Oxygen Media related to launch incentives as a reduction of programming expense. We received 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share in March 2005. We recognized approximately \$9 million, \$13 million and \$2 million as a reduction of programming expense in 2003, 2004 and the nine months ended September 30, 2005, respectively, in recognition of the guaranteed value of the investment.
Portland Trail Blazers Carriage Agreement	Paul G. Allen	We paid approximately \$135,200, \$96,100 and \$116,500 for rights to carry the cable broadcast of certain Trail Blazers basketball games in 2003, 2004 and the nine months ended September 30, 2005, respectively.
Digeo, Inc. Broadband Carriage Agreement	Paul G. Allen Carl E. Vogel Jo Allen Patton Lance Conn Michael J. Lovett	We paid Digeo approximately \$4 million, \$3 million and \$2 million for customized development of the i-channels and the local content tool kit in 2003, 2004 and the nine months ended September 30, 2005, respectively. We entered into a license agreement in 2004 for the Digeo software that runs DVR units purchased from a third party. We paid approximately \$0.5 million and \$1 million in license and maintenance fees in 2004 and the nine months ended September 30, 2005, respectively. In 2004 we executed a purchase agreement for the purchase of up to 70,000 DVR units and a related software license agreement, both subject to satisfaction of certain conditions. We paid approximately \$0 and \$9 million in capital purchases in 2004 and the nine months ended September 30, 2005, respectively.

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Transaction	Interested Related Party	Description of Transaction
Viacom Networks	Jonathan L. Dolgen	We are party to certain affiliation agreements with networks of New Viacom and CBS Corporation, pursuant to which they provide Charter with programming for distribution via our cable systems. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, Charter paid Old Viacom approximately \$188 million, \$194 million and \$150 million, respectively, for programming, and Charter recorded as receivables approximately \$5 million, \$8 million and \$15 million from Old Viacom for launch incentives and marketing support for the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, respectively.
Payment for relatives' services	Carl E. Vogel	Since June 2003, Mr. Vogel's brother-in-law has been an employee of Charter Holdco and has received a salary commensurate with his position in the engineering department.
Radio advertising	Marc B. Nathanson	We believe that through a third party advertising agency, we have paid approximately \$67,300, \$49,300 and \$55,500 in 2003 and 2004 and for the nine months ended September 30, 2005, respectively, to Mapleton Communications, an affiliate of Mapleton Investments, LLC.
Enstar Limited Partnership Systems Purchase and Management Services	Charter officers who were appointed by a Charter subsidiary (as general partner) to serve as officers of Enstar limited partnerships	Certain of our subsidiaries purchased certain assets of the Enstar Limited Partnerships for approximately \$63 million in 2002. We also earned approximately \$469,300, \$0 and \$0 in 2003, 2004 and for the nine months ended September 30, 2005, respectively, by providing management services to the Enstar Limited Partnerships.
Indemnification Advances	Directors and current and former officers named in certain legal proceedings	Charter reimbursed certain of its current and former directors and executive officers a total of approximately \$8 million, \$3 million and \$15,700 for costs incurred in connection with litigation matters in 2003, 2004 and for the nine months ended September 30, 2005, respectively.

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The following sets forth additional information regarding the transactions summarized above.

Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries

As noted above, a number of our related party transactions arise out of Mr. Allen's investment in Charter and its subsidiaries. Some of these transactions are with Charter Investment, Inc. and Vulcan Ventures (both owned 100% by Mr. Allen), Charter (controlled by Mr. Allen) and Charter Holdco (approximately 51% owned by us and 49% owned by other affiliates of Mr. Allen). See Summary Organizational Structure for more information regarding the ownership by Mr. Allen and certain of his affiliates.

Intercompany Management Arrangements

Charter is a party to management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable systems owned or operated by its subsidiaries. These management agreements provide for reimbursement to Charter for all costs and expenses incurred by it for activities relating to the ownership and operation of the managed cable systems, including overhead, administration and salary expense.

The total amount paid by Charter Holdco and all of its subsidiaries is limited to the amount necessary to reimburse Charter for all of its expenses, costs, losses, liabilities and damages paid or incurred by it in connection with the performance of its services under the various management agreements and in connection with its corporate overhead, administration, salary expense and similar items. The expenses subject to reimbursement include fees Charter is obligated to pay under the mutual services agreement with Charter Investment, Inc. Payment of management fees by Charter's operating subsidiaries is subject to certain restrictions under the credit facilities and indentures of such subsidiaries and the indentures governing the Charter Holdings public debt. If any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per year, compounded annually, from the date it was due and payable until the date it is paid. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, the subsidiaries of Charter Holdco paid approximately \$84 million, \$90 million and \$95 million, respectively, in management fees to Charter.

Mutual Services Agreement

Charter, Charter Holdco and Charter Investment, Inc. are parties to a mutual services agreement whereby each party shall provide rights and services to the other parties as may be reasonably requested for the management of the entities involved and their subsidiaries, including the cable systems owned by their subsidiaries all on a cost-reimbursement basis. The officers and employees of each party are available to the other parties to provide these rights and services, and all expenses and costs incurred in providing these rights and services are paid by Charter. Each of the parties will indemnify and hold harmless the other parties and their directors, officers and employees from and against any and all claims that may be made against any of them in connection with the mutual services agreement except due to its or their gross negligence or willful misconduct. The mutual services agreement expires on November 12, 2009, and may be terminated at any time by any party upon thirty days written notice to the other. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, Charter paid approximately \$73 million, \$74 million and \$64 million, respectively, to Charter Holdco for services rendered pursuant to the mutual services agreement. All such amounts are reimbursable to Charter pursuant to a management arrangement with our subsidiaries. See Intercompany Management Arrangements. The accounts and balances related to these services eliminate in consolidation. Charter Investment, Inc. no longer provides services pursuant to this agreement.

Table of Contents***Previous Management Agreement with Charter Investment, Inc.***

Prior to November 12, 1999, Charter Investment, Inc. provided management and consulting services to our operating subsidiaries for a fee equal to 3.5% of the gross revenues of the systems then owned, plus reimbursement of expenses. The balance of management fees payable under the previous management agreement was accrued with payment at the discretion of Charter Investment, Inc., with interest payable on unpaid amounts. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, Charter's subsidiaries did not pay any fees to Charter Investment, Inc. to reduce management fees payable. As of December 31, 2003 and 2004 and September 30, 2005, total management fees payable by our subsidiaries to Charter Investment, Inc. were approximately \$14 million, exclusive of any interest that may be charged and are included in deferred management fees-related party on our consolidated balance sheets.

Vulcan Ventures Channel Access Agreement

Vulcan Ventures, an entity controlled by Mr. Allen, Charter, Charter Investment and Charter Holdco are parties to an agreement dated September 21, 1999 granting to Vulcan Ventures the right to use up to eight of our digital cable channels as partial consideration for a prior capital contribution of \$1.325 billion. Specifically, at Vulcan Ventures' request, we will provide Vulcan Ventures with exclusive rights for carriage of up to eight digital cable television programming services or channels on each of the digital cable systems with local and to the extent available, national control of the digital product owned, operated, controlled or managed by Charter or its subsidiaries now or in the future of 550 megahertz or more. If the system offers digital services but has less than 550 megahertz of capacity, then the programming services will be equitably reduced. Upon request of Vulcan Ventures, we will attempt to reach a comprehensive programming agreement pursuant to which it will pay the programmer, if possible, a fee per digital video customer. If such fee arrangement is not achieved, then we and the programmer shall enter into a standard programming agreement. The initial term of the channel access agreement was 10 years, and the term extends by one additional year (such that the remaining term continues to be 10 years) on each anniversary date of the agreement unless either party provides the other with notice to the contrary at least 60 days prior to such anniversary date. To date, Vulcan Ventures has not requested to use any of these channels. However, in the future it is possible that Vulcan Ventures could require us to carry programming that is less profitable to us than the programming that we would otherwise carry and our results would suffer accordingly.

Equity Put Rights

CC VIII. As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, Charter's indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the CC VIII interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the Comcast sellers). While held by the Comcast sellers, the CC VIII interest was entitled to a 2% priority return on its initial capital account and such priority return was entitled to preferential distributions from available cash and upon liquidation of CC VIII. While held by the Comcast sellers, the CC VIII interest generally did not share in the profits and losses of CC VIII. Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast put right). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen, indirectly through a company controlled by him, Charter Investment, Inc. (CII), became the holder of the CC VIII interest. Consequently, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter has been allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would be entitled to a priority distribution with respect to the 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC, an indirect subsidiary of Charter (CC V), and Mr. Allen in proportion to CC V's capital account and Mr. Allen's capital account (which

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will equal the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003). The limited liability company agreement of CC VIII does not provide for a mandatory redemption of the CC VIII interest.

An issue arose as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Specifically, under the terms of the Bresnan transaction documents that were entered into in June 1999, the Comcast sellers originally would have received, after adjustments, 24,273,943 Charter Holdco membership units, but due to an FCC regulatory issue raised by the Comcast sellers shortly before closing, the Bresnan transaction was modified to provide that the Comcast sellers instead would receive the preferred equity interests in CC VIII represented by the CC VIII interest. As part of the last-minute changes to the Bresnan transaction documents, a draft amended version of the Charter Holdco limited liability company agreement was prepared, and contract provisions were drafted for that agreement that would have required an automatic exchange of the CC VIII interest for 24,273,943 Charter Holdco membership units if the Comcast sellers exercised the Comcast put right and sold the CC VIII interest to Mr. Allen or his affiliates. However, the provisions that would have required this automatic exchange did not appear in the final version of the Charter Holdco limited liability company agreement that was delivered and executed at the closing of the Bresnan transaction. The law firm that prepared the documents for the Bresnan transaction brought this matter to the attention of Charter and representatives of Mr. Allen in 2002.

Thereafter, the board of directors of Charter formed a Special Committee (currently comprised of Messrs. Merritt, Tory and Wangberg) to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a scrivener's error had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek the reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units. The Special Committee further determined that, as part of such contract reformation or alternative relief, Mr. Allen should be required to contribute the CC VIII interest to Charter Holdco in exchange for 24,273,943 Charter Holdco membership units. The Special Committee also recommended to the board of directors of Charter that, to the extent the contract reformation were achieved, the board of directors should consider whether the CC VIII interest should ultimately be held by Charter Holdco or Charter Holdings or another entity owned directly or indirectly by them.

Mr. Allen disagreed with the Special Committee's determinations described above and so notified the Special Committee. Mr. Allen contended that the transaction was accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures.

The parties engaged in a process of non-binding mediation to seek to resolve this matter, without success. The Special Committee evaluated what further actions or processes to undertake to resolve this dispute. To accommodate further deliberation, each party agreed to refrain from initiating legal proceedings over this matter until it had given at least ten days' prior notice to the other. In addition, the Special Committee and Mr. Allen determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute.

As of October 31, 2005, Mr. Allen, the Special Committee, Charter, Charter Holdco and certain of their affiliates, having investigated the facts and circumstances relating to the dispute involving the CC VIII interest, after consultation with counsel and other advisors, and as a result of the Delaware Chancery Court's non-binding mediation program, agreed to settle the dispute, and execute certain permanent and irrevocable releases pursuant to the Settlement Agreement and Mutual Release agreement dated October 31, 2005 (the "Settlement").

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Pursuant to the Settlement, CII has retained 30% of its CC VIII interest (the Remaining Interests). The Remaining Interests are subject to certain drag along, tag along and transfer restrictions as detailed in the revised CC VIII Limited Liability Company Agreement. CII transferred the other 70% of the CC VIII interest directly and indirectly, through Charter Holdco, to a newly formed entity, CCHC (a direct subsidiary of Charter Holdco and the direct parent of Charter Holdings). Of that other 70% of the CC VIII preferred interests, 7.4% has been transferred by CII to CCHC for a subordinated exchangeable note with an initial accreted value of \$48.2 million, accreting at 14%, compounded quarterly, with a 15-year maturity (the Note). The remaining 62.6% has been transferred by CII to Charter Holdco, in accordance with the terms of the settlement for no additional monetary consideration. Charter Holdco contributed the 62.6% interest to CCHC.

As part of the Settlement, CC VIII issued approximately 49 million additional Class B units to CC V in consideration for prior capital contributions to CC VIII by CC V, with respect to transactions that were unrelated to the dispute in connection with CII s membership units in CC VIII. As a result, Mr. Allen s pro rata share of the profits and losses of CC VIII attributable to the Remaining Interests is approximately 5.6%.

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

CCHC has the right to redeem the Note under certain circumstances, for cash in an amount equal to the then accreted value. CCHC must redeem the Note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity.

The Board of Directors has determined that the transferred CC VIII interests remain at CCHC.

Rifkin. On September 14, 1999, Mr. Allen and Charter Holdco entered into a put agreement with certain sellers of the Rifkin cable systems that received a portion of their purchase price in the form of 3,006,202 Class A preferred membership units of Charter Holdco. This put agreement allowed these holders to compel Charter Holdco to redeem their Class A preferred membership units at any time before September 14, 2004 at \$1.00 per unit, plus accretion thereon at 8% per year from September 14, 1999. Mr. Allen had guaranteed the redemption obligation of Charter Holdco. These units were put to Charter Holdco for redemption, and were redeemed on April 18, 2003 for a total price of approximately \$3.9 million.

Mr. Allen also was a party to a put agreement with certain sellers of the Rifkin cable systems that received a portion of their purchase price in the form of shares of Class A common stock of Charter. Under this put agreement, such holders have the right to sell to Mr. Allen any or all of such shares of Charter s Class A common stock at \$19 per share (subject to adjustments for stock splits, reorganizations and similar events), plus interest at a rate of 4.5% per year, compounded annually from November 12, 1999. Approximately 4.6 million shares were put to Mr. Allen under these agreements prior to their expiration on November 12, 2003.

Falcon. Mr. Allen also was a party to a put agreement with certain sellers of the Falcon cable systems (including Mr. Nathanson, one of our directors) that received a portion of their purchase price in the form of shares of Class A common stock of Charter. Under the Falcon put agreement, such holders had the right to sell to Mr. Allen any or all shares of Class A common stock received in the Falcon acquisition at \$25.8548 per share (subject to adjustments for stock splits, reorganizations and similar events), plus interest at a rate of 4.5% per year, compounded annually from November 12, 1999.

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Approximately 19.4 million shares were put to Mr. Allen under these agreements prior to their expiration on November 12, 2003.

Helicon. In 1999 we purchased the Helicon cable systems. As part of that purchase Mr. Allen entered into a put agreement with a certain seller of the Helicon cable systems that received a portion of the purchase price in the form of a preferred membership interest in Charter Helicon LLC with a redemption price of \$25 million plus accrued interest. Under the Helicon put agreement, such holder has the right to sell to Mr. Allen any or all of the interest to Mr. Allen prior to its mandatory redemption in cash on July 30, 2009. On August 31, 2005, 40% of the preferred membership interest was put to Mr. Allen. The remaining 60% of the preferred interest in Charter Helicon LLC remained subject to the put to Mr. Allen. Such preferred interest was recorded in other long-term liabilities as of September 30, 2005 and December 31, 2004. On October 6, 2005, Charter Helicon, LLC redeemed all of the preferred membership interest for the redemption price of \$25 million plus accrued interest.

Previous Funding Commitment of Vulcan Inc.

Effective April 14, 2003, our subsidiary, Charter Communications VII, LLC entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, under which Vulcan Inc. agreed to lend, under certain circumstances, or cause an affiliate to lend initially to Charter Communications VII, LLC, or another subsidiary of Charter Holdings, up to \$300 million, which amount included a subfacility of up to \$100 million for the issuance of letters of credit. No amounts were ever drawn under the commitment letter. In November 2003, the commitment was terminated. We incurred expenses to Vulcan Inc. totaling \$5 million in connection with the commitment (including an extension fee) prior to termination. Ms. Jo Allen Patton is a director and the President and Chief Executive Officer of Vulcan Inc., and Mr. Lance Conn is Executive Vice President of Vulcan Inc.

Mirror Securities

Charter is a holding company and its principal assets are its equity interest in Charter Holdco and certain mirror notes payable by Charter Holdco to Charter, and mirror preferred units held by Charter, which have the same principal amount and terms as those of Charter's convertible senior notes and Charter's outstanding preferred stock. In 2002, 2003 and 2004, Charter Holdco paid to Charter \$73 million, \$68 million and \$49 million, respectively, related to interest on the mirror notes, and Charter Holdco paid an additional \$4 million related to dividends on the mirror preferred membership units.

In connection with our 2003 repurchase of approximately \$477 million of our outstanding 4.75% senior convertible notes due 2006 and approximately \$132 million of our outstanding 5.75% senior convertible notes due 2005, \$520 million of CCH II 10.25% senior notes were transferred (through a series of distributions) by CCH II to Charter Holdco, which in turn assigned those CCH II senior notes to us in exchange for the cancellation of mirror notes of each series having a principal amount equal to the amount of convertible notes of that series repurchased by us. As part of the closing of that transaction, Charter Holdco also paid to Charter cash in the amount of \$10 million, which represented the sum of (a) all accrued and unpaid interest on the portions of the mirror notes transferred by Charter to Charter Holdco, to, but not including, the date of the closing, on the basis set forth in the mirror notes, (b) an amount equal to the total amount of cash payable by Charter in lieu of fractional interests in the 10.25% CCH II senior notes which would have otherwise been due to the holders as a consequence of the exchange and (c) the costs and expenses relating to such transactions. Further, during 2004 Charter Holdco issued 7,252,818 common membership units to Charter in cancellation of \$30 million principal amount of mirror notes so as to mirror the issuance by Charter of Class A common stock in exchange for a like principal amount of its outstanding convertible notes.

In addition, in connection with our November 2004 sale of \$862.5 million principal amount of 5.875% convertible senior notes due 2009, Charter Holdco issued to us mirror notes in identical principal amount in exchange for the proceeds from our offering. Charter Holdco then purchased and pledged certain U.S. government securities to us as security for the mirror notes (which were in turn repledged by us to the

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trustee for the benefit of holders of our 5.875% convertible senior notes and which we expect to use to fund the first six interest payments on the notes), and agreed to lend common units to us, the terms of which will, to the extent practicable, mirror the terms of the shares offered hereby. Charter Holdco also redeemed the remaining \$588 million principal amount of the mirror notes in respect of our 5.75% convertible senior notes due 2005 concurrently with our December 23, 2004 redemption of our 5.75% convertible senior notes. In addition, in November 2004, Charter Holdco entered into a unit lending agreement with Charter in which it agreed to lend common units to Charter that would mirror the anticipated loan of Class A common shares by Charter to Citigroup Global Markets pursuant to a share lending agreement. The members of Charter Holdco (including the entities controlled by Mr. Allen) also at that time entered into a letter agreement providing, among other things, that for purposes of the allocation provisions of the Limited Liability Company Agreement of Charter Holdco, the mirror units be treated as disregarded and not outstanding until such time (and except to the extent) that, under Charter's share lending agreement, Charter treats the loaned shares in a manner that assumes they will neither be returned to Charter by the borrower nor otherwise be acquired by Charter in lieu of such a return. In March, April and May 2005, Charter Holdco repurchased a total of \$131 million in principal amount of mirror convertible notes due 2006 concurrently with our repurchases of equal principal amounts of our 4.75% convertible senior notes due 2006, for purchase prices equal to the prices we paid in our repurchases.

Allocation of Business Opportunities with Mr. Allen

As described under Third Party Business Relationships in which Mr. Allen has or had an Interest in this section, Mr. Allen and a number of his affiliates have interests in various entities that provide services or programming to our subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter and Charter Holdco, under the terms of their respective organizational documents, may not, and may not allow their subsidiaries, to engage in any business transaction outside the cable transmission business except for the Digeo, Inc. joint venture; a joint venture to develop a digital video recorder set-top terminal; an existing investment in Cable Sports Southeast, LLC, a provider of regional sports programming; as an owner of the business of Interactive Broadcaster Services Corporation or, Chat TV, an investment in @Security Broadband Corp., a company developing broadband security applications; and incidental businesses engaged in as of the closing of Charter's initial public offering in November 1999. This restriction will remain in effect until all of the shares of Charter's high-vote Class B common stock have been converted into shares of Charter Class A common stock due to Mr. Allen's equity ownership falling below specified thresholds.

Should Charter or Charter Holdco or any of their subsidiaries wish to pursue, or allow their subsidiaries to pursue, a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries engaging in the business transaction, they will be able to do so. In any such case, the restated certificate of incorporation of Charter and the limited liability company agreement of Charter Holdco would need to be amended accordingly to modify the current restrictions on the ability of such entities to engage in any business other than the cable transmission business. The cable transmission business means the business of transmitting video, audio, including telephone, and data over cable systems owned, operated or managed by Charter, Charter Holdco or any of their subsidiaries from time to time.

Under Delaware corporate law, each director of Charter, including Mr. Allen, is generally required to present to Charter, any opportunity he or she may have to acquire any cable transmission business or any company whose principal business is the ownership, operation or management of cable transmission businesses, so that we may determine whether we wish to pursue such opportunities. However, Mr. Allen and the other directors generally will not have an obligation to present other types of business opportunities to Charter and they may exploit such opportunities for their own account.

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Also, conflicts could arise with respect to the allocation of corporate opportunities between us and Mr. Allen and his affiliates in connection with his investments in businesses in which we are permitted to engage under Charter's restated certificate of incorporation. Certain of the indentures of Charter and its subsidiaries require the applicable issuer of notes to obtain, under certain circumstances, approval of the board of directors of Charter and, where a transaction or series of related transactions is valued at or in excess of \$50 million, a fairness opinion with respect to transactions in which Mr. Allen has an interest. Related party transactions are approved by our Audit Committee in compliance with the listing requirements applicable to NASDAQ National Market listed companies. We have not instituted any other formal plan or arrangement to address potential conflicts of interest.

The restrictive provisions of the organizational documents described above may limit our ability to take advantage of attractive business opportunities. Consequently, our ability to offer new products and services outside of the cable transmission business and enter into new businesses could be adversely affected, resulting in an adverse effect on our growth, financial condition and results of operations.

Third Party Business Relationships in Which Mr. Allen has or had an Interest

As previously noted, Mr. Allen has and has had extensive investments in the areas of media and technology. We have a number of commercial relationships with third parties in which Mr. Allen has an interest. Mr. Allen or his affiliates own equity interests or warrants to purchase equity interests in various entities with which we do business or which provide us with products, services or programming. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated and Vulcan Inc. and is the president of Vulcan Ventures. Ms. Jo Allen Patton is a director and the President and Chief Executive Officer of Vulcan Inc. and is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is Executive Vice President of Vulcan Inc. and Vulcan Ventures. The various cable, media, Internet and telephone companies in which Mr. Allen has invested may mutually benefit one another. We can give no assurance, nor should you expect, that any of these business relationships will be successful, that we will realize any benefits from these relationships or that we will enter into any business relationships in the future with Mr. Allen's affiliated companies.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of us and our business. We cannot assure you that, in the event that we or any of our subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to us as terms we might have obtained from an unrelated third party.

TechTV, Inc.

TechTV, Inc. (TechTV) operated a cable television network that offered programming mostly related to technology. Pursuant to an affiliation agreement that originated in 1998 and that terminates in 2008, TechTV has provided us with programming for distribution via our cable systems. The affiliation agreement provides, among other things, that TechTV must offer Charter Holdco certain terms and conditions that are no less favorable in the affiliation agreement than are given to any other distributor that serves the same number of or fewer TechTV viewing customers. Additionally, pursuant to the affiliation agreement, we were entitled to incentive payments for channel launches through December 31, 2003.

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter's interactive television platforms through December 31, 2006

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(exclusive for the first year). For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005 we recognized approximately \$1 million, \$5 million and \$1 million, respectively, of the Vulcan Programming payment as an offset to programming expense and paid approximately \$80,600, \$2 million and \$2 million, respectively, to TechTV under the affiliation agreement.

We believe that Vulcan Programming, which is 100% owned by Mr. Allen, owned an approximate 98% equity interest in TechTV at the time Vulcan Programming sold TechTV to an unrelated third party in May 2004.

Oxygen Media Corporation

Oxygen Media LLC (Oxygen) provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen, whereby we agreed to carry programming content from Oxygen. Under the carriage agreement, we currently make Oxygen programming available to approximately 5 million of our video customers. The term of the carriage agreement was retroactive to February 1, 2000, the date of launch of Oxygen programming by us, and was to run for a period of five years from that date. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, we paid Oxygen approximately \$9 million, \$13 million and \$7 million, respectively, for programming content. In addition, Oxygen pays us marketing support fees for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. We recorded approximately \$1 million, \$1 million and \$0.1 million related to these launch incentives as a reduction of programming expense for each of the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, respectively.

Concurrently with the execution of the carriage agreement, Charter Holdco entered into an equity issuance agreement pursuant to which Oxygen's parent company, Oxygen Media Corporation (Oxygen Media), granted a subsidiary of Charter Holdco a warrant to purchase 2.4 million shares of Oxygen Media common stock for an exercise price of \$22.00 per share. In February 2005, this warrant expired unexercised. Charter Holdco was also to receive unregistered shares of Oxygen Media common stock with a guaranteed fair market value on the date of issuance of \$34 million, on or prior to February 2, 2005, with the exact date to be determined by Oxygen Media, but this commitment was later revised as discussed below.

We recognize the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, we recorded approximately \$9 million, \$13 million and \$2 million, respectively, as a reduction of programming expense. The carrying value of our investment in Oxygen was approximately \$19 million, \$32 million and \$33 million as of December 31, 2003 and 2004 and September 30, 2005, respectively.

In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revises the number of our customers to which Oxygen programming must be carried and for which we must pay, (b) releases Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) requires Oxygen to make payment on outstanding receivables for marketing support fees due to us under the carriage agreement; and (d) requires that Oxygen provide its programming content to us on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than us. The renewal of the carriage agreement (a) extends the period that we will carry Oxygen programming to our customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks.

In August 2004, Charter Holdco and Oxygen also amended the equity issuance agreement to provide for the issuance of 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share plus accrued dividends to Charter Holdco in place of the \$34 million of unregistered shares of Oxygen Media common stock. Oxygen Media delivered these shares in March 2005. The preferred stock is convertible into common stock after December 31, 2007 at a conversion ratio, the numerator of which is

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the liquidation preference and the denominator which is the fair market value per share of Oxygen Media common stock on the conversion date.

As of September 30, 2005, through Vulcan Programming, Mr. Allen owned an approximate 31% interest in Oxygen assuming no exercises of outstanding warrants or conversion or exchange of convertible or exchangeable securities. Ms. Jo Allen Patton is a director and the President of Vulcan Programming. Mr. Lance Conn is a Vice President of Vulcan Programming.

Marc Nathanson has an indirect beneficial interest of less than 1% in Oxygen.

Portland Trail Blazers

On October 7, 1996, the former owner of our Falcon cable systems entered into a letter agreement and a cable television agreement with Trail Blazers Inc. for the cable broadcast in the metropolitan area surrounding Portland, Oregon of pre-season, regular season and playoff basketball games of the Portland Trail Blazers, a National Basketball Association basketball team. Mr. Allen is the 100% owner of the Portland Trail Blazers and Trail Blazers Inc. After the acquisition of the Falcon cable systems in November 1999, we continued to operate under the terms of these agreements until their termination on September 30, 2001. Under the letter agreement, Trail Blazers Inc. was paid a fixed fee for each customer in areas directly served by the Falcon cable systems. Under the cable television agreement, we shared subscription revenues with Trail Blazers Inc. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, we paid approximately \$135,200, \$96,100 and \$116,500, respectively, in connection with the cable broadcast of Portland Trail Blazers basketball games under the October 1996 cable television agreement and subsequent local cable distribution agreements.

Digeo, Inc.

In March 2001, a subsidiary of Charter, Charter Communications Ventures, LLC (Charter Ventures) and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo, Inc. (Digeo), an entity controlled by Paul Allen. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures Incorporated. The equity interest is subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. After Vulcan Ventures recovers its amount contributed and any cumulative loss allocations, Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls, to Digeo. DBroadband Holdings, LLC is therefore not included in our consolidated financial statements. Pursuant to an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf.

On March 2, 2001, Charter Ventures entered into a broadband carriage agreement with Digeo Interactive, LLC (Digeo Interactive), a wholly owned subsidiary of Digeo. The carriage agreement provided that Digeo Interactive would provide to Charter a portal product, which would function as the television-based Internet portal (the initial point of entry to the Internet) for Charter's customers who received Internet access from Charter. The agreement term was for 25 years and Charter agreed to use the Digeo portal exclusively for six years. Before the portal product was delivered to Charter, Digeo terminated development of the portal product.

On September 27, 2001, Charter and Digeo Interactive amended the broadband carriage agreement. According to the amendment, Digeo Interactive would provide to Charter the content for enhanced Wink interactive television services, known as Charter Interactive Channels (i-channels). In order to provide the i-channels, Digeo Interactive sublicensed certain Wink technologies to Charter. Charter is entitled to share in the revenues generated by the i-channels. Currently, our digital video customers who receive i-channels receive the service at no additional charge.

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On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment superseded the amendment of September 27, 2001. It provided for the development by Digeo Interactive of future features to be included in the Basic i-TV service to be provided by Digeo and for Digeo's development of an interactive toolkit to enable Charter to develop interactive local content. Furthermore, Charter could request that Digeo Interactive manage local content for a fee. The amendment provided for Charter to pay for development of the Basic i-TV service as well as license fees for customers who would receive the service, and for Charter and Digeo to split certain revenues earned from the service. In 2003 and 2004 and for the nine months ended September 30, 2005, we paid Digeo Interactive approximately \$4 million, \$3 million and \$2 million, respectively, for customized development of the i-channels and the local content tool kit. We received no revenues under the broadband carriage agreement in 2003. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

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 is being supplied by Digeo Interactive under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deployed from a maximum of 10 headends through year-end 2004. This maximum number of headends restriction was expanded and eventually eliminated through successive agreement amendments and the date for entering into license agreements for units deployed was extended. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement includes an MFN clause pursuant to which Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. Charter paid approximately \$0.5 million and \$1 million in license and maintenance fees for the year ended December 31, 2004 and for the nine months ended September 30, 2005, respectively.

In April 2004, we launched DVR service (using units containing the Digeo software) in our Rochester, Minnesota market using a broadband media center that is an integrated set-top terminal with a cable converter, DVR hard drive and connectivity to other consumer electronics devices (such as stereos, MP3 players, and digital cameras).

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$41 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances. Charter paid approximately \$0 and \$9 million in capital purchases under this agreement for the year ended December 31, 2004 and for the nine months ended September 30, 2005, respectively.

In late 2003, Microsoft filed suit against Digeo for \$9 million in a breach of contract action, involving an agreement that Digeo and Microsoft had entered into in 2001. Digeo informed Charter that it believed it had an indemnification claim against Charter for half that amount. Digeo settled with Microsoft agreeing to make a cash payment and to purchase certain amounts of Microsoft software products and consulting services through 2008. In consideration of Digeo agreeing to release Charter from its potential claim against Charter, after consultation with outside counsel Charter agreed, in June 2005, to purchase a total of \$2.3 million in Microsoft consulting services through 2008, a portion of which amounts Digeo has informed Charter will count against Digeo's purchase obligations with Microsoft.

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In October 2005, Charter Holdco and Digeo Interactive entered into a binding term sheet for the test market deployment of the Moxi Entertainment Applications Pack (MEAP). The MEAP is an addition to the Moxi Client Software and will contain ten games (such as Video Poker and Blackjack), a photo application and jukebox application. The term sheet is limited to a test market application of approximately 14,000 subscribers and the aggregate value is not expected to exceed \$0.1 million. In the event the test market proves successful, the companies will replace the term sheet with a long form agreement including a planned roll-out across additional markets. The term sheet expires on May 1, 2006.

We believe that Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 60% equity interest in Digeo, Inc., on a fully-converted non-diluted basis. Messrs. Allen and Conn and Ms. Patton are directors of Digeo. Mr. Lovett is a director of Digeo since December 2005 and Mr. Vogel was a director of Digeo in 2004. During 2004 and 2005, Mr. Vogel held options to purchase 10,000 shares of Digeo common stock.

Other Miscellaneous Relationships

Viacom Networks

Pursuant to certain affiliation agreements with networks of New Viacom, including MTV, MTV2, Nickelodeon, VH1, TVLand, CMT, Spike TV, Comedy Central and Viacom Digital Suite, and stations and networks of CBS Corporation including CBS-owned and operated broadcast stations, Showtime, The Movie Channel, and Flix, New Viacom and CBS Corporation provides Charter with programming for distribution via our cable systems. The affiliation agreements provide for, among other things, rates and terms of carriage, advertising on the Viacom networks, which Charter can sell to local advertisers and marketing support. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, Charter paid Old Viacom approximately \$188 million, \$194 million and \$150 million, respectively, for programming. Charter recorded approximately \$5 million, \$8 million and \$15 million as receivables from Old Viacom networks related to launch incentives for certain channels and marketing support, respectively, for the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group.

Payments for Relatives Services

Since June 2003, Charter Holdco has employed the brother-in-law of Carl E. Vogel, Charter's former President, Chief Executive Officer and a director. Mr. Vogel's brother-in-law receives a salary commensurate with his position in the engineering department.

Radio Advertising

We believe that, through a third party advertising agency, we have paid approximately \$67,300, \$49,300 and \$55,500, in 2003 and 2004, and for the nine months ended September 30, 2005, respectively, to Mapleton Communications, an affiliate of Mapleton Investments, LLC that owns radio stations in Oregon and California. Mr. Nathanson is the Chairman and owner of Mapleton Investments, LLC.

Purchase of Certain Enstar Limited Partnership Systems; Management Fees

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly owned subsidiary of Charter Holdings, completed the cash purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income/ Growth Program Six-A, L.P., Enstar Income Program IV-1, L.P., Enstar Income Program IV-2, L.P., and Enstar Income Program IV-3, L.P., serving approximately 21,600 customers, for a total cash sale price of approximately \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 customers, for a cash sale price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including approximately \$41 million assigned to franchises and \$4 million assigned to other intangible assets amortized over a useful life of three years.

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In addition, Enstar Cable Corporation, the manager of the Enstar limited partnerships through a management agreement, engaged Charter Holdco to manage the Enstar limited partnerships. Pursuant to the management agreement, Charter Holdco provides management services to the Enstar limited partnerships in exchange for management fees. The Enstar limited partnerships also purchase basic and premium programming for their systems at cost from Charter Holdco. For the years ended December 31, 2003 and 2004 and for the nine months ended September 30, 2005, Charter Holdco earned approximately \$469,300, \$0 and \$0, respectively, by providing management services to the Enstar limited partnerships. In September 2003 the Enstar limited partnerships completed sales of all their remaining assets, and as a result no further management fees were paid in 2004. In November 2004, the Enstar limited partnerships were dissolved.

All of the executive officers of Charter (with the exception of Mr. Allen), Charter Holdco and Charter Holdings act as officers of Enstar Communications Corporation.

Indemnification Advances

Pursuant to Charter's bylaws (and the employment agreements of certain of our current and former officers), Charter is obligated (subject to certain limitations) to indemnify and hold harmless, to the fullest extent permitted by law, any officer, director or employee against all expense, liability and loss (including, among other things, attorneys' fees) reasonably incurred or suffered by such officer, director or employee as a result of the fact that he or she is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding by reason of the fact that he or she is or was a director, officer or employee of Charter. In addition, Charter is obligated to pay, as an advancement of its indemnification obligation, the expenses (including attorneys' fees) incurred by any officer, director or employee in defending any such action, suit or proceeding in advance of its final disposition, subject to an obligation to repay those amounts under certain circumstances. Pursuant to these indemnification arrangements and as an advancement of costs, Charter has reimbursed certain of its current and former directors and executive officers a total of approximately \$8 million, \$3 million and \$15,700 in respect of invoices received in 2003 and 2004 and for the nine months ended September 30, 2005, respectively, in connection with their defense of certain legal actions described herein. See Business Legal Proceedings. Those current and former directors and officers include: Paul G. Allen, David C. Andersen, David G. Barford, Mary Pat Blake, J. Christian Fenger, Kent D. Kalkwarf, Ralph G. Kelly, Jerald L. Kent, Paul E. Martin, David L. McCall, Ronald L. Nelson, Nancy B. Peretsman, John C. Pietri, William D. Savoy, Steven A. Schumm, Curtis S. Shaw, William J. Shreffler, Stephen E. Silva, James Trey Smith and Carl E. Vogel. These amounts were submitted to Charter's director and officer insurance carrier and have been reimbursed consistent with the terms of the Securities Class Action and Derivative Action Settlements described in Business Legal Proceedings. On or about February 22, 2005, Charter filed lawsuits against the four former officers who were indicted and pled guilty as part of the government investigation conducted by the United States Attorney's Office. These suits seek to recover fees and related expenses that Charter advanced these former officers under the indemnification provisions described above. All four officers have filed counterclaims.

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As of September 30, 2005, our actual total debt was approximately \$19.1 billion as summarized below (in millions):

	Actual September 30, 2005		Interest payment dates	Start date for cash interest payment on discount notes	Maturity date(b)
	Principal amount	Accreted value(a)			
Charter Communications, Inc.:					
4.750% convertible senior notes due 2006(c)	\$ 25	\$ 25	12/1 & 6/1		6/1/06
5.875% convertible senior notes due 2009(c)	863	841	5/16 & 11/16		11/16/09
Charter Holdings:					
8.250% senior notes due 2007	105	105	4/1 & 10/1		4/1/07
8.625% senior notes due 2009	292	292	4/1 & 10/1		4/1/09
9.920% senior discount notes due 2011	198	198	4/1 & 10/1	10/1/04	4/1/11
10.000% senior notes due 2009	154	154	4/1 & 10/1		4/1/09
10.250% senior notes due 2010	49	49	1/15 & 7/15		1/15/10
11.750% senior discount notes due 2010	43	43	1/15 & 7/15	7/15/05	1/15/10
10.750% senior notes due 2009	131	131	4/1 & 10/1		10/1/09
11.125% senior notes due 2011	217	217	1/15 & 7/15		1/15/11
13.500% senior discount notes due 2011	94	91	1/15 & 7/15	7/15/06	1/15/11
9.625% senior notes due 2009	107	107	5/15 & 11/15		11/15/09
10.000% senior notes due 2011	137	136	5/15 & 11/15		5/15/11
11.750% senior discount notes due 2011	125	116	5/15 & 11/15	11/15/06	5/15/11
12.125% senior discount notes due 2012	113	97	1/15 & 7/15	7/15/07	1/15/12
CIH(a):					
11.125% senior notes due 2014	151	151	1/15 & 7/15		1/15/14
9.920% senior discount notes due 2014	471	471	4/1 & 10/1		4/1/14
10.000% senior notes due 2014	299	299	5/15 & 11/15		5/15/14
11.750% senior discount notes due 2014	815	759	5/15 & 11/15	11/15/06	5/15/14
13.500% senior discount notes due 2014	581	559	1/15 & 7/15	7/15/06	1/15/14
12.125% senior discount notes due 2015	217	187	1/15 & 7/15	7/15/07	1/15/15
CCH I(a):					
11.00% senior notes due 2015	3,525	3,686	4/1 & 10/1		10/1/15
CCH II:					
10.250% senior notes due 2010(d)	1,601	1,601	3/15 & 9/15		9/15/10
CCO Holdings:					
8 3/4% senior notes due 2013	800	794	5/15 & 11/15		11/15/13
Senior floating rate notes due 2010	550	550	3/15, 6/15, 9/15 & 12/15		12/15/10
Charter Operating:					
8% senior second lien notes due 2012	1,100	1,100	4/30 & 10/30		4/30/12
8 3/8% senior second lien notes due 2014	733	733	4/30 & 10/30		4/30/14
Renaissance:					
10.000% senior discount notes due 2008	114	115	4/15 & 10/15	10/15/03	4/15/08
Credit Facilities					
Charter Operating(d)	5,513	5,513			
	<u>\$ 19,123</u>	<u>\$ 19,120</u>			

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- (a) The accreted value presented above represents 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 accreted value of CIH notes and CCH I notes issued in exchange for Charter Holdings notes are recorded in accordance with GAAP. GAAP requires that the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings notes due 2009 be recorded at the historical book values of the Charter Holdings notes as opposed to the current accreted value for legal purposes and notes indenture purposes (which, for both purposes, is the amount that would become payable if the debt becomes immediately due). As of September 30, 2005, the accreted value of our debt for legal purposes and notes and indentures purposes is \$18.6 billion.

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- (b) In general, the obligors have the right to redeem all of the notes set forth in the above table (except with respect to the 5.875% convertible senior notes due 2009 and the Charter Holdings notes with terms of eight years) in whole or 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. The 5.875% convertible senior notes are redeemable if the closing price of our Class A common stock exceeds the conversion price by certain percentages as described below. For additional information, see Note 9 to our consolidated financial statements included elsewhere in this prospectus.
- (c) The 4.75% convertible senior notes and the 5.875% convertible senior notes are convertible at the option of the holders into shares of Class A common stock at a conversion rate, subject to certain adjustments, of 38.0952 and 413.2231 shares, respectively, per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 and \$2.42 per share, respectively. Certain anti-dilutive provisions cause adjustments to occur automatically upon the occurrence of specified events. Additionally, the conversion ratio may be adjusted by us when deemed appropriate.
- (d) In January 2006, our subsidiaries, CCH II and CCH II Capital Corp., issued \$450 million principal amount of 10.250% senior notes due 2010, the proceeds of which were used to pay down credit facilities.

As of September 30, 2005 and December 31, 2004, our long-term debt totaled approximately \$19.1 billion and \$19.5 billion, respectively. This debt was comprised of approximately \$5.5 billion and \$5.5 billion of credit facility debt, \$12.7 billion and \$13.0 billion accreted value of high-yield notes and \$866 million and \$990 million accreted value of convertible senior notes at September 30, 2005 and December 31, 2004, respectively.

As of September 30, 2005 and December 31, 2004, the weighted average interest rate on the credit facility debt was approximately 7.5% and 6.8%, respectively, the weighted average interest rate on the high-yield notes was approximately 10.2% and 9.9%, and the weighted average interest rate on the convertible senior notes was approximately 5.8% and 5.7%, respectively, resulting in a blended weighted average interest rate of 9.2% and 8.8%, respectively. The interest rate on approximately 80% and 83% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements as of September 30, 2005 and December 31, 2004, respectively. The fair value of our high-yield notes was \$11.6 billion and \$12.2 billion at September 30, 2005 and December 31, 2004, respectively. The fair value of our convertible senior notes was \$718 million and \$1.1 billion at September 30, 2005 and December 31, 2004, respectively. The fair value of our credit facilities was approximately \$5.5 billion and \$5.5 billion at September 30, 2005 and December 31, 2004, respectively. The fair value of high-yield and convertible notes is based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

The following description is a summary of certain material provisions of the amended and restated Charter Operating credit facilities and the public notes of our subsidiaries, the bridge loan and the note issued by CCHC to CII (collectively, 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.

Charter Operating Credit Facilities General

The Charter Operating credit facilities were amended and restated concurrently with the sale of \$1.5 billion senior second-lien notes in April 2004, among other things, to defer maturities and increase availability under these facilities and to enable Charter Operating to acquire the interests of the lenders under the CC VI Operating, CC VIII Operating and Falcon credit facilities, thereby consolidating all credit facilities under one amended and restated Charter Operating credit agreement.

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The Charter Operating credit facilities:

provide borrowing availability of up to \$6.5 billion;

provide for two term facilities:

(i) a Term A facility with a total principal amount of \$2.0 billion, of which 12.5% matures in 2007, 30% matures in 2008, 37.5% matures in 2009 and 20% matures in 2010; and

(ii) a Term B facility with a total principal amount of \$3.0 billion, which shall be repayable in 27 equal quarterly installments aggregating in each loan year to 1% of the original amount of the Term B facility, with the remaining balance due at final maturity in 2011; and

provide for a revolving credit facility, in a total amount of \$1.5 billion, with a maturity date in 2010.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating's election, at a base rate or the Eurodollar rate, as defined, plus a margin for Eurodollar loans of up to 3.00% for the Term A facility and revolving credit facility, and up to 3.25% for the Term B facility, and for base rate loans of up to 2.00% for the Term A facility and revolving credit facility, and up to 2.25% for the Term B facility. A quarterly commitment fee of up to .75% is payable on the average daily unborrowed balance of the revolving credit facilities.

The obligations of our subsidiaries 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 immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of the provisions of other indebtedness to which they are subject (the non-guarantor subsidiaries, primarily Renaissance and its subsidiaries). The Obligations are also secured by (i) a lien on 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. Upon the Charter Holdings Leverage Ratio (as defined in the indenture governing the Charter Holdings senior notes and senior discount notes) being under 8.75 to 1.0, the Charter Operating credit facilities require that the 11.875% notes due 2008 issued by CC V Holdings, LLC be redeemed. Because such Leverage Ratio was determined to be under 8.75 to 1.0, CC V Holdings, LLC redeemed such notes in March 2005, and CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) became guarantors of the Obligations and have granted a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

Charter Operating Credit Facilities Restrictive Covenants

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, debt service coverage, and interest coverage, tested as of the end of each quarter. The maximum allowable leverage ratio is 4.25 to 1.0 until maturity, tested as of the end of each quarter beginning September 30, 2004. Additionally, the Charter Operating credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not reinvested in assets useful in the business of the borrower within a specified period, and upon the incurrence of certain indebtedness when the ratio of senior first lien debt to operating cash flow is greater than 2.0 to 1.0.

The Charter Operating credit facilities permit Charter Operating and its subsidiaries to make distributions to pay interest on the Charter Operating senior second-lien notes, the CCH II senior notes, the CCO Holdings senior notes, the Charter convertible senior notes and the Charter Holdings senior notes, provided that, among other things, no default has occurred and is continuing under the Charter Operating credit facilities. Conditions to future borrowings include absence of a default or an event of default under the Charter Operating credit facilities and the continued accuracy in all material respects of the representations and warranties, including the absence since December 31, 2003 of any event, development or circumstance that has had or could reasonably be expected to have a material adverse effect on our business.

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

- (i) the failure to make payments when due or within the applicable grace period,
- (ii) the failure to comply with specified covenants, including but not limited to a covenant to deliver audited financial statements with an unqualified opinion from our independent auditors,
- (iii) 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 \$50 million in aggregate principal amount,
- (iv) 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,
- (v) Paul 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 of Charter Operating,
- (vi) 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 of Charter Operating, unless the Paul Allen Group holds a greater share of ordinary voting power of Charter Operating,
- (vii) certain of Charter Operating's indirect or direct parent companies having indebtedness in excess of \$500 million aggregate principal amount which remains undefeased three months prior to the final maturity of such indebtedness, and
- (viii) Charter Operating ceasing to be a wholly-owned direct subsidiary of CCO Holdings, except in certain very limited circumstances.

Outstanding Notes and Bridge Loan

Charter Communications, Inc. Notes

Charter 4.75% Convertible Senior Notes due 2006

In May 2001, Charter issued 4.75% convertible senior notes with a total principal amount at maturity of \$633 million. As of September 30, 2005, there was \$25 million in total principal amount of these notes outstanding. The 4.75% convertible notes rank equally with any of our future unsubordinated and unsecured indebtedness, but are structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

The 4.75% convertible notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.0952 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, Charter may adjust the conversion ratio under certain circumstances when deemed appropriate. These notes are redeemable at our option at amounts decreasing from 101.9% to 100% of the principal amount, plus accrued and unpaid interest beginning on June 4, 2004, to the date of redemption. Interest is payable semiannually on December 1 and June 1, beginning December 1, 2001, until maturity on June 1, 2006.

Upon a change of control, subject to certain conditions and restrictions, Charter may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

Charter 5.875% Convertible Senior Notes due 2009

In November 2004, Charter issued 5.875% convertible senior notes due 2009 with a total original principal amount of \$862.5 million. The 5.875% convertible senior notes are unsecured (except with respect to the collateral as described below) and rank equally with our existing and future unsubordinated

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and unsecured indebtedness (except with respect to the collateral described below), but are structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries. Interest is payable semi-annually in arrears.

The 5.875% convertible senior notes are convertible at any time at the option of the holder into shares of Class A common stock at an initial conversion rate of 413.2231 shares per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$2.42 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. The conversion rate may also be increased (but not to exceed 462 shares per \$1,000 principal amount of notes) upon a specified change of control transaction. Additionally, Charter may elect to increase the conversion rate under certain circumstances when deemed appropriate and subject to applicable limitations of the NASDAQ stock market. Holders who convert their notes prior to November 16, 2007 will receive an early conversion make whole amount in respect of their notes based on a proportional share of the portfolio of pledged securities described below, with specified adjustments.

No holder of notes will be entitled to receive shares of our Class A common stock on conversion to the extent that receipt of the shares would cause the converting holder to become, directly or indirectly, a beneficial holder (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than 4.9% of the outstanding shares of our Class A common stock if such conversion would take place prior to November 16, 2008, or more than 9.9% thereafter.

If a holder tenders a note for conversion, we may direct that holder (unless we have called those notes for redemption) to a financial institution designated by us to conduct a transaction with that institution, on substantially the same terms that the holder would have received on conversion. But if any such financial institution does not accept such notes or does not deliver the required conversion consideration, we remain obligated to convert the notes.

Charter Holdco used a portion of the proceeds from the sale of the notes to purchase a portfolio of U.S. government securities in an amount which we believe will be sufficient to make the first six interest payments on the notes. These government securities were pledged to us as security for a mirror note issued by Charter Holdco to Charter and pledged to the trustee under the indenture governing the notes as security for our obligations thereunder. We expect to use such securities to fund the first six interest payments under the notes. The pledged securities were valued at \$123 million at September 30, 2005. Any holder that converts its notes prior to the third anniversary of the issue date will be entitled to receive, in addition to the requisite number of shares upon conversion, an interest make whole payment equal to the cash proceeds from the sale by the trustee of that portion of the remaining pledged U.S. government securities which secure interest payments on the notes so converted, subject to certain limitations with respect to notes that have not been sold pursuant to an effective registration statement under the Securities Act of 1933.

Upon a change of control and certain other fundamental changes, subject to certain conditions and restrictions, Charter may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

We were required to have effective a registration statement by April 1, 2005. Such registration was not declared effective by that date, and we incurred liquidated damages from April 2, 2005 through July 17, 2005, the day before the effective date of the registration statement. These liquidated damages accrued at a rate of 0.25% per month of the accreted principal amount of the convertible notes for the first 60 days after April 1, 2005 and 0.50% per month of the accreted principal amount of the convertible notes thereafter. In April, May, June, July and August 2005, the liquidated damage payments were made in cash.

We were required to use our reasonable best efforts to cause a shelf registration statement for resale of its 5.875% convertible senior notes and shares issued on conversion of the notes by the holders of the notes to be declared effective on or before April 21, 2005. Such registration statement was not declared effective by that date and we incurred liquidated damages at a rate from 0.25% per annum of the accreted

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principal amount of the notes through July 14, 2005, the day before the effective date of the registration statement. The liquidated damages were paid by Charter in cash.

Following the earlier of the sale of the notes pursuant to an effective registration statement or the date two years following the issue date, we may redeem the notes in whole or in part for cash at any time at a redemption price equal to 100% of the aggregate principal amount plus accrued and unpaid interest, deferred interest and liquidated damages, if any, but only if for any 20 trading days in any 30 consecutive trading day period the closing price has exceeded 180% of the conversion price, if such 30 trading day period begins prior to November 16, 2007 or 150% of the conversion price, if such 30 trading period begins thereafter. Holders who convert notes that we have called for redemption shall receive, in addition to the early conversion make whole amount, if applicable, the present value of the interest on the notes converted that would have been payable for the period from the later of November 17, 2007 and the redemption date through the scheduled maturity date for the notes, plus any accrued deferred interest.

CCHC, LLC Note

In October 2004, Charter, acting through a Special Committee of Charter's Board of Directors, and Mr. Allen, settled a dispute that had arisen between the parties with regard to the ownership of CC VIII. As part of that settlement, CCHC issued a subordinated exchangeable note (the CCHC Note) to CII. The CCHC Note has a 15-year maturity. The CCHC note has an initial accreted value of \$48.2 million accreting at 14% compounded quarterly, except that from and after February 28, 2009, CCHC may pay any increase in the accreted value of the CCHC in cash and the accreted value of the Note will not increase to the extent such amount is paid in cash. The CCHC Note is exchangeable at CII's option, at any time, for Charter Holdco Class A Common units at a rate equal to the then accreted value, divided by \$2.00.

Charter Communications Holdings, LLC Notes

March 1999 Charter Holdings Notes

The March 1999 Charter Holdings notes were issued under three separate indentures, each dated as of March 17, 1999, among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. Charter Holdings and Charter Capital exchanged these notes for new notes with substantially similar terms, except that the new March 1999 Charter Holdings notes are registered under the Securities Act.

The March 1999 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the March 1999 9.920% Charter Holdings notes began to accrue on April 1, 2004.

The March 1999 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Capital will not have the right to redeem the March 1999 8.250% Charter Holdings notes prior to their maturity date on April 1, 2007. Charter Holdings and Charter Capital may redeem some or all of the March 1999 8.625% Charter Holdings notes and the March 1999 9.920% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of March 1999 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after April 1, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding March 1999 Charter Holdings notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

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The indentures governing the March 1999 Charter Holdings notes contain restrictive covenants that limit certain transactions or activities by Charter Holdings and its restricted subsidiaries. Substantially all of Charter Holdings' direct and indirect subsidiaries are currently restricted subsidiaries. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

January 2000 Charter Holdings Notes

The January 2000 Charter Holdings notes were issued under three separate indentures, each dated as of January 12, 2000, among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In June 2000, Charter Holdings and Charter Capital exchanged these notes for new notes with substantially similar terms, except that the new January 2000 Charter Holdings notes are registered under the Securities Act.

The January 2000 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the January 2000 11.75% Charter Holdings notes began to accrue on January 15, 2005.

The January 2000 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the January 2000 10.00% Charter Holdings notes prior to their maturity on April 1, 2009. Charter Holdings and Charter Capital may redeem some or all of the January 2000 10.25% Charter Holdings notes and the January 2000 11.75% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2000 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2008.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2000 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2000 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

January 2001 Charter Holdings Notes

The January 2001 Charter Holdings notes were issued under three separate indentures, each dated as of January 10, 2001, each among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In March 2001, Charter Holdings and Charter Capital exchanged these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the January 2001 13.500% Charter Holdings notes will not accrue prior to January 15, 2006.

The January 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

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Charter Holdings and Charter Capital will not have the right to redeem the January 2001 10.750% Charter Holdings notes prior to their maturity on October 1, 2009. On or after January 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the January 2001 11.125% Charter Holdings notes and the January 2001 13.500% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

May 2001 Charter Holdings Notes

The May 2001 Charter Holdings notes were issued under three separate indentures, each among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In September 2001, Charter Holdings and Charter Capital exchanged substantially all of these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The May 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the May 2001 11.750% Charter Holdings notes will not accrue prior to May 15, 2006.

The May 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the May 2001 9.625% Charter Holdings notes prior to their maturity on November 15, 2009. On or after May 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the May 2001 10.000% Charter Holdings notes and the May 2001 11.750% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the May 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after May 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding May 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the May 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

January 2002 Charter Holdings Notes

The January 2002 Charter Holdings notes were issued under three separate indentures, each among Charter Holdings and Charter Capital, as the issuers, and BNY Midwest Trust Company, as trustee, two of which were supplements to the indentures for the May 2001 Charter Holdings notes. In July 2002, Charter Holdings and Charter Capital exchanged substantially all of these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

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The January 2002 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. Cash interest on the January 2002 12.125% Charter Holdings notes will not accrue prior to January 15, 2007.

The January 2002 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with the current and future unsecured and unsubordinated debt of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

The Charter Holdings 12.125% senior discount notes are redeemable at the option of the issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2002 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2002 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes. See Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.

Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes

The limitations on incurrence of debt and issuance of preferred stock contained in Charter Holdings indentures permit Charter Holdings and its subsidiaries to incur additional debt or issue preferred stock, so long as there is no default under the Charter Holdings indentures. These limitations restrict the incurrence of debt unless, after giving pro forma effect to the incurrence, the Charter Holdings Leverage Ratio would be below 8.75 to 1.0. 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, Charter Holdings and its restricted subsidiaries are permitted to issue:

up to \$3.5 billion of debt under credit facilities,

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,

additional debt in an amount equal to 200% of new cash equity proceeds received by Charter Holdings and its restricted subsidiaries since March 1999, the date of its first indenture, and not allocated for restricted payments or permitted investments, 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. Accordingly, indebtedness under our credit facilities is incurred under a combination of the categories of permitted indebtedness listed above.

The restricted subsidiaries of Charter Holdings are generally not permitted to issue debt securities contractually subordinated in right of payment to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The Charter Holdings indentures permit Charter Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than Charter Holdings indentures, so our subsidiaries that are subject to the Charter Operating credit facilities may not be permitted to utilize the full debt incurrence that would otherwise be available under the Charter Holdings indenture covenants.

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Generally, under Charter Holdings' high-yield indentures:

Charter Holdings and its restricted subsidiaries are generally permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if, after giving pro forma effect to the transaction, the Charter Holdings Leverage Ratio would be below 8.75 to 1.0 and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments in a total amount of up to 100% of Charter Holdings' consolidated EBITDA, as defined, minus 1.2 times its consolidated interest expense, plus 100% of new cash and non-cash equity proceeds received by Charter Holdings and not allocated to the debt incurrence covenant or to permitted investments, all cumulatively from March 1999, the date of the first Charter Holdings indenture, plus \$100 million.

In addition, Charter Holdings may make distributions or restricted payments, so long as no default exists or would be caused by transactions:

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 Charter Holdings 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.

Charter Holdings and its restricted subsidiaries may not make investments except permitted investments if there is a default under the indentures or if, after giving effect to the transaction, the Charter Holdings Leverage Ratio would be above 8.75 to 1.0.

Permitted investments include:

investments by Charter Holdings in restricted subsidiaries or by restricted subsidiaries in Charter Holdings,

investments in productive assets (including through equity investments) aggregating up to \$150 million since March 1999,

investments aggregating up to 100% of new cash equity proceeds received by Charter Holdings since March 1999 and not allocated to the debt incurrence or restricted payments covenant, and

other investments aggregating up to \$50 million since March 1999.

Charter Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under Charter Holdings' and its subsidiaries' credit facilities, liens securing the purchase price of new assets, liens securing indebtedness of up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of Charter Holdings.

Charter Holdings and Charter Capital, its co-issuer, 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, the Charter Holdings Leverage Ratio would be below 8.75 to 1.0, no default exists, and the surviving entity is a U.S. entity that assumes the Charter Holdings notes.

Charter Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, 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. Charter Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Holdings notes with any remaining proceeds.

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Charter Holdings and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Holdings could have incurred secured indebtedness 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.

Charter Holdings' restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indentures, unless those restrictions are on customary terms that will not materially impair Charter Holdings' ability to repay the high-yield notes.

The restricted subsidiaries of Charter Holdings are generally not permitted to guarantee or pledge assets to secure debt of Charter Holdings, unless the guaranteeing subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indentures also restrict the ability of Charter Holdings and its 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 Charter Holdings that the transaction is on terms no less favorable than arms length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction addressed to the holders of the Charter Holdings notes.

CCH I Holdings, LLC Notes

In September 2005, CIH and CCH I Holdings Capital Corp. jointly issued \$2.5 billion total principal amount of 9.92% to 13.50% senior accreting notes due 2014 and 2015 in exchange for an aggregate amount of \$2.4 billion of Charter Holdings notes due 2011 and 2012, spread over six series of notes and with varying interest rates as set forth in the table under Description of Certain Indebtedness. The notes are guaranteed by Charter Holdings.

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

The CIH notes may not be redeemed at the option of the issuers until September 30, 2007. On or after such date, the CIH notes may be redeemed in accordance with the following table.

Note Series	Redemption Dates	Percentage of Principal
11.125%	September 30, 2007 - January 14, 2008	103.708%
	January 15, 2008 - January 14, 2009	101.854%
	Thereafter	100.0%
9.92%	September 30, 2007 - Thereafter	100.0%
10.0%	September 30, 2007 - May 14, 2008	103.333%
	May 15, 2008 - May 14, 2009	101.667%
	Thereafter	100.0%
11.75%	September 30, 2007 - May 14, 2008	103.917%
	May 15, 2008 - May 14, 2009	101.958%
	Thereafter	100.0%
13.5%	September 30, 2007 - January 14, 2008	104.5%
	January 15, 2008 - January 14, 2009	102.25%
	Thereafter	100.0%
12.125%	September 30, 2007 - January 14, 2008	106.063%
	January 15, 2008 - January 14, 2009	104.042%
	January 15, 2009 - January 14, 2010	102.021%
	Thereafter	100.0%

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In the event that a specified change of control event happens, CIH and CCH I Holdings Capital Corp. must offer to repurchase any outstanding notes at a price equal to the sum of the accreted value of the notes plus accrued and unpaid interest plus a premium that varies over time.

The indenture governing the CIH notes contains restrictive covenants similar to those contained in the indenture governing the Charter Holdings notes with the following exceptions:

The debt incurrence covenant permits up to 9.75 billion (rather than 3.5 billion) of debt under credit facilities (less the amount of net proceeds of asset sales applied to repay such debt as required by the asset sale covenant).

CIH and its restricted subsidiaries are generally permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if, after giving pro forma effect to the transaction, the CIH Leverage Ratio would be below 8.75 to 1.0 and if no default exists or would exist as a consequence of such transaction. If those conditions are met, restricted payments in a total amount of up to the sum of (1) the greater of (a) \$500 million or (b) 100% of CIH's consolidated EBITDA, as defined, minus 1.2 times its consolidated interest expense each for the period from September 28, 2005 to the end of CIH's most recently ended full fiscal quarter for which internal financial statements are available, plus (2) 100% of new cash and non-cash equity proceeds received by CIH and not allocated to the debt incurrence covenant or to permitted investments, all cumulatively from March 1999, the date of the first Charter Holdings indenture.

Instead of the \$150 million and \$50 million permitted investment baskets described above, there is a \$750 million permitted investment basket.

CCH I, LLC Notes

In September 2005, CCH I and CCH I Capital Corp. jointly issued \$3.5 billion total principal amount of 11% senior secured notes due October 2015 in exchange for an aggregate amount of \$4.2 billion of certain Charter Holdings notes. The notes are guaranteed by Charter Holdings and are secured by a pledge of 100% of the equity interest of CCH I's wholly owned direct subsidiary, CCH II. Such pledge is subject to significant limitations as described in the related pledge agreement. Interest on the CCH I notes accrues at 11% per annum and is payable semi-annually in arrears on each April 1 and October 1, commencing on April 1, 2006.

The CCH I notes are senior debt obligations of CCH I and CCH I Capital Corp. To the extent of the value of the collateral, they rank senior to all of CCH I's future unsecured senior indebtedness. The CCH I notes are structurally subordinated to all obligations of subsidiaries of CCH I, including the CCH II notes, CCO Holdings notes, the Renaissance notes and the Charter Operating notes.

CCH I and CCH I Capital Corp. may, prior to October 1, 2008 in the event of a qualified equity offering providing sufficient proceeds, redeem up to 35% of the aggregate principal amount of the CCH I notes at a redemption price of 111% of the principal amount plus accrued and unpaid interest. Aside from this provision, CCH I and CCH I Capital Corp. may not redeem at their option any of the notes prior to October 1, 2010. On or after October 1, 2010, CCH I and CCH I Capital Corp. may redeem, in whole or in part, CCH I notes at the applicable prices (expressed as percentages of principal amount) listed below, plus accrued and unpaid interest if redeemed during the twelve month period beginning on October 1 of the years listed below.

Year	Percentage
2010	105.5%
2011	102.75%
2012	101.375%
2013 and thereafter	100.0%

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If a change of control occurs, each holder of the CCH I notes will have the right to require the repurchase of all or any part of that holder's CCH I notes at 101% of the principal amount plus accrued and unpaid interest.

The indenture governing the CCH I notes contains restrictive covenants that limit certain transactions or activities by CCH I and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCH I's direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCH I notes that restricts incurrence of debt and issuance of preferred stock permits CCH I and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving pro forma effect to the incurrence or issuance, CCH I could meet a leverage ratio (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 7.5 to 1.0.

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, CCH I and its restricted subsidiaries are permitted to incur or issue:

up to \$9.75 billion of debt under credit facilities (less the amount of net proceeds of asset sales applied to repay such debt as required by the asset sale covenant);

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.

The restricted subsidiaries of CCH I are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public offering or private placement.

The CCH I indenture generally permits CCH I and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than those in the CCH I indenture, so our subsidiaries that are subject to credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the CCH I indenture covenants.

Generally, under the CCH I indenture:

CCH I and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCH I can incur \$1.00 of new debt under the leverage ratio test, which requires that CCH I meet a 7.5 to 1.0 leverage ratio 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 are permitted in a total amount of up to 100% of CCH I's consolidated EBITDA, as defined, for the period from September 28, 2005 to the end of CCH I's most recently ended full fiscal quarter for which financial statements are available minus 1.3 times its consolidated interest expense for such period, plus 100% of new cash and appraised non-cash equity proceeds received by CCH I and not allocated to certain investments, from and after September 28, 2005, plus \$100 million.

In addition, CCH I and its restricted subsidiaries may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;

to pay, regardless of the existence of any default, pass-through tax liabilities in respect of ownership of equity interests in CCH I or its restricted subsidiaries;

to enable certain of its parents to pay interest on certain of their indebtedness;

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to enable certain of its parents to purchase, redeem or refinance certain indebtedness, so long as CCH I could incur \$1.00 of indebtedness under the 7.5 to 1.0 leverage ratio test referred to above; 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.

The indenture governing the CCH I notes restricts CCH I and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCH I could not incur \$1.00 of new debt under the 7.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by CCH I and its restricted subsidiaries in CCH I and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,

investments aggregating up to 100% of new cash equity proceeds received by CCH I since September 28, 2005 to the extent the proceeds have not been allocated to the restricted payments covenant described above,

other investments up to \$750 million outstanding at any time, and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

CCH I is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing the purchase price of new assets, liens securing obligations up to \$50 million and other specified liens. The lien covenant does not restrict liens on assets of subsidiaries of CCH I.

CCH I and CCH I Capital Corp., its co-issuer, 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 CCH I and its subsidiaries could incur \$1.00 of new debt under the 7.50 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the CCH I notes.

CCH I and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, 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. CCH I and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay certain debt, or to offer to repurchase the CCH I notes with any remaining proceeds.

CCH I and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, CCH I could have incurred secured indebtedness 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.

With certain exceptions, CCH I's restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to CCH I.

The restricted subsidiaries of CCH I are generally not permitted to guarantee or pledge assets to secure other debt of CCH I, except in respect of credit facilities unless the guarantying subsidiary issues a guarantee of the CCH I notes and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

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The indenture also restricts the ability of CCH I and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the CCH I notes.

CCH II, LLC Notes

In September 2003, CCH II and CCH II Capital Corp. jointly issued approximately \$1.6 billion total principal amount of 10.25% senior notes due 2010 and in January 2006, they issued an additional \$450 million principal amount of these notes. The CCH II notes are general unsecured obligations of CCH II and CCH II Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCH II and CCH II Capital Corp. The CCH II notes are structurally subordinated to all obligations of subsidiaries of CCH II, including the CCO Holdings notes, the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Interest on the CCH II notes accrues at 10.25% per annum, and is payable semi-annually in arrears on each March 15 and September 15, commencing on March 15, 2004.

At any time prior to September 15, 2006, the issuers of the CCH II notes may redeem up to 35% of the total principal amount of the CCH II notes on a pro rata basis at a redemption price equal to 110.25% of the principal amount of CCH II notes redeemed, plus any accrued and unpaid interest.

On or after September 15, 2008, the issuers of the CCH II notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 105.125% to a redemption price on or after September 15, 2009 of 100.0% of the principal amount of the CCH II notes redeemed, plus, in each case, any 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.

The indenture governing the CCH II notes contains restrictive covenants that limit certain transactions or activities by CCH II and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCH II's direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCH II notes that restricts incurrence of debt and issuance of preferred stock permits CCH II and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving effect to the incurrence, CCH II could meet a leverage ratio (ratio of consolidated debt to four times EBITDA from the most recent fiscal quarter for which internal financial reports are available) of 5.5 to 1.0.

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, CCH II and its restricted subsidiaries are permitted to incur or issue:

up to \$9.75 billion of debt under credit facilities, including debt under credit facilities outstanding on the issue date of the CCH II notes,

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.

The restricted subsidiaries of CCH II are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

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The CCH II indenture permits CCH II and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. Our and our subsidiaries' credit agreements generally impose more restrictive limitations on incurring new debt than the CCH II indenture, so we and our subsidiaries that are subject to credit agreements are not permitted to utilize the full debt incurrence that would otherwise be available under the CCH II indenture covenants.

Generally, under the CCH II indenture, CCH II and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCH II can incur \$1.00 of new debt under the leverage ratio test, which requires that CCH II meet a 5.5 to 1.0 leverage ratio 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 in a total amount of up to 100% of CCH II's consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and non-cash equity proceeds received by CCH II and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced July 1, 2003, plus \$100 million.

In addition, CCH II may make distributions or restricted payments, so long as no default exists or would be caused by transactions:

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 CCH II or its restricted subsidiaries;

regardless of the existence of any default, to pay interest when due on Charter Holdings notes, to pay, so long as there is no default, interest on the convertible senior notes (including the notes) of Charter, to purchase, redeem or refinance, so long as CCH II could incur \$1.00 of indebtedness under the 5.5 to 1.0 leverage ratio test referred to above and there is no default, Charter Holdings notes, Charter notes, and other direct or indirect parent company notes (including the CCH II notes);

to make distributions in connection with the private exchanges pursuant to which the CCH II notes were issued; and

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.

The indenture governing the CCH II notes restricts CCH II and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCH II could not incur \$1.00 of new debt under the 5.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by CCH II and its restricted subsidiaries in CCH II and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment;

investments aggregating up to 100% of new cash equity proceeds received by CCH II since September 23, 2003 to the extent the proceeds have not been allocated to the restricted payments covenant described above;

investments resulting from the private exchanges pursuant to which the CCH II notes were issued;

other investments up to \$750 million outstanding at any time; and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

CCH II is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries' credit facilities, liens

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securing the purchase price of new assets, and liens securing indebtedness up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of CCH II.

CCO Holdings, LLC Notes and Bridge Loan

8³/₄% Senior Notes Due 2013

In November 2003, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$500 million total principal amount of 8³/₄% senior notes due 2013. The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings subsidiaries, including the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Interest on the CCO Holdings senior notes accrues at 8³/₄% per year and is payable semi-annually in arrears on each May 15 and November 15.

At any time prior to November 15, 2006, the issuers of the CCO Holdings senior notes may redeem up to 35% of the total principal amount of the CCO Holdings senior notes to the extent of public equity proceeds they have received on a pro rata basis at a redemption price equal to 108.75% of the principal amount of CCO Holdings senior notes redeemed, plus any accrued and unpaid interest.

On or after November 15, 2008, the issuers of the CCO Holdings senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 104.375% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings senior notes redeemed, plus, in each case, any accrued and unpaid interest.

Senior Floating Rate Notes Due 2010

In December 2004, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$550 million total principal amount of senior floating rate notes due 2010. These notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings subsidiaries, including the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes. In August 2005, CCO Holdings and CCO Holdings Capital Corp. exchanged these notes for new notes with substantially similar terms, except the new senior floating rate notes are registered under the Securities Act.

The CCO Holdings senior floating rate notes have an annual interest rate of LIBOR plus 4.125%, reset and payable quarterly.

At any time prior to December 15, 2006, CCO Holdings and CCO Holdings Capital Corp. may redeem up to 35% of the notes in an amount not to exceed the amount of proceeds of one or more public equity offerings at a redemption price equal to 100% of the principal amount, plus a premium equal to the interest rate per annum applicable to the notes on the date notice of redemption is given, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the original aggregate principal amount of the notes issued remains outstanding after the redemption.

CCO Holdings and CCO Holdings Capital Corp. may redeem the senior floating rate notes in whole or in part at their option from December 15, 2006 until December 14, 2007 for 102% of the principal amount, from December 15, 2007 until December 14, 2008 for 101% of the principal amount and from and after December 15, 2008, at par, in each case, plus accrued and unpaid interest.

8 3/4% Senior Notes due 2013

In August 2005, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$300 million total principal amount of 8 3/4% senior notes due 2013. The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or

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future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings subsidiaries, including the Renaissance notes, the Charter Operating credit facilities and the Charter Operating notes.

Interest on the CCO Holdings senior notes accrues at 8 3/4% per year and is payable semi-annually in arrears on each May 15 and November 15.

At any time prior to November 15, 2006, the issuers of the CCO Holdings senior notes may redeem up to 35% of the total principal amount of the CCO Holdings senior notes to the extent of public equity proceeds they have received on a pro rata basis at a redemption price equal to 108.75% of the principal amount of CCO Holdings senior notes redeemed, plus any accrued and unpaid interest.

On or after November 15, 2008, the issuers of the CCO Holdings senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 104.375% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings senior notes redeemed, plus, in each case, any accrued and unpaid interest.

Additional Terms of the CCO Holdings Senior Notes and Senior Floating Rate Notes

The CCO Holdings notes described above are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future 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 Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

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.

The indenture governing the CCO Holdings senior notes contains restrictive covenants that limit certain transactions or activities by CCO Holdings and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCO Holdings direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCO Holdings senior notes that restricts incurrence of debt and issuance of preferred stock permits CCO Holdings and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving pro forma effect to the incurrence or issuance, CCO Holdings could meet a leverage ratio (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 4.5 to 1.0.

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, CCO Holdings and its restricted subsidiaries are permitted to incur or issue:

up to \$9.75 billion of debt under credit facilities, including debt under credit facilities outstanding on the issue date of the CCO Holdings senior notes;

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.

The restricted subsidiaries of CCO Holdings are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The CCO Holdings indenture permits CCO Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than CCO Holdings

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indenture, so our subsidiaries that are subject to credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the CCO Holdings indenture covenants.

Generally, under CCO Holdings indenture:

CCO Holdings and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCO Holdings can incur \$1.00 of new debt under the leverage ratio test, which requires that CCO Holdings meet a 4.5 to 1.0 leverage ratio 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 are permitted in a total amount of up to 100% of CCO Holdings consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and appraised non-cash equity proceeds received by CCO Holdings and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced on October 1, 2003, plus \$100 million.

In addition, CCO Holdings may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;

to pay, regardless of the existence of any default, pass-through tax liabilities in respect of ownership of equity interests in Charter Holdings or its restricted subsidiaries;

to pay, regardless of the existence of any default, interest when due on Charter Holdings notes and our notes;

to pay, so long as there is no default, interest on the Charter convertible notes;

to purchase, redeem or refinance Charter Holdings notes, CCH II notes, Charter notes, and other direct or indirect parent company notes, so long as CCO Holdings could incur \$1.00 of indebtedness under the 4.5 to 1.0 leverage ratio test referred to above and there is no default; 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.

The indenture governing the CCO Holdings senior notes restricts CCO Holdings and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCO Holdings could not incur \$1.00 of new debt under the 4.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by CCO Holdings and its restricted subsidiaries in CCO Holdings and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,

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 described above,

other investments up to \$750 million outstanding at any time, and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

CCO Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries credit facilities, liens securing the purchase price of new assets, liens securing indebtedness up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of CCO Holdings.

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CCO Holdings and CCO Holdings Capital, its co-issuer, 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 CCO Holdings and its subsidiaries could incur \$1.00 of new debt under the 4.50 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the CCO Holdings senior notes.

CCO Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, 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. CCO Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the CCO Holdings senior notes with any remaining proceeds.

CCO Holdings and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, CCO Holdings could have incurred secured indebtedness 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.

CCO Holdings' restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to CCO Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indenture, unless those restrictions are on customary terms that will not materially impair CCO Holdings' ability to repay its notes.

The restricted subsidiaries of CCO Holdings are generally not permitted to guarantee or pledge assets to secure debt of CCO Holdings, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of CCO Holdings and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the CCO Holdings notes.

Bridge Loan

In October 2005, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, entered into the bridge loan with the Lenders whereby the Lenders have committed to make loans to CCO Holdings in an aggregate amount of \$600 million. In January 2006, upon the issuance of \$450 million principal amount CCH II notes, the commitment under the bridge loan agreement was reduced to \$435 million. CCO Holdings may, subject to certain conditions, including the satisfaction of certain of the conditions to borrowing under the credit facilities, draw upon the facility between January 2, 2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the bridge loan. Each loan will accrue interest at a rate equal to an adjusted LIBOR rate plus a spread. The spread will initially be 450 basis points and will increase (a) by an additional 25 basis points at the end of the six-month period following the date of the first borrowing, (b) by an additional 25 basis points at the end of each of the next two subsequent three month periods and (c) by 62.5 basis points at the end of each of the next two subsequent three-month periods.

Beginning on the first anniversary of the first date that CCO Holdings borrows under the bridge loan and at any time thereafter, any Lender will have the option to receive exchange notes (the terms of

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which are described below, the Exchange Notes) in exchange for any loan that has not been repaid by that date. Upon the earlier of (x) the date that at least a majority of all loans that have been outstanding have been exchanged for Exchange Notes and (y) the date that is 18 months after the first date that CCO Holdings borrows under the bridge loan, the remainder of loans will be automatically exchanged for Exchange Notes.

As conditions to each draw, (i) there shall be no default under the bridge loan, (ii) all the representations and warranties under the bridge loan shall be true and correct in all material respects and (iii) all conditions to borrowing under the Charter Operating credit facilities (with certain exceptions) shall be satisfied.

The aggregate unused commitment will be reduced by 100% of the net proceeds from certain asset sales, to the extent such net proceeds have not been used to prepay loans or Exchange Notes. However, asset sales that generate net proceeds of less than \$75 million will not be subject to such commitment reduction obligation, unless the aggregate net proceeds from such asset sales exceed \$200 million, in which case the aggregate unused commitment will be reduced by the amount of such excess.

CCO Holdings will be required to prepay loans (and redeem or offer to repurchase Exchange Notes, if issued) from the net proceeds from (i) the issuance of equity or incurrence of debt by Charter and its subsidiaries, with certain exceptions, and (ii) certain asset sales (to the extent not used for purposes permitted under the bridge loan).

The covenants and events of default applicable to CCO Holdings under the bridge loan are similar to the covenants and events of default in the indenture for the senior secured notes of CCH I.

The Exchange Notes will mature on the sixth anniversary of the first borrowing under the bridge loan. The Exchange Notes will bear interest at a rate equal to the rate that would have been borne by the loans. The same mandatory redemption provisions will apply to the Exchange Notes as applied to the loans, except that CCO Holdings will be required to make an offer to redeem upon the occurrence of a change of control at 101% of principal amount plus accrued and unpaid interest.

The Exchange Notes will, if held by a person other than an initial lender or an affiliate thereof, be (a) non-callable for the first three years after the first borrowing date and (b) thereafter, callable at par plus accrued interest plus a premium equal to 50% of the coupon in effect on the first anniversary of the first borrowing date, which premium shall decline to 25% of such coupon in the fourth year and to zero thereafter. Otherwise, the Exchange Notes will be callable at any time at 100% of the amount thereof plus accrued and unpaid interest.

Charter Communications Operating, LLC Notes

On April 27, 2004, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.1 billion of 8% senior second lien notes due 2012 and \$400 million of 8³/₈% senior second lien notes due 2014, for total gross proceeds of \$1.5 billion.

The Charter Operating notes were sold in a private transaction that was not subject to the registration requirements of the Securities Act of 1933. The Charter Operating notes are not expected to have the benefit of any exchange or other registration rights, except in specified limited circumstances.

In the first quarter of 2005, as a result of the occurrence of the guarantee and pledge date (generally, upon the Charter Holdings leverage ratio being below 8.75 to 1.0), CCO Holdings and those subsidiaries of Charter Operating that are currently guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations provided guarantees of the Charter Operating notes. The note guarantee of each such existing guarantor is, and the note guarantee of any additional future subsidiary guarantor will be:

a senior obligation of such guarantor;

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structurally senior to the outstanding senior notes of CCO Holdings and CCO Holdings Capital Corp. (except in the case of CCO Holdings note guarantee, which is structurally *pari passu* with such senior notes), the outstanding senior notes of CCH II and CCH II Capital Corp., the outstanding senior notes and senior discount notes of Charter Holdings, the outstanding convertible senior notes of Charter and any future indebtedness of parent companies of CCO Holdings (but subject to provisions in the Charter Operating indenture that permit interest and, subject to meeting the 4.25 to 1.0 leverage ratio test, principal payments to be made thereon); and

senior in right of payment to any future subordinated indebtedness of such guarantor.

All the subsidiaries of Charter Operating (except CCO NR Sub, LLC, and certain other subsidiaries that are not deemed material and are designated as nonrecourse subsidiaries under the Charter Operating credit facilities) are restricted subsidiaries of Charter Operating under the Charter Operating notes. Unrestricted subsidiaries generally will not be subject to the restrictive covenants in the Charter Operating indenture.

In the event of specified change of control events, Charter Operating must offer to purchase the Charter Operating 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.

The limitations on incurrence of debt contained in the indenture governing the Charter Operating notes permit Charter Operating and its restricted subsidiaries that are guarantors of the Charter Operating notes to incur additional debt or issue shares of preferred stock if, after giving pro forma effect to the incurrence, Charter Operating could meet a leverage ratio test (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 4.25 to 1.0.

In addition, regardless of whether the leverage ratio test could be met, so long as no default exists or would result from the incurrence or issuance, Charter Operating and its restricted subsidiaries are permitted to incur or issue:

up to \$6.5 billion of debt under credit facilities (but such incurrence is permitted only by Charter Operating and its restricted subsidiaries that are guarantors of the Charter Operating notes, so long as there are such guarantors), including debt under credit facilities outstanding on the issue date of the Charter Operating notes;

up to \$75 million of debt incurred to finance the purchase or capital lease of assets;

up to \$300 million of additional debt for any purpose, and

other items of indebtedness for specific purposes such as refinancing of existing debt and interest rate swaps to provide protection against fluctuation in interest rates and, subject to meeting the leverage ratio test, debt existing at the time of acquisition of a restricted subsidiary.

The indenture governing the Charter Operating notes permits Charter Operating to incur debt under one of the categories above, and later reclassify the debt into a different category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than the Charter Operating indenture, so our subsidiaries that are subject to the Charter Operating credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the Charter Operating indenture covenants.

Generally, under Charter Operating's indenture, Charter Operating and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if Charter Operating could incur \$1.00 of new debt under the leverage ratio test, which requires that Charter Operating meet a 4.25 to 1.0 leverage ratio 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 are permitted in a total amount of up to 100% of Charter Operating's consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and

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appraised non-cash equity proceeds received by Charter Operating and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced April 1, 2004, plus \$100 million.

In addition, Charter Operating may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

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 Charter Operating or its restricted subsidiaries;

to pay, regardless of the existence of any default, interest when due on the Charter Holdings notes, the CCH II notes and the CCO Holdings notes;

to pay, so long as there is no default, interest on the Charter convertible notes;

to purchase, redeem or refinance the Charter Holdings notes, CCH II notes, the CCO Holdings notes, the Charter notes, and other direct or indirect parent company notes, so long as Charter Operating could incur \$1.00 of indebtedness under the 4.25 to 1.0 leverage ratio test referred to above and there is no default, 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.

The indenture governing the Charter Operating notes restricts Charter Operating and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if Charter Operating could not incur \$1.00 of new debt under the 4.25 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

investments by Charter Operating and its restricted subsidiaries in Charter Operating and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,

investments aggregating up to 100% of new cash equity proceeds received by Charter Operating since April 27, 2004 to the extent the proceeds have not been allocated to the restricted payments covenant described above,

other investments up to \$750 million outstanding at any time, and

certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

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, from the most recent fiscal quarter for which internal financial reports are available) would exceed 3.75 to 1.0. Permitted liens include liens securing indebtedness and other obligations under permitted credit facilities, liens securing the purchase price of new assets, liens securing indebtedness of up to \$50 million and other specified liens incurred in the ordinary course of business.

Charter Operating and Charter Communications Operating Capital Corp., its co-issuer, 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 Charter Operating and its subsidiaries could incur \$1.00 of new debt under the 4.25 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the Charter Operating notes.

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Charter Operating and its restricted subsidiaries generally may not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, 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. Charter Operating and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Operating notes with any remaining proceeds.

Charter Operating and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Operating could have incurred secured indebtedness 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.

Charter Operating's restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Operating on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when Charter Operating entered into the indenture governing the Charter Operating senior second lien notes unless those restrictions are on customary terms that will not materially impair Charter Operating's ability to repay the Charter Operating notes.

The restricted subsidiaries of Charter Operating are generally not permitted to guarantee or pledge assets to secure debt of Charter Operating, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of Charter Operating and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the Charter Operating notes.

Charter Operating and its restricted subsidiaries are generally not permitted to transfer equity interests in restricted subsidiaries unless the transfer is of all of the equity interests in the restricted subsidiary or the restricted subsidiary remains a restricted subsidiary and net proceeds of the equity sale are applied in accordance with the asset sales covenant.

Since the occurrence of the guarantee and pledge date, the collateral for the Charter Operating notes consists of 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 March 2005, CC V Holdings, LLC redeemed in full the notes outstanding under the CC V indenture. Following that redemption CC V Holdings, LLC and its subsidiaries guaranteed the Charter Operating credit facilities and the related obligations and secured those guarantees with first-priority liens,

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and guaranteed the notes and secured the Charter Operating senior second lien notes with second-priority liens, on substantially all of their assets in which security interests may be perfected under the Uniform Commercial Code by filing a financing statement (including capital stock and intercompany obligations).

In addition, if Charter Operating or its subsidiaries exercise any option to redeem in full the notes outstanding under the Renaissance indenture, then, provided that the Leverage Condition remains satisfied, the Renaissance entities will be required to provide corresponding guarantees of the Charter Operating credit facilities and related obligations and note guarantees and to secure the Charter Operating notes and the Charter Operating credit facilities and related obligations with corresponding liens.

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.

CC V Holdings, LLC Notes

These notes were redeemed on March 14, 2005 and are therefore no longer outstanding.

Renaissance Media Notes

The 10% senior discount notes due 2008 were issued by Renaissance Media (Louisiana) LLC, Renaissance Media (Tennessee) LLC and Renaissance Media Holdings Capital Corporation, with Renaissance Media Group LLC as guarantor and the United States Trust Company of New York as trustee. Renaissance Media Group LLC, which is the direct or indirect parent company of these issuers, is now a subsidiary of Charter Operating. The Renaissance 10% notes and the Renaissance guarantee are unsecured, unsubordinated debt of the issuers and the guarantor, respectively. In October 1998, the issuers of the Renaissance notes exchanged \$163 million of the original issued and outstanding Renaissance notes for an equivalent value of new Renaissance notes. The form and terms of the new Renaissance notes are the same in all material respects as the form and terms of the original Renaissance notes except that the issuance of the new Renaissance notes was registered under the Securities Act.

There was no payment of any interest in respect of the Renaissance notes prior to October 15, 2003. Since October 15, 2003, interest on the Renaissance notes is payable semi-annually in arrears in cash at a rate of 10% per year. On April 15, 2003, the Renaissance notes became redeemable at the option of the issuers thereof, in whole or in part, initially at 105% of their principal amount at maturity, plus accrued interest, declining to 100% of the principal amount at maturity, plus accrued interest, on or after April 15, 2006.

Our acquisition of Renaissance triggered change of control provisions of the Renaissance notes that required us to offer to purchase the Renaissance notes at a purchase price equal to 101% of their accreted value on the date of the purchase, plus accrued interest, if any. In May 1999, we made an offer to repurchase the Renaissance notes, and holders of Renaissance notes representing 30% of the total principal amount outstanding at maturity tendered their Renaissance notes for repurchase.

The limitations on incurrence of debt contained in the indenture governing the Renaissance notes permit Renaissance Media Group and its restricted subsidiaries to incur additional debt, so long as they are not in default under the indenture:

if, after giving effect to the incurrence, Renaissance Media Group could meet a leverage ratio (ratio of consolidated debt to four times consolidated EBITDA, as defined, from the most recent quarter) of 6.75 to 1.0, and, regardless of whether the leverage ratio could be met,

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up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated annualized EBITDA, as defined,

up to an amount equal to 5% of Renaissance Media Group's consolidated total assets to finance the purchase of new assets,

up to two times the sum of (a) the net cash proceeds of new equity issuances and capital contributions, and (b) 80% of the fair market value of property received by Renaissance Media Group or an issuer as a capital contribution, in each case received after the issue date of the Renaissance notes and not allocated to make restricted payments, 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.

The indenture governing the Renaissance notes permits us to incur debt under one of the categories above, and reclassify the debt into a different category.

Under the indenture governing the Renaissance notes, Renaissance Media Group and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, make restricted investments, or make other specified restricted payments only if Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which requires that Renaissance Media Group meet the 6.75 to 1.0 leverage ratio after giving effect to the transaction of the indebtedness covenant and that no default exists or would occur as a consequence thereof. If those conditions are met, Renaissance Media Group and its restricted subsidiaries are permitted to make restricted payments in a total amount not to exceed the result of 100% of Renaissance Media Group's consolidated EBITDA, as defined, minus 130% of its consolidated interest expense, plus 100% of new cash equity proceeds received by Renaissance Media Group and not allocated to the indebtedness covenant, plus returns on certain investments, all cumulatively from June 1998. Renaissance Media Group and its restricted subsidiaries may make permitted investments up to \$2 million in related businesses and other specified permitted investments, restricted payments up to \$10 million, dividends up to 6% each year of the net cash proceeds of public equity offerings, and other specified restricted payments without meeting the foregoing test.

Renaissance Media Group and its restricted subsidiaries are not permitted to grant liens on their assets other than specified permitted liens, unless corresponding liens are granted to secure the Renaissance notes. Permitted liens include liens securing debt permitted to be incurred under credit facilities, liens securing debt incurred under the incurrence of indebtedness test, in amounts up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated EBITDA, as defined, liens as deposits for acquisitions up to 10% of the estimated purchase price, liens securing permitted financings of new assets, liens securing debt permitted to be incurred by restricted subsidiaries, and specified liens incurred in the ordinary course of business.

Renaissance Media Group and the issuers of the Renaissance notes are generally not permitted to sell or otherwise dispose of all or substantially all of their assets or merge with or into other companies unless their consolidated net worth after any such transaction would be equal to or greater than their consolidated net worth immediately prior to the transaction, or unless Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which would require them to meet a leverage ratio of 6.75 to 1.00 after giving effect to the transaction.

Renaissance Media Group and its subsidiaries may generally not otherwise sell assets or, in the case of subsidiaries, equity interests, unless they receive consideration at least equal to the fair market value of the assets, consisting of at least 75% cash, temporary cash investments or assumption of debt. Charter Holdings and its restricted subsidiaries are then required within 12 months after any asset sale either to commit to use the net cash proceeds over a specified threshold either to acquire assets used in their own or related businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Renaissance notes with any remaining proceeds.

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Renaissance Media Group and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless the lease term does not exceed three years or the proceeds are applied in accordance with the covenant limiting asset sales.

Renaissance Media Group's restricted subsidiaries may generally not enter into restrictions on their abilities to make dividends or distributions or transfer assets to Renaissance Media Group except those not more restrictive than is customary in comparable financings.

The restricted subsidiaries of Renaissance Media Group are not permitted to guarantee or pledge assets to secure debt of the Renaissance Media Group or its restricted subsidiaries, unless the guarantying subsidiary issues a guarantee of the Renaissance notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction.

Renaissance Media Group and its restricted subsidiaries are generally not permitted to issue or sell equity interests in restricted subsidiaries, except sales of common stock of restricted subsidiaries so long as the proceeds of the sale are applied in accordance with the asset sale covenant, and issuances as a result of which the restricted subsidiary is no longer a restricted subsidiary and any remaining investment in that subsidiary is permitted by the covenant limiting restricted payments.

The indenture governing the Renaissance notes also restricts the ability of Renaissance Media Group and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$2 million without a determination by the disinterested members of the board of directors that the transaction is on terms no less favorable than arms length, or transactions with affiliates involving over \$4 million with affiliates without receiving an independent opinion as to the fairness of the transaction to Renaissance Media Group.

All of these covenants are subject to additional specified exceptions. In general, the covenants of the Charter Operating credit facilities are more restrictive than those of our indentures.

Cross-Defaults

Our indentures and those of certain of our subsidiaries include various events of default, including cross-default 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. The Renaissance indenture contains a similar cross-default provision with a \$10 million threshold that applies to the issuers of the Renaissance notes and their restricted subsidiaries. As a result, an event of default related to the failure to repay principal at maturity or the acceleration of the indebtedness under the bridge loan, the Charter Holdings notes, CIH notes, CCH I notes, CCH II notes, CCO Holdings notes, Charter Operating notes, the Charter Operating credit facilities or the Renaissance notes could cause cross-defaults under our subsidiaries' indentures.

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DESCRIPTION OF CAPITAL STOCK AND MEMBERSHIP UNITS

General

Our capital stock and the provisions of our restated certificate of incorporation and bylaws are as described below. These summaries are qualified by reference to the restated certificate of incorporation and the bylaws, copies of which have been filed with the Securities and Exchange Commission.

Our authorized capital stock consists of 1.750 billion shares of Class A common stock, par value \$.001 per share, 750 million shares of Class B common stock, par value \$.001 per share, and 250 million shares of preferred stock, par value \$.001 per share.

Our restated certificate of incorporation and Charter Holdco's amended and restated limited liability company agreement contain provisions that are designed to cause the number of shares of our common stock that are outstanding to equal the number of common membership units of Charter Holdco owned by Charter and to cause the value of a share of common stock to be equal to the value of a common membership unit. These provisions are meant to allow a holder of our common stock to easily understand the economic interest that such holder's common shares represent of Charter Holdco's business.

In particular, provisions in our restated certificate of incorporation provide that:

(1) at all times the number of shares of our common stock outstanding will be equal to the number of Charter Holdco common membership units owned by Charter.

(2) Charter will not hold any assets other than, among other allowable assets:

working capital and cash held for the payment of current obligations and receivables from Charter Holdco;

common membership units of Charter Holdco; and

obligations and equity interests of Charter Holdco that correspond to obligations and equity interests issued by Charter;

(3) Charter will not borrow any money or enter into any capital lease unless Charter Holdco enters into the same arrangements with Charter so that Charter's liability flows through to Charter Holdco.

Provisions in Charter Holdco's amended and restated limited liability company agreement provide that, upon the contribution by Charter of assets acquired through the issuance of common stock by Charter, Charter Holdco will issue to Charter that number of common membership units as equals the number of shares of common stock issued by Charter. In the event of the contribution by Charter of assets acquired through the issuance of indebtedness or preferred interests of Charter, Charter Holdco will issue to Charter a corresponding obligation or interest, respectively to allow Charter to pass through to Charter Holdco these liabilities or preferred interests. Such liabilities or preferred interest of Charter Holdco will be assets of Charter, in addition to the Class B common units of Charter Holdco that are held by Charter.

Common Stock

In addition to the 22,038,000 shares of Class A common stock offered hereby, as of December 31, 2005, there were 416,204,671 shares of Class A common stock issued and outstanding and 50,000 shares of Class B common stock issued and outstanding. If, as described below, all shares of Class B common stock convert to shares of Class A common stock as a result of dispositions by Mr. Allen and his affiliates, the holders of Class A common stock will be entitled to elect all members of the board of directors, other than any members elected separately by the holders of any preferred shares with the right to vote, of which there are currently none outstanding.

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Voting Rights. The holders of Class A common stock and Class B common stock generally have identical rights, except:

each Class A common shareholder is entitled to one vote per share; and

each Class B common shareholder is entitled to a number of votes based on the number of outstanding Class B common stock and Charter Holdco membership units exchangeable for Class B common stock. For example, Mr. Allen is entitled to ten votes for each share of Class B common stock held by him or his affiliates and ten votes for each membership unit held by him or his affiliates; and

the Class B common shareholders have the sole power to vote to amend or repeal the provisions of our restated certificate of incorporation relating to:

(1) the activities in which Charter may engage;

(2) the required ratio of outstanding shares of common stock to outstanding membership units owned by Charter; and

(3) the restrictions on the assets and liabilities that Charter may hold.

The effect of the provisions described in the final bullet point is that holders of Class A common stock have no right to vote on these matters. These provisions allow Mr. Allen, for example, to amend the restated certificate of incorporation to permit Charter to engage in currently prohibited business activities without having to seek the approval of holders of Class A common stock.

The voting rights relating to the election of Charter's board of directors are as follows:

The Class B common shareholders, voting separately as a class, are entitled to elect all but one member of our board of directors.

Class A and Class B common shareholders, voting together as one class, are entitled to elect the remaining member of our board of directors who is not elected by the Class B common shareholders.

Class A common shareholders and Class B common shareholders are not entitled to cumulate their votes in the election of directors.

In addition, Charter may issue one or more series of preferred stock that entitle the holders of such preferred stock to elect directors.

Other than the election of directors and any matters where Delaware law or Charter's restated certificate of incorporation or bylaws requires otherwise, all matters to be voted on by shareholders must be approved by a majority of the votes cast by the holders of shares of Class A common stock and Class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock.

Amendments to Charter's restated certificate of incorporation that would adversely alter or change the powers, preferences or special rights of the Class A common stock or the Class B common stock must be approved by a majority of the votes entitled to be cast by the holders of the outstanding shares of the affected class, voting as a separate class. In addition, the following actions by Charter must be approved by the affirmative vote of the holders of at least a majority of the voting power of the outstanding Class B common stock, voting as a separate class:

the issuance of any Class B common stock other than to Mr. Allen and his affiliates and other than pursuant to specified stock splits and dividends;

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the issuance of any stock other than Class A common stock (and other than Class B common stock as described above); and

the amendment, modification or repeal of any provision of its restated certificate of incorporation relating to capital stock or the removal of directors.

Charter will lose its rights to manage the business of Charter Holdco and Charter Investment, Inc. will become the sole manager of Charter Holdco if at any time a court holds that the holders of the Class B common stock no longer:

have the number of votes per share of Class B common stock described above;

have the right to elect, voting separately as a class, all but one member of Charter's board of directors, except for any directors elected separately by the holders of preferred stock; or

have the right to vote as a separate class on matters that adversely affect the Class B common stock with respect to:

(1) the issuance of equity securities of Charter other than the Class A common stock; or

(2) the voting power of the Class B common stock.

These provisions are contained in the amended and restated limited liability company agreement of Charter Holdco. The Class B common stock could lose these rights if a holder of Class A common stock successfully challenges in a court proceeding the voting rights of the Class B common stock. In any of these circumstances, Charter would also lose its 100% voting control of Charter Holdco as provided in Charter Holdco's amended and restated limited liability company agreement. These provisions exist to assure Mr. Allen that he will be able to control Charter Holdco in the event he was no longer able to control Charter through his ownership of Class B common stock. These events could have a material adverse impact on our business and the market price of the Class A common stock and the notes. See *Risk Factors* - *Risks Related to Our Business*.

Dividends. Holders of Class A common stock and Class B common stock will share ratably (based on the number of shares of common stock held) in any dividend declared by our board of directors, subject to any preferential rights of any outstanding preferred stock. Dividends consisting of shares of Class A common stock and Class B common stock may be paid only as follows:

shares of Class A common stock may be paid only to holders of Class A common stock;

shares of Class B common stock may be paid only to holders of Class B common stock; and

the number of shares of each class of common stock payable per share of such class of common stock shall be equal in number.

Our restated certificate of incorporation provides that we may not pay a stock dividend unless the number of outstanding Charter Holdco common membership units are adjusted accordingly. This provision is designed to maintain the equal value between shares of common stock and membership units and the one-to-one exchange ratio.

Conversion of Class B Common Stock. Each share of outstanding Class B common stock will automatically convert into one share of Class A common stock if, at any time, Mr. Allen or any of his affiliates sells any shares of common stock of Charter or membership units of Charter Holdco and as a result of such sale, Mr. Allen and his affiliates no longer own directly and indirectly common stock and other equity interests in Charter and membership units in Charter Holdco that in total represent at least:

20% of the sum of the values, calculated as of November 12, 1999, of the shares of Class B common stock directly or indirectly owned by Mr. Allen and his affiliates and the shares of Class B

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common stock for which outstanding Charter Holdco membership units directly or indirectly owned by Mr. Allen and his affiliates were exchangeable on that date, and

5% of the sum of the values, calculated as of the measuring date, of shares of outstanding common stock and other equity interests in Charter and the shares of Charter common stock for which outstanding Charter Holdco membership units are exchangeable on such date.

These provisions exist to assure that Mr. Allen will no longer be able to control Charter if after sales of his equity interests he owns an insignificant economic interest in our business. The conversion of all Class B common stock in accordance with these provisions would not trigger Charter Holdco's limited liability company agreement provisions described above whereby Charter would lose its management rights and special voting rights relating to Charter Holdco in the event of an adverse determination of a court affecting the rights of the Class B common stock.

Each holder of a share of Class B common stock has the right to convert such share into one share of Class A common stock at any time on a one-for-one basis. If a Class B common shareholder transfers any shares of Class B common stock to a person other than an authorized Class B common shareholder, these shares of Class B common stock will automatically convert into shares of Class A common stock. Authorized Class B common shareholders are Paul G. Allen entities controlled by Mr. Allen, Mr. Allen's estate, any organization qualified under Section 501(c)(3) of the Internal Revenue Code that is Mr. Allen's beneficiary upon his death and certain trusts established by or for the benefit of Mr. Allen. In this context "controlled" means the ownership of more than 50% of the voting power and economic interest of an entity and "transfer" means the transfer of record or beneficial ownership of any such share of Class B common stock.

Other Rights. Shares of Class A common stock will be treated equally in the event of any merger or consolidation of Charter so that:

each class of common shareholders will receive per share the same kind and amount of capital stock, securities, cash and/or other property received by any other class of common shareholders, provided that any shares of capital stock so received may differ in a manner similar to the manner in which the shares of Class A common stock and Class B common stock differ; or

each class of common shareholders, to the extent they receive a different kind (other than as described above) or different amount of capital stock, securities, cash and/or other property than that received by any other class of common shareholders, will receive for each share of common stock they hold, stock, securities, cash and/or either property having a value substantially equivalent to that received by such other class of common shareholders.

Upon Charter's liquidation, dissolution or winding up, after payment in full of the amounts required to be paid to preferred shareholders, if any, all common shareholders, regardless of class, are entitled to share ratably in any assets and funds available for distribution to common shareholders.

No shares of any class of common stock are subject to redemption or have preemptive right to purchase additional shares of common stock.

Preferred Stock

Charter's board of directors is authorized, subject to the approval of the holders of the Class B common stock, to issue from time to time up to a total of 250 million shares of preferred stock in one or more series and to fix the numbers, powers, designations, preferences, and any special rights of the shares of each such series thereof, including:

dividend rights and rates;

conversion rights;

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voting rights;

terms of redemption (including any sinking fund provisions) and redemption price or prices;

liquidation preferences; and

the number of shares constituting and the designation of such series.

Pursuant to their authority the board of directors has designated 1 million of the above-described 250 million shares as Series A Convertible Redeemable Preferred Stock (Series A Preferred Stock). Holders of the Series A Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Series A Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Series A Preferred Stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. The Series A Preferred Stock is convertible, in whole or in part, at the option of the holders on or before August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Series A Preferred Stock is the liquidation preference of \$100, subject to certain customary adjustments. At September 30, 2005, there were 545,259 shares of Series A Preferred Stock outstanding, with an aggregate liquidation preference of approximately \$55 million. These shares are convertible into approximately 2.2 million shares of Class A common stock.

In November 2005, Charter repurchased 508,546 shares of its Series A Convertible Redeemable Preferred Stock (the Preferred Stock) for an aggregate purchase price of approximately \$31 million (or \$60 per share). The shares had liquidation preference of approximately \$51 million and had accrued but unpaid dividends of approximately \$3 million resulting in a \$23 million gain. Following the repurchase, 36,713 shares of Preferred Stock remained outstanding.

In connection with the repurchase, the holders of Preferred Stock consented to an amendment to the Certificate of Designation governing the Preferred Stock that will eliminate the quarterly dividends on all of the outstanding Preferred Stock and will provide that the liquidation preference for the remaining shares outstanding will be \$105.4063 per share, which amount shall accrete from September 30, 2005 at an annual rate of 7.75%, compounded quarterly. Certain holders of Preferred Stock also released Charter from various threatened claims relating to their acquisition and ownership of the Preferred Stock, including threatened claims for breach of contract.

Charter has no present plans to issue any other shares of preferred stock.

Options

As of December 31, 2005, options to purchase a total of 1,196,621 membership units in Charter Holdco were outstanding pursuant to the 1999 Charter Communications Option Plan, and options to purchase a total of 27,930,123 shares of Class A common stock were outstanding pursuant to Charter s 2001 Stock Incentive Plan. Of these options, 9,999,306 have vested. The membership units received upon exercise of any of the options under the 1999 Charter Communications Option Plan are automatically exchanged for shares of our Class A common stock on a one-for-one basis. In addition, a portion of the unvested options will vest each month. There are also additional options outstanding to purchase an aggregate of 289,268 shares of Class A common stock, which were issued to a consultant outside of the plan.

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Convertible Notes

At December 31, 2005, we had outstanding \$862.5 million principal amount of our 5.875% convertible senior notes due 2009, which are convertible (at approximately \$2.42 per share) into a total of approximately 356 million shares of our Class A common stock. At December 31, 2005, we also had outstanding approximately \$20 million principal amount of our 4.75% senior convertible notes due 2006, which are convertible into Class A common stock at approximately \$26.25 per share.

Anti-takeover Effects of Provisions of Charter s Restated Certificate of Incorporation and Bylaws

Provisions of Charter s restated certificate of incorporation and bylaws may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

Special Meeting of Shareholders. Our bylaws provide that, subject to the rights of holders of any series of preferred stock, special meetings of our shareholders may be called only by the chairman of our board of directors, our chief executive officer or a majority of our board of directors.

Advance Notice Requirements For Shareholder Proposals And Director Nominations. Our bylaws provide that shareholders seeking to bring business before an annual meeting of shareholders, or to nominate candidates for election as directors at an annual meeting of shareholders, must provide timely prior written notice of their proposals. To be timely, a shareholder s notice must be received at our principal executive offices not less than 45 days nor more than 70 days prior to the first anniversary of the date on which we first mailed our proxy statement for the prior year s annual meeting. If, however, the date of the annual meeting is more than 30 days before or after the anniversary date of the prior year s annual meeting, notice by the shareholder must be received not less than 90 days prior to the annual meeting or by the 10th day following the public announcement of the date of the meeting, whichever occurs later, and not more than 120 days prior to the annual meeting. Our bylaws specify requirements as to the form and content of a shareholder s notice. These provisions may limit shareholders in bringing matters before an annual meeting of shareholders or in making nominations for directors at an annual meeting of shareholders.

Authorized But Unissued Shares. The authorized but unissued shares of Class A common stock are available for future issuance without shareholder approval and, subject to approval by the holders of the Class B common stock, the authorized but unissued shares of Class B common stock and preferred stock are available for future issuance. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Membership Units of Charter Holdco

The Charter Holdco limited liability company agreement provides for three separate classes of common membership units designed Class A, Class B and Class C and one class of preferred membership units designated Class A. As of December 31, 2005, there were 755,386,702 Charter Holdco common membership units issued and outstanding, 416,254,671 of which were held by Charter.

Class A Common Membership Units. As of December 31, 2005, there were a total of 324,300,479 issued and outstanding Class A common membership units, consisting of 217,585,246 units owned by Charter Investment, Inc. and 106,715,233 units owned by Vulcan Cable III Inc.

Class B Common Membership Units. As of December 31, 2005, there were a total of 416,254,671 issued and outstanding Class B common membership units, all of which are owned by Charter.

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Class C Common Membership Units. As of December 31, 2005, there were a total of 14,831,552 issued and outstanding Class C common membership units, consisting of 5,233,612 units owned by Charter Investment, Inc. and 9,597,940 units owned by Vulcan Cable III Inc.

Convertible Preferred Membership Units. As of December 31, 2005, there were a total of 36,713 issued and outstanding convertible preferred membership units. These units are owned by Charter and mirror the terms of Charter's Series A Preferred Stock.

In November 2005, Charter repurchased 508,546 shares of its Series A Convertible Redeemable Preferred Stock (the Preferred Stock) for an aggregate purchase price of approximately \$31 million (or \$60 per share). The shares had liquidation preference of approximately \$51 million and had accrued but unpaid dividends of approximately \$3 million resulting in a \$23 million gain. Following the repurchase, 36,713 shares of Preferred Stock remained outstanding.

Any matter requiring a vote of the members of Charter Holdco requires the affirmative vote of a majority of the Class B common membership units. Charter owns all Class B common membership units and therefore controls Charter Holdco. Because Mr. Allen owns high vote Class B common stock of Charter that entitles him to approximately 90% of the voting power of the outstanding common stock of Charter, Mr. Allen controls us and through us has voting control of Charter Holdco.

The net cash proceeds that Charter receives from any issuance of shares of common stock will be immediately transferred to Charter Holdco in exchange for membership units equal in number to the number of shares of common stock issued by Charter.

In addition, in October 2005 a settlement was reached in a dispute concerning the ownership of 24,273,943 units of CC VIII. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries Equity Put Rights CC VIII. As part of the settlement, CII received a subordinated exchangeable note of CCHC with an initial value of \$48.2 million, accreting at 14%, compounded quarterly, with a 15-year maturity (the Note). The Note is exchangeable, at CII's option, at any time, for Charter Holdco Class A Common units at a rate equal to then accreted value, divided by \$2.00 (the Exchange Rate). Customary anti-dilution protections have been provided that could cause future changes to the Exchange Rate. Additionally, the Charter Holdco Class A Common units received will be exchangeable by the holder into Charter Class A common stock in accordance with existing agreements between CII, Charter and certain other parties signatory thereto. Beginning three years and four months after the closing of the Settlement, if the closing price of Charter Class A common stock is at or above the Exchange Rate for a certain period of time as specified in the Exchange Agreement, Charter Holdco may require the exchange of the Note for Charter Holdco Class A units at the Exchange Rate.

Exchange Agreement

Charter is a party to an agreement permitting Vulcan Cable III Inc., Charter Investment, Inc. and any other affiliate of Mr. Allen to exchange at any time on a one-for-one basis any or all of their Charter Holdco common membership units for shares of Class B common stock. This exchange may occur directly or, at the election of the exchanging holder, indirectly through a tax-free reorganization such as a share exchange or a statutory merger of any Allen-controlled entity with and into Charter or a wholly owned subsidiary of Charter. In the case of an exchange in connection with a tax-free share exchange or a statutory merger, shares of Class A common stock held by Mr. Allen or the Allen-controlled entity will also be exchanged for Class B common stock. Mr. Allen currently owns shares of Class A common stock as a result of the exercise of put rights granted to sellers in the Falcon acquisition and the Rifkin acquisition.

Charter Holdco common membership units held by Mr. Allen and his affiliates are exchangeable at any time for shares of our Class B common stock, which is then convertible into shares of Class A common stock. The exchange agreement and the 1999 Charter Communications Option Plan state that

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common membership units are exchangeable for shares of common stock at a value equal to the fair market value of the common membership units. The exchange ratio of common membership units to shares of Class A common stock will be one to one because Charter and Charter Holdco have been structured so that the fair market value of a share of the Class A common stock equals the fair market value of a common membership unit owned by Charter.

Our organizational documents achieve this result by:

limiting the assets and liabilities that Charter may hold; and

requiring the number of shares of our common stock outstanding at any time to equal the number of common membership units owned by Charter.

If we fail to comply with these provisions or they are changed, the exchange ratio may vary from one to one and will then be based on a pre-determined formula contained in the exchange agreements and the 1999 Charter Communications Option Plan. This formula will be based on the then current relative fair market values of common membership units and common stock.

Special Tax Allocation Provisions.

Charter Holdco's limited liability company agreement contains a number of provisions affecting allocation of net tax losses and net tax profits to its members. In some situations, these provisions could result in Charter having to pay income taxes in an amount that is more or less than it would have had to pay if these provisions did not exist. For additional information see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Income Taxes.

Other Material Terms of the Amended and Restated Limited Company Agreement of Charter Holdco

General. Charter Holdco's amended and restated limited liability company agreement contains provisions that permit each member (and its officers, directors, agents, shareholders, members, partners or affiliates) to engage in businesses that may compete with the businesses of Charter Holdco or any subsidiary. However, the directors of Charter, including Mr. Allen, are subject to fiduciary duties under Delaware corporate law that generally require them to present business opportunities in the cable transmission business to Charter.

The amended and restated limited liability company agreement restricts the business activities that Charter Holdco may engage in.

Transfer Restrictions. The amended and restated limited liability company agreement restricts the ability of each member to transfer its membership interest unless specified conditions have been met. These conditions include:

the transfer will not result in the loss of any license or regulatory approval or exemption that has been obtained by Charter Holdco and is materially useful in its business as then conducted or proposed to be conducted;

the transfer will not result in a material and adverse limitation or restriction on the operations of Charter Holdco and its subsidiaries taken as a whole;

the proposed transferee agrees in writing to be bound by the limited liability company agreement; and

except for a limited number of permitted transfers under the limited liability company agreement, the transfer has been approved by the manager in its sole discretion.

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Amendments to the Limited Liability Company Agreement. Any amendment to the limited liability company agreement generally may be adopted only upon the approval of a majority of the Class B common membership units. The agreement may not be amended in a manner that adversely affects the rights of any class of common membership units without the consent of holders holding a majority of the membership units of that class.

Registration Rights

Holders of Class B Common Stock. Charter, Mr. Allen, Charter Investment, Inc. and Vulcan Cable III Inc., are parties to a registration rights agreement. The agreement gives Mr. Allen and his affiliates the right to cause us to register the shares of Class A common stock issued to them upon conversion of any shares of Class B common stock that they may hold.

This registration rights agreement provides that each eligible holder is entitled to unlimited piggyback registration rights permitting them to include their shares of Class A common stock in registration statements filed by us. These holders may also exercise their demand rights causing us, subject to specified limitations, to register their Class A shares, provided that the amount of shares subject to each demand has a market value at least equal to \$50 million or, if the market value is less than \$50 million, all of the Class A shares of the holders participating in the offering are included in such registration. We are obligated to pay the costs associated with all such registrations.

Holders may elect to have their shares registered pursuant to a shelf registration statement if at the time of the election, Charter is eligible to file a registration statement on Form S-3 and the amount of shares to be registered has a market value equal to at least \$100 million on the date of the election.

All shares of Class A common stock issuable to the registration rights holders in exchange for Charter Holdco membership units and upon conversion of outstanding Class B common stock and conversion of Class B common stock issuable to the registration rights holders upon exchange of Charter Holdco membership units are subject to the registration rights described above.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is Mellon Investor Services, LLC.

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SHARES ELIGIBLE FOR FUTURE SALE

In addition to the 22.0 million shares of Class A common stock offered hereby, as of December 31, 2005, we had 416.2 million shares of Class A common stock issued and outstanding, all of which are eligible for immediate resale (subject to limitations of Rule 144 in the case of shares held by affiliates).

As of December 31, 2005, the following additional shares of Class A common stock are or will be issuable after giving effect to this offering:

339,132,031 shares of Class A common stock are issuable upon conversion of Class B common stock issuable upon exchange of Charter Holdco membership units held by Vulcan Cable III Inc. and Charter Investment, Inc. These membership units are exchangeable for shares of Class B common stock on a one-for-one basis. Shares of Class B common stock are convertible into shares of Class A common stock on a one-for-one basis.

24,662,333 shares of Class A common stock are issuable upon the exchange of Charter Holdco membership units issuable in exchange for a subordinated exchangeable note of CCHC with an initial accreted value of \$48.2 million, accreting at 14%, compounded quarterly, with a 15-year maturity. The note is exchangeable, at Charter Investment, Inc.'s option, at any time, for Holdco membership units at a rate equal to then accreted value, divided by \$2.00. See Certain Relationships and Related Transactions Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries Equity Put Rights CC VIII.

50,000 shares of Class A common stock will be issuable upon conversion of outstanding Class B common stock on a one-for-one basis.

Up to 90,000,000 shares of Class A common stock (or units exchangeable for Class A common stock) are authorized for issuance pursuant to Charter's 2001 Stock Incentive Plan and 1999 Charter Communications Option Plan. At December 31, 2005, 1,317,520 shares had been issued under the plans upon exercise of options, 825,725 shares had been issued upon vesting of restricted stock grants, and 4,252,570 shares are subject to future vesting under restricted stock agreements. Of the remaining 83,604,185 shares covered by the plans, as of December 31, 2005, 29,126,744 were subject to outstanding options (34% of which were vested), and there were 11,719,032 performance units granted under Charter's long-term incentive program or the February 20, 2004 exchange offer, which will vest on the third anniversary of the date of grant conditional upon Charter's performance against financial targets approved by the board of directors at the time of the awards. As of December 31, 2005, 42,758,409 shares remained available for future grant under the plans.

356,404,924 shares of Class A common stock are issuable upon conversion of our 5.875% convertible senior notes due 2009.

An aggregate of 758,971 shares of Class A common stock are issuable upon conversion of our 4.75% convertible senior notes due 2006 and our Series A convertible redeemable preferred stock.

All of the shares of Class A common stock issuable upon exchange of Charter Holdco membership units and upon conversion of shares of our Class B common stock are subject to demand and piggyback registration rights.

All of the shares of Class A common stock issuable upon conversion of outstanding convertible senior notes due 2006 and convertible preferred stock would be eligible for immediate resale. Shares issuable upon conversion of the 5.875% convertible senior notes due 2009 are expected to be eligible for resale pursuant to a resale shelf registration statement which was declared effective on July 15, 2005. All of the shares issuable to claimants pursuant to the settlements will be eligible for immediate resale. The additional shares that may be issued under the share lending agreement are expected, if and when issued,

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to be available for immediate resale pursuant to a registration statement to be filed prior to the issuance of those shares.

A registration statement on Form S-8 covering the Class A common stock issuable pursuant to the exercise of options under the 1999 Charter Communications Option Plan was filed with the Securities and Exchange Commission in May 2000 and registration statements on Form S-8 covering shares issuable under the 2001 Stock Incentive Plan were filed in May 2001 and November 2003. The shares of Class A common stock covered by the Form S-8 registration statements generally may be resold in the public market without restriction or limitation, except in the case of our affiliates who generally may only resell such shares in accordance with the provisions of Rule 144 of the Securities Act of 1933.

The sale of a substantial number of shares of Class A common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for the Class A common stock. In addition, any such sale or perception could make it more difficult for us to sell equity securities or equity related securities in the future at a time and price that we deem appropriate.

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CERTAIN UNITED STATES TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS

The following is a general discussion of certain U.S. federal income and estate tax consequences of the ownership and disposition of our Class A common stock by a person that is not a United States person for U.S. federal income tax purposes (a non-U.S. holder). For this purpose, a United States person is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or that was in existence on, August 20, 1996, was treated as a United States person under the Internal Revenue Code of 1986, as amended (the Code), on that date and has made a valid election to be treated as a United States person under the Code. The discussion does not consider specific facts and circumstances that may be relevant to a particular non-U.S. holder's tax position. Special rules may apply to certain non-U.S. holders, such as dealers in securities, banks, insurance companies, tax-exempt organizations, persons holding their shares as part of a straddle, hedge, or conversion transaction, persons who acquire shares as compensation, controlled foreign corporations, passive foreign investment companies, foreign personal holding companies, and corporations that accumulate earnings to avoid U.S. federal income tax, that are subject to special treatment under the Code. This discussion is limited to beneficial owners of the Class A common stock who hold the Class A common stock as capital assets. It does not address any aspect of state, local, or foreign law, persons who hold Class A common stock through a partnership or other pass-through entity, or persons who are former citizens or long-term residents of the United States.

Accordingly, each non-U.S. holder is urged to consult its own tax advisor with respect to the United States tax consequences of the ownership and disposition of Class A common stock, as well as any tax consequences that may arise under the laws of any state, municipality, foreign country or other taxing jurisdiction.

Dividends

In general, distributions paid to a Non-U.S. Holder of Class A common stock will constitute a dividend for U.S. federal income tax purposes to the extent of our current or accumulated earnings and profits determined under U.S. federal income tax principles. We do not anticipate paying cash dividends on our capital stock in the foreseeable future. See Dividend Policy.

Dividends paid to a non-U.S. holder of our Class A common stock ordinarily will be subject to withholding of U.S. federal income tax at a 30 percent rate, or at a lower rate under an applicable income tax treaty that provides for a reduced rate of withholding. To claim the benefit of a lower treaty rate, a non-U.S. holder must properly file with the payor an IRS Form W-8BEN, or successor form, or, in the case of payments made outside the United States with respect to an offshore account, comply with certain documentary evidence procedures, directly, or under certain circumstances, through an intermediary. If, however, the dividends are effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States and, where a tax treaty applies, are attributable to a United States permanent establishment of the non-U.S. holder, then the dividends will be exempt from the withholding tax described above, provided that an IRS Form W-8ECI, or successor form, is furnished to the payor. Such dividends will instead be taxed on a net basis at applicable graduated individual or corporate rates. If, however, the dividends are effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, but are not attributable to a United States permanent establishment of the non-U.S. holder, a recipient will be required to file a U.S. tax return and should file an IRS Form 8833 claiming benefits of the tax treaty with respect to dividends not attributable to a United States permanent establishment.

Effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject as well to a branch profits tax at a rate of 30% or a lower applicable treaty rate. A non-United States Holder who furnished the payor with an IRS Form W-8ECI or successor form must also provide a United States tax identification number.

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A non-U.S. holder of our Class A common stock that is eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any amounts withheld in excess of the tax treaty rate by filing an appropriate claim for a refund with the Internal Revenue Services (the "IRS").

Gain on Disposition of Class A Common Stock

A non-U.S. holder generally will not be subject to United States federal income tax in respect of a gain realized on a disposition of our Class A common stock, provided that (a) the gain is not effectively connected with a trade or business conducted by the non-U.S. holder in the United States, (b) in the case of a non-U.S. holder who is an individual, such holder is present in the United States for less than 183 days in the taxable year of the sale and other conditions are met, and (c) we are not nor have been a United States real property holding corporation for United States federal income tax purposes (a "USRPHC"). We believe that we were not, are not currently, and are not likely to become a USRPHC. If we were to become a USRPHC, gain recognized on the sale or other disposition of Class A common stock by a non-United States holder generally would be subject to United States federal income tax (and withholding) unless (i) our Class A common stock continues to be regularly traded on an established securities market at any time during the calendar year of disposition within the meaning of the Code and (ii) such non-United States holder does not actually or constructively own more than 5% of the Class A common stock at any time during the shorter of the five-year period preceding the disposition or such non-United States holder's holding period.

If a non-U.S. holder is engaged in the conduct of a trade or business in the United States, gain on the disposition of our Class A common stock that is effectively connected with the conduct of such trade or business and, where an income tax treaty applies, is attributable to a United States permanent establishment, will be taxed on a net basis at applicable graduated individual or corporate rates. Effectively connected gain of a foreign corporation may, under certain circumstances, be subject as well to a branch profits tax at a rate of 30 percent or a lower applicable treaty rate.

U.S. Information Reporting Requirements and Backup Withholding Tax

U.S. information reporting on IRS Form 1099 and backup withholding tax will not apply to dividends paid on our Class A common stock to a non-U.S. holder, provided that non-U.S. holder provides an IRS Form W-8BEN (or satisfies certain certification documentary evidence requirements for establishing that it is a non-United States person under U.S. Treasury regulations) or otherwise establishes an exemption. Distributions on our Class A common stock will, however, be reported to the IRS and to the non-U.S. holder on IRS Form 1042-S.

Information reporting and backup withholding also generally will not apply to a payment of the proceeds of a sale of our Class A common stock affected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of our Class A common stock effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a controlled foreign corporation as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year, is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a non-U.S. holder and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of our Class A common stock will be subject to both backup withholding and information reporting unless the holder certifies its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

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SHARE LENDING AGREEMENT

Prior to this offering of our Class A common stock, we sold \$862.5 million in aggregate principal amount of 5.875% convertible senior notes due 2009 in a private placement pursuant to Rule 144A under the Securities Act.

We understand that, when we sold the 5.875% convertible notes, and for some time thereafter, it was difficult for investors in the notes to borrow shares of our Class A common stock for the purpose of shorting such stock to hedge their investment in the notes. We also understand that many investors in convertible securities seek to hedge their exposure to the issuer's common stock by selling the stock short to establish an initial hedge position that partially offsets the long position represented by the convertible securities. Such investors then dynamically adjust their hedge position over time as the market price of the underlying stock and the time to maturity of the convertible securities changes. As the stock price increases, investors will generally increase their hedge position by borrowing and shorting more shares, and as the stock price decreases, investors will generally decrease their hedge position by buying shares in the market and closing out their stock loans.

Because we believed there were not sufficient shares of our Class A common stock available for investors to borrow when we offered our 5.875% convertible notes, and because we understood that the shares that were available were relatively expensive to borrow, we were concerned that, in order to sell the notes, we would be forced to offer terms that would have been unfavorable to us. To address this concern, and to make it possible or less expensive for prospective investors in our 5.875% convertible notes to hedge their investment, we entered into a share lending agreement, dated November 22, 2004, with Citigroup Global Markets Inc. (Citigroup), as agent for Citigroup Global Markets Limited (CGML), as borrower. Under this agreement, we agreed to loan to CGML up to 150,000,000 shares of our Class A common stock on one or more occasions prior to November 16, 2006 or, if earlier, the date as of which all of the 5.875% convertible notes cease to be outstanding as the result of conversion, repurchase, redemption or otherwise. We will receive a loan fee of \$.001 per share for each share that we loan to CGML, payable at the time such share is borrowed. Citigroup Global Markets Holdings Inc. guaranteed the obligations of CGML under the share lending agreement.

Notwithstanding the difficulties that we believe holders faced in establishing hedge positions at time we initially sold the 5.875% convertible senior notes and for some time thereafter, we now understand that many investors in the notes have since been able to borrow shares of our Class A common stock for the purpose of shorting such stock to hedge their investment in the notes in addition to the borrow provided by the prior share borrow transaction. However, we are nonetheless required under the registration rights agreement described below to register the shares offered hereby. As noted below, we have been advised by CGML that it or its affiliates intend to use the short sales of our Class A common stock pursuant to this prospectus to facilitate, through the transactions discussed below, the establishment by the holders of our 5.875% convertible senior notes of hedged positions with respect to the 5.875% convertible senior notes. These holders may include holders who have not yet established hedge positions and may also include other holders who have already established hedge positions but wish to establish new hedge positions through CGML because these new hedge positions will be less expensive to maintain than their pre-existing hedge positions. We understand that such holders who are already hedged will likely seek to close out their existing hedge positions by obtaining shares in the open market.

Under the agreement, CGML agreed that it will not transfer or dispose of the borrowed shares except for the purpose of directly or indirectly facilitating the hedging of the 5.875% convertible notes by holders. Any shares of our Class A common stock that Citigroup returns to us to reduce its stock loan after such shares have been sold into the public market pursuant to a registration statement cannot be reborrowed.

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Share loans under the agreement will terminate and the borrowed shares must be returned to us:

if and when CGML in its discretion terminates all or any portion of a loan at any time;

if and when we terminate any or all of the outstanding loans upon a default by CGML under the share lending agreement, including a breach by CGML of any of its representations and warranties, covenants or agreements under such agreement or the bankruptcy of CGML; or

on November 16, 2009, the termination date for the share lending agreement or, sooner, if and when all of the 5.875% convertible senior notes have been converted, repaid, redeemed or are otherwise no longer outstanding.

We will not otherwise have the right to terminate any loan of borrowed shares.

Any shares that we loan to CGML will be issued and outstanding for corporate law purposes, and accordingly, the purchasers of the borrowed shares and their transferees will have all of the rights of a holder of our outstanding shares of Class A common stock, including the right to vote the shares on all matters submitted to a vote of our stockholders and the right to receive any dividends or other distributions that we may pay or make on our outstanding shares of Class A common stock. However, under the share lending agreement, CGML has agreed:

to pay to us an amount equal to any cash dividends that we pay on the borrowed shares, and

to pay or deliver to us any other distribution, in liquidation or otherwise, that we make on the borrowed shares.

CGML has also agreed under the share lending agreement that it will not vote any borrowed shares of which it is the record owner, and it will not transfer or dispose of any borrowed shares except pursuant to a registration statement that is effective under the Securities Act of 1933, as amended. However, investors that purchase the shares from CGML (and any subsequent transferees of such purchasers) will be entitled to the same voting rights with respect to those shares as any other holder of our Class A common stock.

If the credit ratings of Citigroup Global Markets Holdings Inc., the guarantor of CGML's obligations under the share lending agreement, decline below a specified level, CGML has agreed under the share lending agreement to post and maintain with Citigroup, as collateral agent on our behalf, collateral in the form of cash, government securities, certificates of deposit, high grade commercial paper of U.S. issuers or money market shares with a market value at least equal to 100% of the market value of the borrowed shares as security for the obligation of CGML to return the borrowed shares to us when required.

In view of the contractual undertakings of CGML in the share lending agreement, which have the effect of substantially eliminating the economic dilution that would otherwise result from the issuance of the borrowed shares, we believe that under U.S. generally accepted accounting principles currently in effect, the borrowed shares will not be considered outstanding for the purpose of computing and reporting our earnings per share.

CGML, through Citigroup as principal or agent, is offering for sale pursuant to this prospectus 22,038,000 of the 55,088,700 remaining shares it is entitled to borrow under the share lending agreement. Due to the fact that many investors in the notes have been able to borrow shares of our Class A common stock for the purpose of shorting such stock to hedge their investment in the notes, and in light of prohibitions on the purchase of shares in this offering by such persons, only 22,038,000 of the 55,088,700 shares remaining under the share lending agreement are expected to be sold in this offering. Subject to certain conditions, the share lending agreement will entitle Citigroup to borrow the remaining shares in the future. Accordingly, pursuant to a registration rights agreement, Charter will be obligated to file, at Citigroup's request, up to two additional registration statements with respect to these unsold shares until November 16, 2006.

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We have been advised by CGML that it or its affiliates intend to use the short sales of our Class A common stock pursuant to this prospectus to facilitate the establishment by investors in our 5.875% convertible senior notes of short positions with respect to those convertible senior notes. Concurrently with the offering of shares of Class A common stock offered hereby, CGML or its affiliates will offer investors in our 5.875% convertible senior notes the opportunity to establish short positions in one of two ways:

First, CGML or its affiliates may enter into a swap transaction with an investor under which the investor is economically short to CGML or such affiliate. As described under Underwriting below, the initial reference price of these swap transactions (and effectively the price at which the investor has established its short position) will be the offering price at which Citigroup sells shares to investors in our Class A common stock pursuant to this prospectus. We refer to this first alternative as Alternative One. In this case, CGML would ultimately use the proceeds from the sale of shares in this offering to acquire shares in the market when it must return shares to Charter under the Share Lending Agreement (and, if applicable, to fund its obligations to the swap counter-parties if the price of the Class A common stock when the swap is terminated is below the price in this offering).

Second, CGML or its affiliates may borrow shares of our Class A common stock from persons who did not purchase shares in the offering (an unrelated share lender), in turn lend those same shares to an investor in our convertible senior notes, then use the proceeds it receives in this offering to repurchase those shares from the convertible senior notes investor. As described under Underwriting below, the purchase price that CGML or its affiliate will pay to a convertible senior notes investor that has borrowed shares from CGML or its affiliate and sold them back to CGML or its affiliate will be the offering price at which Citigroup sells shares to investors in our Class A common stock pursuant to this prospectus. Once CGML or its affiliate purchases those borrowed shares from such convertible senior notes investor, it will either lend those shares to another investor who wishes to establish a short position through this second alternative or return them to the unrelated share lender. We refer to this second alternative as Alternative Two.

Citigroup expects to enter into the transactions described under Alternative One or Alternative Two concurrently with the sale of the shares of our Class A common stock offered hereby.

As described under Underwriting below, the number of shares sold in this offering, and the price at which those shares will be sold, has been determined by (i) the level of demand by investors willing to purchase shares of our Class A common stock pursuant to this offering and (ii) the level of demand by investors in our convertible senior notes willing to establish short positions under Alternative One or Alternative Two. Because, as described above, the price at which convertible senior notes investors establish their short positions through CGML or its affiliates (whether by means of Alternative One or Alternative Two) will be the offering price of the shares of our Class A common stock offered hereby, Citigroup will establish a clearing price for a number of shares at which both purchasers of our Class A common stock are willing to purchase shares offered hereby and investors in our convertible senior notes are willing to establish short positions.

The offering of shares of our Class A common stock pursuant to this prospectus, as well as the facilitation of short positions as described above, may have a significant impact on the market price of our common stock:

As described above, this offering of shares of our Class A common stock will increase the number of shares issued and outstanding, and such shares will be eligible for trading in the Nasdaq National Market. Accordingly, the increase in supply of shares may have an adverse impact on the trading price of our Class A common stock. As described under Underwriting below, the offering price of the shares offered hereby may be at a significant discount to the market price of our Class A common stock.

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As described above, holders of our convertible senior notes that have established their hedge positions prior to this offering, but wish to establish new hedge positions through CGML or its affiliates under Alternative One or Alternative Two, will likely seek to close out their existing hedge positions. In order to close out those existing hedge positions, it is likely those holders will purchase shares in the open market prior to, or after, the determination of the offering price for the Class A common stock offered hereby. While the effect of those transactions cannot be ascertained at this time, the purchase activity by such holders may temporarily increase the market price of our common stock, which may significantly increase the volatility of our stock price.

A Holder of convertible senior notes that has established a short position through Citigroup under either Alternative One or Alternative Two may from time to time wish to decrease its short position for a variety of reasons, including any conversion of their notes or a decline in the price of our Class A common stock. If a holder wishes to decrease its hedged position, it may either terminate all or part of its swap transaction with CGML's affiliate (in the case of Alternative One) or return all or part of the borrowed shares (in the case of Alternative Two). CGML's affiliate may concurrently enter into a similar hedge facilitation transaction with other holders of the convertible notes to replace the terminated swap transaction or the repaid stock loan. If the affiliate does not enter into a replacement transaction, it will either purchase shares in the market to unwind its swap transaction and use those shares to repay a portion of CGML's stock loan (in the case of Alternative One) or it will use the shares returned to it upon repayment of the stock loan it made to the investor to repay a portion of CGML's stock loan (in the case of Alternative Two). The effect of any of these transactions on the market price of our Class A common stock cannot be ascertained at this time, but they may significantly increase the volatility of our stock price.

Our issuance of loaned shares of our Class A common stock offered pursuant to the share lending agreement will be essentially analogous to a sale of shares coupled with a forward contract for the reacquisition of the shares at a future date. An instrument that requires physical settlement by repurchase of a fixed number of shares in exchange for cash is considered a forward purchase instrument. While the share lending agreement does not require a cash payment upon return of the shares, physical settlement is required (i.e., the loaned shares must be returned at the end of the arrangement). The fair value of the common stock to be lent in this transaction and that was lent in the prior share borrow transactions is approximately \$139 million. However, the net effect on shareholders' deficit of the share lending agreement (exclusive of the adjustment for the fair value of the stock borrow facility discussed below) which includes our requirement to lend the shares and the counterparties' requirement to return the shares, is to increase equity by \$150,000, which represents the cash received upon lending of the shares and is equal to the par value of the common stock to be issued.

The shares to be issued are required to be returned, in accordance with the contractual arrangement, and will be treated in basic and diluted earnings per share as if they were already returned and retired. Consequently, there will be no impact of the 150 million shares of common stock subject to the share lending agreement (including the shares offered hereby) in the earnings per share calculation. However, the shares will nonetheless be issued and outstanding and will be eligible for trading in the Nasdaq National Market. Accordingly, the increase in supply of shares may have an adverse impact on the trading price of our Class A common stock. See Risk Factors - Additional Risks Related to This Offering. The effect of the issuance of our shares of Class A common stock pursuant to the share lending agreement and upon conversion of our 5.875% convertible notes, including sales of our Class A common stock in short sale transactions by the holders of the 5.875% convertible notes, may have a negative effect on the market price of our Class A common stock. Accordingly, the existence of the share lending agreement and the short positions established in connection with facilitating the hedging of the 5.875% convertible senior notes could have the effect of causing the market price of our Class A common stock to be lower over the term of the share lending agreement than it would have been had we not entered into the agreement, but we believe that entering into the share lending agreement was in our best interests and the

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best interests of our shareholders as it facilitated the sale of the convertible notes on terms more favorable to us than we could have otherwise obtained.

The share lending agreement was entered into to facilitate the ability of the purchasers of the 5.875% convertible senior notes to improve or enhance their yield on the notes and as such was a cost of the 5.875% notes issuance transaction. We determined that the fair value of the stock borrow facility was approximately \$13 million on the date of issuance of these notes. Therefore, we recorded such value at issuance as an increase to deferred financing fees and additional paid in capital in our consolidated financial statements. We are amortizing the value of the stock borrow facility to interest expense over the 5-year term of these notes.

We agreed to use our reasonable best efforts to cause a registration statement covering the 150 million shares of Class A common stock to be lent pursuant to the share lending agreement to become effective on or before April 1, 2005. Such registration statement was not declared effective by that date, and we therefore have incurred liquidated damages as defined in the related indenture from April 2, 2005 and incurred such damages through July 17, 2005, the day prior to the effective date of the registration statement. These liquidated damages were paid in cash at a rate of 0.25% per month of the accreted principal amount of the convertible notes for the first 60 days of the default, and 0.50% per month of the accreted principal amount of the convertible notes thereafter.

Table of Contents**UNDERWRITING**

The shares of our Class A common stock offered by this prospectus are shares that we have agreed to loan to CGML, an affiliate of Citigroup, pursuant to a share lending agreement described in Share Lending Agreement. Citigroup also acted as an initial purchaser for the private placement pursuant to Rule 144A under the Securities Act of \$862.5 million in principal amount of our 5.875% convertible senior notes due 2009 issued on November 22, 2004. See Share Lending Agreement. CGML, through Citigroup as principal or agent, is offering for sale pursuant to this prospectus all of the remaining 55,088,700 shares CGML is entitled to borrow under the share lending agreement. We have been advised by CGML that it or its affiliates intends to use the short sales of our Class A common stock pursuant to this prospectus to facilitate transactions by which investors in our 5.875% convertible senior notes will hedge their investments in such convertible notes. See Share Lending Agreement. In connection with facilitating those transactions, CGML or its affiliates expect to receive customary, negotiated fees, not to exceed approximately 3.0% per share (based on the offering price), from investors in our 5.875% convertible senior notes. The National Association of Securities Dealers views these fees as underwriting compensation in connection with the offering of shares of our Class A common stock. We will not receive any proceeds from the sale of shares of our Class A common stock pursuant to this prospectus, but will receive a loan fee of \$0.001 per share for each share loaned under the share lending agreement.

The shares of our Class A common stock are being offered on a best efforts basis. Best efforts means that CGML is not under any obligation under the share lending agreement or otherwise to borrow and sell any of the shares offered hereby.

Citigroup will determine the offering price of the shares of Class A common stock by initially soliciting indications of interest from potential purchasers of our common stock and conducting customary negotiations with those potential purchasers during the offering period. As described under Share Lending Agreement above, the price at which investors in our 5.875% convertible senior notes establish their short positions through CGML or its affiliates (whether by means of Alternative One or Alternative Two described above) will be the offering price of the shares of our Class A common stock offered hereby. As a result, during the offering period, while Citigroup is negotiating a purchase price with potential purchasers of our Class A common stock, Citigroup will also be soliciting indications of interest, based on the purchase price being negotiated with those potential purchasers, from such convertible senior notes investors seeking to establish a short position. Citigroup will establish a clearing price for a number of shares at which both purchasers of our Class A common stock are willing to purchase shares offered hereby and investors in our convertible senior notes are willing to establish short positions. This clearing price is the offering price hereunder, and may be at a discount to the market price of our Class A common stock at the time the offering is commenced.

The offering will be at a fixed price and will not be conducted on a delayed or continuous basis. The offering will terminate on or before February 14, 2006.

The Class A common stock is quoted on the Nasdaq National Market under the symbol CHTR.

The following table summarizes the compensation that we are to pay to the underwriter in connection with this offering.

	<u>Per Share</u>	<u>Total</u>
Underwriting Discounts and Commissions paid by us	\$ 0	\$ 0
Expenses payable by us	\$ 0	\$ 0

We estimate that our portion of the total expenses of this offering will be \$671,893.

The underwriter has performed investment banking and advisory services for us from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business. The underwriter also was an initial purchaser of the convertible notes.

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We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

The shares offered hereby are not being offered to, and may not be purchased by, any person who has an open short position in Charter's Class A common stock at the time of the sale, any person who is purchasing the shares on behalf of or for the account of such a person or any person who has an arrangement or understanding to resell, lend or otherwise transfer (directly or indirectly) the shares to such a person.

Each purchaser of Charter's Class A common stock in this offering must execute and deliver the Investor Acknowledgement set forth on Annex A hereto to Citigroup by facsimile to (646) 843-3922.

LEGAL MATTERS

The validity of the securities offered by this prospectus has been passed upon for Charter Communications, Inc. by Gibson, Dunn & Crutcher LLP. Weil, Gotshal & Manges LLP represented the underwriter in this offering.

EXPERTS

The consolidated financial statements of Charter Communications, Inc. and subsidiaries as of December 31, 2004 and 2003 and for the three year periods ended December 31, 2004, which are included in this prospectus, have been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report included in this prospectus, which includes explanatory paragraphs regarding the adoption, effective January 1, 2002, of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective September 30, 2004 of EITF Topic D-108, Use of the Residual Method to Value Acquired Assets Other than Goodwill, and, effective January 1, 2003, of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment to FASB Statement No. 123. The consolidated financial statements referred to above have been included in this prospectus in reliance upon the authority of KPMG LLP as experts in giving said report.

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Table of Contents**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)**

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 22	\$ 650
Accounts receivable, less allowance for doubtful accounts of \$15 and \$15, respectively	188	190
Prepaid expenses and other current assets	80	82
	<hr/>	<hr/>
Total current assets	290	922
	<hr/>	<hr/>
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation of \$6,393 and \$5,311, respectively	5,936	6,289
Franchises, net	9,830	9,878
	<hr/>	<hr/>
Total investment in cable properties, net	15,766	16,167
	<hr/>	<hr/>
OTHER NONCURRENT ASSETS	468	584
	<hr/>	<hr/>
Total assets	\$ 16,524	\$ 17,673
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,172	\$ 1,217
	<hr/>	<hr/>
Total current liabilities	1,172	1,217
	<hr/>	<hr/>
LONG-TERM DEBT	19,120	19,464
	<hr/>	<hr/>
DEFERRED MANAGEMENT FEES RELATED PARTY	14	14
	<hr/>	<hr/>
OTHER LONG-TERM LIABILITIES	504	681
	<hr/>	<hr/>
MINORITY INTEREST	665	648
	<hr/>	<hr/>
PREFERRED STOCK REDEEMABLE; \$.001 par value; 1 million shares authorized; 545,259 shares issued and outstanding	55	55
	<hr/>	<hr/>
SHAREHOLDERS DEFICIT:		
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 348,576,466 and 305,203,770 shares issued and outstanding, respectively		
Class B Common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding		

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Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding		
Additional paid-in capital	4,821	4,794
Accumulated deficit	(9,830)	(9,196)
Accumulated other comprehensive income (loss)	3	(4)
	<u> </u>	<u> </u>
Total shareholders' deficit	(5,006)	(4,406)
	<u> </u>	<u> </u>
Total liabilities and shareholders' deficit	\$ 16,524	\$ 17,673
	<u> </u>	<u> </u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
REVENUES	\$ 1,318	\$ 1,248	\$ 3,912	\$ 3,701
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	586	525	1,714	1,552
Selling, general and administrative	269	252	762	735
Depreciation and amortization	375	371	1,134	1,105
Impairment of franchises		2,433		2,433
Asset impairment charges			39	
(Gain) loss on sale of assets, net	1		5	(104)
Option compensation expense, net	3	8	11	34
Hurricane asset retirement loss	19		19	
Special charges, net	2	3	4	100
	1,255	3,592	3,688	5,855
Income (loss) from operations	63	(2,344)	224	(2,154)
OTHER INCOME AND EXPENSES:				
Interest expense, net	(462)	(424)	(1,333)	(1,227)
Gain (loss) on derivative instruments and hedging activities, net	17	(8)	43	48
Loss on debt to equity conversions				(23)
Gain (loss) on extinguishment of debt	490		498	(21)
Gain on investments			21	
	45	(432)	(771)	(1,223)
Income (loss) before minority interest, income taxes and cumulative effect of accounting change	108	(2,776)	(547)	(3,377)
MINORITY INTEREST	(3)	34	(9)	24
Income (loss) before income taxes and cumulative effect of accounting change	105	(2,742)	(556)	(3,353)
	(29)	213	(75)	116

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INCOME TAX BENEFIT
(EXPENSE)

Income (loss) before cumulative effect of accounting change	76	(2,529)	(631)	(3,237)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX		(765)		(765)
Net income (loss)	76	(3,294)	(631)	(4,002)
Dividends on preferred stock redeemable	(1)	(1)	(3)	(3)
Net income (loss) applicable to common stock	\$ 75	\$ (3,295)	\$ (634)	\$ (4,005)
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	\$ 0.24	\$ (10.89)	\$ (2.06)	\$ (13.38)
Diluted	\$ 0.09	\$ (10.89)	\$ (2.06)	\$ (13.38)
Weighted average common shares outstanding, basic	316,214,740	302,604,978	307,761,930	299,411,053
Weighted average common shares outstanding, diluted	1,012,591,842	302,604,978	307,761,930	299,411,053

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN MILLIONS)

Unaudited

	Nine Months Ended September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (631)	\$ (4,002)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Minority interest	9	(24)
Depreciation and amortization	1,134	1,105
Asset impairment charges	39	
Impairment of franchises		2,433
Option compensation expense, net	11	30
Hurricane asset retirement loss	19	
Special charges, net		85
Noncash interest expense	188	237
Gain on derivative instruments and hedging activities, net	(43)	(48)
(Gain) loss on sale of assets, net	5	(104)
Loss on debt to equity conversions		23
(Gain) loss on extinguishment of debt	(504)	18
Gain on investments	(21)	
Deferred income taxes	71	(119)
Cumulative effect of accounting change, net of tax		765
Other, net		(1)
Changes in operating assets and liabilities, net of effects from dispositions:		
Accounts receivable	(3)	1
Prepaid expenses and other assets	85	2
Accounts payable, accrued expenses and other	(241)	(18)
	<u>118</u>	<u>383</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(815)	(639)
Change in accrued expenses related to capital expenditures	36	(23)
Proceeds from sale of assets	38	729
Purchases of investments	(3)	(15)
Proceeds from investments	17	
Other, net	(2)	(2)
	<u>(729)</u>	<u>50</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	897	2,873
Repayments of long-term debt	(1,141)	(4,707)
Proceeds from issuance of debt	294	1,500
Payments for debt issuance costs	(67)	(97)
	<u>(17)</u>	<u>(431)</u>

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(628)	2
CASH AND CASH EQUIVALENTS, beginning of period	650	127
CASH AND CASH EQUIVALENTS, end of period	\$ 22	\$ 129
CASH PAID FOR INTEREST	\$ 1,170	\$ 824
NONCASH TRANSACTIONS:		
Issuance of debt by CCH I Holdings, LLC	\$ 2,423	\$
Issuance of debt by CCH I, LLC	\$ 3,686	\$
Issuance of debt by Charter Communications Operating, LLC	\$ 333	\$
Retirement of Charter Communications Holdings, LLC debt	\$ (7,000)	\$
Debt exchanged for Charter Class A common stock	\$	\$ 30

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

(Dollars in millions, except share and per share amounts and where indicated)

1. Organization and Basis of Presentation

Charter Communications, Inc. (Charter) is a holding company whose principal assets at September 30, 2005 are the 48% controlling common equity interest in Charter Communications Holding Company, LLC (Charter Holdco) and mirror notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Charter Holdco is the sole owner of CCHC, LLC, which is the sole owner of Charter Communications Holdings, LLC (Charter Holdings). The condensed consolidated financial statements include the accounts of Charter, Charter Holdco, Charter Holdings and all of their subsidiaries where the underlying operations reside, which are collectively referred to herein as the Company. Charter consolidates Charter Holdco on the basis of voting control. Charter Holdco's limited liability company agreement provides that so long as Charter's Class B common stock retains its special voting rights, Charter will maintain a 100% voting interest in Charter Holdco. Voting control gives Charter full authority and control over the operations of Charter Holdco. All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed Internet services and, in some areas, advanced broadband services such as high definition television, video on demand and telephone. The Company sells its cable video programming, high-speed Internet and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

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

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

Reclassifications

Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

2. Liquidity and Capital Resources

The Company had net income applicable to common stock of \$75 million for the three months ended September 30, 2005. The Company incurred net loss applicable to common stock of \$634 million for the nine months ended September 30, 2005 and \$3.3 billion and \$4.0 billion for the three and nine months ended September 30, 2004, respectively. The Company's net cash flows from operating activities were \$118 million and \$383 million for the nine months ended September 30, 2005 and 2004, respectively.

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The Company has a significant level of debt. The Company's long-term financing as of September 30, 2005 consists of \$5.5 billion of credit facility debt, \$12.7 billion accreted value of high-yield notes and \$866 million accreted value of convertible senior notes. For the remainder of 2005, \$7 million of the Company's debt matures, and in 2006, an additional \$55 million of the Company's debt matures. In 2007 and beyond, significant additional amounts will become due under the Company's remaining long-term debt obligations.

In September 2005, Charter Holdings and its wholly owned subsidiaries, CCH I, LLC (CCH I) and CCH I Holdings, LLC (CIH), completed the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities. Holders of Charter Holdings notes due in 2009 and 2010 exchanged \$3.4 billion principal amount of notes for \$2.9 billion principal amount of new 11% CCH I senior secured notes due 2015. Holders of Charter Holdings notes due 2011 and 2012 exchanged \$845 million principal amount of notes for \$662 million principal amount of 11% CCH I senior secured notes due 2015. In addition, holders of Charter Holdings notes due 2011 and 2012 exchanged \$2.5 billion principal amount of notes for \$2.5 billion principal amount of various series of new CIH notes. Each series of new CIH notes has the same stated interest rate and provisions for payment of cash interest as the series of old Charter Holdings notes for which such CIH notes were exchanged. In addition, the maturities for each series were extended three years. See Note 6 for discussion of transaction and related financial statement impact.

The Company has historically required significant cash to fund debt service costs, capital expenditures and ongoing operations. Historically, the Company has funded these requirements through cash flows from operating activities, borrowings under its credit facilities, sales of assets, issuances of debt and equity securities and from cash on hand. However, the mix of funding sources changes from period to period. For the nine months ended September 30, 2005, the Company generated \$118 million of net cash flows from operating activities, after paying cash interest of \$1.2 billion. In addition, the Company used approximately \$815 million for purchases of property, plant and equipment. Finally, the Company had net cash flows used in financing activities of \$17 million.

In October 2005, CCO Holdings, LLC (CCO Holdings) and CCO Holdings Capital Corp., as guarantor thereunder, entered into a senior bridge loan agreement (the Bridge Loan) with JPMorgan Chase Bank, N.A., Credit Suisse, Cayman Islands Branch and Deutsche Bank AG Cayman Islands Branch (the Lenders) whereby the Lenders have committed to make loans to CCO Holdings in an aggregate amount of \$600 million. CCO Holdings may draw upon the facility between January 2, 2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the Bridge Loan.

The Company expects that cash on hand, cash flows from operating activities and the amounts available under its credit facilities and Bridge Loan will be adequate to meet its cash needs for the remainder of 2005 and 2006. Cash flows from operating activities and amounts available under the Company's credit facilities and Bridge Loan may not be sufficient to fund the Company's operations and satisfy its interest payment obligations in 2007. It is likely that the Company will require additional funding to satisfy its debt repayment obligations in 2007. The Company believes that cash flows from operating activities and amounts available under its credit facilities and Bridge Loan will not be sufficient to fund its operations and satisfy its interest and principal repayment obligations thereafter.

The Company is working with its financial advisors to address its funding requirements. However, there can be no assurance that such funding will be available to the Company. Although Paul G. Allen, Charter's Chairman and controlling shareholder, and his affiliates have purchased equity from the

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Company in the past, Mr. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to the Company in the future.

Credit Facilities and Covenants

The Company's ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Communications Operating, LLC (Charter Operating) credit facilities. These credit facilities, along with the Company's indentures and Bridge Loan, contain certain restrictive covenants, some of which require the Company to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from the Company's independent auditors. As of September 30, 2005, the Company is in compliance with the covenants under its indentures and credit facilities and the Company expects to remain in compliance with those covenants and the Bridge Loan covenants for the next twelve months. The Company's total potential borrowing availability under the current credit facilities totaled \$786 million as of September 30, 2005, although the actual availability at that time was only \$648 million because of limits imposed by covenant restrictions. In addition, effective January 2, 2006, the Company will have additional borrowing availability of \$600 million as a result of the Bridge Loan. Continued access to the Company's credit facilities and Bridge Loan is subject to the Company remaining in compliance with the covenants of these credit facilities and Bridge Loan, including covenants tied to the Company's operating performance. If the Company's operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities, Bridge Loan or indentures governing the Company's debt occur, funding under the credit facilities and Bridge Loan may not be available and defaults on some or potentially all of the Company's debt obligations could occur. An event of default under the covenants governing any of the Company's debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company's consolidated financial condition or results of operations.

Specific Limitations

Charter's ability to make interest payments on its convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of its convertible senior notes of \$25 million and \$863 million, respectively, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including Charter Holdings, CIH, CCH I, CCH II, LLC (CCH II), CCO Holdings and Charter Operating. During the nine months ended September 30, 2005, Charter Holdings distributed \$60 million to Charter Holdco. As of September 30, 2005, Charter Holdco was owed \$57 million in intercompany loans from its subsidiaries, which amount was available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$123 million of governmental securities pledged as security for the next five semi-annual interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter and Charter Holdco) for payment of principal on parent company notes are restricted by the Bridge Loan and indentures governing the CIH notes, CCH I notes, CCH II notes, CCO Holdings notes, and Charter Operating notes, unless under their respective indentures there is no default and a specified leverage ratio test is met at the time of such event. For the quarter ended September 30, 2005, there was no default under any of the aforementioned indentures. However, CCO Holdings did not meet its leverage ratio test of 4.5 to 1.0. As a result, distributions from CCO Holdings to CCH II, CCH I, CIH, Charter Holdings, Charter Holdco or Charter for payment of principal of the respective parent company's debt are currently restricted

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and will continue to be restricted until that test is met. However distributions for payment of the respective parent company's interest are permitted.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended September 30, 2005, there was no default under Charter Holdings' indentures and other specified tests were met. However, Charter Holdings did not meet the leverage ratio of 8.75 to 1.0 based on September 30, 2005 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco for payment of interest or principal on the convertible senior notes are currently restricted and will continue to be restricted until that test is met. During this restriction period, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

3. Sale of Assets

In July 2005, the Company closed the sale of certain cable systems in Texas and West Virginia and closed the sale of an additional cable system in Nebraska in October 2005, representing a total of approximately 33,000 customers. During the nine months ended September 30, 2005, those cable systems met the criteria for assets held for sale under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the nine months ended September 30, 2005 of approximately \$39 million. At September 30, 2005 assets held for sale, included in investment in cable properties, are approximately \$7 million.

In March 2004, the Company closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. The Company closed the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. These transactions resulted in a \$106 million pretax gain recorded as a gain on sale of assets in the Company's consolidated statements of operations. The total net proceeds from the sale of all of these systems were approximately \$735 million. The proceeds were used to repay a portion of amounts outstanding under the Company's revolving credit facility.

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

4. Franchises and Goodwill

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by SFAS No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations, or more frequently as warranted by events or changes in circumstances. Such test resulted in a total franchise impairment of approximately \$3.3 billion during the third quarter of 2004. The October 1, 2005 annual impairment test will be finalized in the fourth quarter of 2005 and any impairment resulting from such test will be recorded in the fourth quarter. Franchises are aggregated into

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essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic 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.

The Company's valuations, which are based on the present value of projected after tax cash flows, result in a value of property, plant and equipment, franchises, customer relationships and its total entity value. The value of goodwill is the difference between the total entity value and amounts assigned to the other assets.

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 the potential customers (service marketing rights). Fair value is determined based on estimated 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 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 franchise.

The Company follows the guidance of Emerging Issues Task Force (EITF) Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, in valuing customer relationships. Customer relationships, for valuation purposes, represent the value of the business relationship with existing customers and are calculated by projecting future after-tax cash flows from these customers including the right to deploy and market additional services such as interactivity and telephone to these customers. The present value of these after-tax cash flows yields the fair value of the customer relationships. Substantially all acquisitions occurred prior to January 1, 2002. The Company did not record any value associated with the customer relationship intangibles related to those acquisitions. For acquisitions subsequent to January 1, 2002 the Company did assign a value to the customer relationship intangible, which is amortized over its estimated useful life.

In September 2004, the SEC staff issued EITF Topic D-108 which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. The Company adopted Topic D-108 in its impairment assessment as of September 30, 2004 that resulted in a total franchise impairment of approximately \$3.3 billion. The Company recorded a cumulative effect of accounting change of \$765 million (approximately \$875 million before tax effects of \$91 million and minority interest effects of \$19 million) for the nine months ended September 30, 2004 representing the portion of the Company's total franchise impairment attributable to no longer including goodwill with franchise assets. The effect of the adoption was to increase net loss and loss per share by \$765 million and \$2.55, respectively, for the nine months ended September 30, 2004. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in the Company's valuation, and was recorded as impairment of franchises in the Company's accompanying consolidated statements of operations for the nine months ended September 30, 2004. Sustained analog video customer losses by the Company in the third quarter of 2004 primarily as a result of increased competition from direct broadcast satellite providers and decreased growth rates in the Company's high-speed Internet customers in the third quarter of 2004, in part, as a result of increased competition from digital subscriber line service providers led to the lower projected growth rates and the revised estimates of future cash flows from those used at October 1, 2003.

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As of September 30, 2005 and December 31, 2004, indefinite-lived and finite-lived intangible assets are presented in the following table:

	September 30, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises with indefinite lives	\$9,797	\$	\$9,797	\$9,845	\$	\$9,845
Goodwill	52		52	52		52
	<u>9,849</u>	<u>\$</u>	<u>9,849</u>	<u>9,897</u>	<u>\$</u>	<u>9,897</u>
Finite-lived intangible assets:						
Franchises with finite lives	\$ 40	\$ 7	\$ 33	\$ 37	\$ 4	\$ 33

Franchises with indefinite lives decreased \$39 million as a result of the asset impairment charges recorded related to three cable asset sales and \$9 million as a result of the closing of two of the cable asset sales in July 2005 (see Note 3). Franchise amortization expense for the three and nine months ended September 30, 2005 and 2004 was \$1 million and \$3 million, respectively, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. The Company expects that amortization expense on franchise assets will be approximately \$3 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of September 30, 2005 and December 31, 2004:

	September 30, 2005	December 31, 2004
Accounts payable trade	\$ 84	\$ 148
Accrued capital expenditures	101	65
Accrued expenses:		
Interest	298	324
Programming costs	287	278
Franchise-related fees	56	67
Compensation	85	66
Other	261	269
	<u>\$1,172</u>	<u>\$1,217</u>

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6. Long-Term Debt

Long-term debt consists of the following as of September 30, 2005 and December 31, 2004:

	September 30, 2005		December 31, 2004	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
Long-Term Debt				
Charter Communications, Inc.:				
4.75% convertible senior notes due 2006	\$ 25	\$ 25	\$ 156	\$ 156
5.875% convertible senior notes due 2009	863	841	863	834
Charter Communications Holdings, LLC:				
8.250% senior notes due 2007	105	105	451	451
8.625% senior notes due 2009	292	292	1,244	1,243
9.920% senior discount notes due 2011	198	198	1,108	1,108
10.000% senior notes due 2009	154	154	640	640
10.250% senior notes due 2010	49	49	318	318
11.750% senior discount notes due 2010	43	43	450	448
10.750% senior notes due 2009	131	131	874	874
11.125% senior notes due 2011	217	217	500	500
13.500% senior discount notes due 2011	94	91	675	589
9.625% senior notes due 2009	107	107	640	638
10.000% senior notes due 2011	137	136	710	708
11.750% senior discount notes due 2011	125	116	939	803
12.125% senior discount notes due 2012	113	97	330	259
CCH I Holdings, LLC:				
11.125% senior notes due 2014	151	151		
9.920% senior discount notes due 2014	471	471		
10.000% senior notes due 2014	299	299		
11.750% senior discount notes due 2014	815	759		
13.500% senior discount notes due 2014	581	559		
12.125% senior discount notes due 2015	217	187		
CCH I, LLC:				
11.00% senior notes due 2015	3,525	3,686		
CCH II, LLC:				
10.250% senior notes due 2010	1,601	1,601	1,601	1,601
CCO Holdings, LLC:				
8 3/4% senior notes due 2013	800	794	500	500
Senior floating rate notes due 2010	550	550	550	550
Charter Communications Operating, LLC:				
8% senior second lien notes due 2012	1,100	1,100	1,100	1,100
8 3/8% senior second lien notes due 2014	733	733	400	400

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	September 30, 2005		December 31, 2004	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
Renaissance Media Group LLC:				
10.000% senior discount notes due 2008	114	115	114	116
CC V Holdings, LLC:				
11.875% senior discount notes due 2008			113	113
Credit Facilities				
Charter Operating	5,513	5,513	5,515	5,515
	<u>\$19,123</u>	<u>\$19,120</u>	<u>\$19,791</u>	<u>\$19,464</u>

The accreted values presented above represent the principal amount of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date. The accreted value of CIH notes and CCH I notes issued in exchange for Charter Holdings notes are recorded in accordance with generally accepted accounting principles (GAAP). GAAP requires that the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings notes due 2009 be recorded at the historical book values of the Charter Holdings notes as opposed to the current accreted value for legal purposes and notes indenture purposes (the amount that is currently payable if the debt becomes immediately due). As of September 30, 2005, the accreted value of the Company s debt for legal purposes and notes indenture purposes is \$18.6 billion.

In October 2005, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, entered into the Bridge Loan with the Lenders whereby the Lenders have committed to make loans to CCO Holdings in an aggregate amount of \$600 million. CCO Holdings may draw upon the facility between January 2, 2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the Bridge Loan. Each loan will accrue interest at a rate equal to an adjusted LIBOR rate plus a spread. The spread will initially be 450 basis points and will increase (a) by an additional 25 basis points at the end of the six-month period following the date of the first borrowing, (b) by an additional 25 basis points at the end of each of the next two subsequent three month periods and (c) by 62.5 basis points at the end of each of the next two subsequent three-month periods. CCO Holdings will be required to prepay loans from the net proceeds from (i) the issuance of equity or incurrence of debt by Charter and its subsidiaries, with certain exceptions, and (ii) certain asset sales (to the extent not used for other purposes permitted under the Bridge Loan).

In August 2005, CCO Holdings issued \$300 million in debt securities, the proceeds of which were used for general corporate purposes, including the payment of distributions to its parent companies, including Charter Holdings, to pay interest expense.

Gain (loss) on extinguishment of debt

In September 2005, Charter Holdings and its wholly owned subsidiaries, CCH I and CIH, completed the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities. Holders of Charter Holdings notes due in 2009 and 2010 exchanged \$3.4 billion principal amount of notes for \$2.9 billion principal amount of new 11% CCH I senior secured notes due 2015. Holders of Charter Holdings notes due 2011 and 2012 exchanged \$845 million principal amount of notes for \$662 million principal amount of 11% CCH I senior secured notes due 2015. In addition, holders of Charter Holdings notes due 2011 and 2012 exchanged \$2.5 billion principal amount of notes for \$2.5 billion principal amount of various series of new CIH notes. Each series

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of new CIH notes has the same stated interest rate and provisions for payment of cash interest as the series of old Charter Holdings notes for which such CIH notes were exchanged. In addition, the maturities for each series were extended three years. The exchanges resulted in a net gain on extinguishment of debt of approximately \$490 million for the three and nine months ended September 30, 2005.

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

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

In March 2005, Charter's subsidiary, CC V Holdings, LLC, redeemed all of its 11.875% notes due 2008, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of redemption was approximately \$122 million and was funded through borrowings under the Charter Operating credit facilities. The redemption resulted in a loss on extinguishment of debt for the nine months ended September 30, 2005 of approximately \$5 million. Following such redemption, CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) guaranteed the Charter Operating credit facilities and granted a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

7. Minority Interest and Equity Interest of Charter Holdco

Charter is a holding company whose primary assets are a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems, and \$866 million and \$990 million at September 30, 2005 and December 31, 2004, respectively, of mirror notes that are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Minority interest on the Company's consolidated balance sheets as of September 30, 2005 and December 31, 2004 primarily represents preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, of \$665 million and \$656 million, respectively. As more fully described in Note 20, this preferred interest arises from the approximately \$630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000 and was the subject of a dispute between Charter and Mr. Allen, Charter's Chairman and controlling shareholder that was settled October 31, 2005. The Company is currently determining the impact of the settlement to be recorded in the fourth quarter of 2005. Due to the uncertainties that existed prior to October 31, 2005, related to the ultimate resolution, effective January 1, 2005, the Company ceased recognizing minority interest in earnings or losses of CC VIII for financial reporting purposes until such time as the resolution of the matter was determinable or other events occurred. For the three and nine months ended September 30, 2005, the Company's results include income of \$8 million and \$25 million, respectively, attributable to CC VIII. Subsequent to recording the impact of the settlement in the fourth quarter of 2005, approximately 6% of CC VIII's income will be allocated to minority interest.

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Minority interest historically included the portion of Charter Holdco's member's equity not owned by Charter. However, member's deficit of Charter Holdco was \$5.0 billion and \$4.4 billion as of September 30, 2005 and December 31, 2004, respectively, thus minority interest in Charter Holdco has been eliminated. Minority interest was approximately 52% as of September 30, 2005 and 53% as of December 31, 2004. Minority interest includes the proportionate share of changes in fair value of interest rate derivative agreements. Such amounts are temporary as they are contractually scheduled to reverse over the life of the underlying instrument. Additionally, reported losses allocated to minority interest on the consolidated statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. As such, Charter absorbs all losses before income taxes that otherwise would be allocated to minority interest. Subject to any changes in Charter Holdco's capital structure, future losses will continue to be absorbed by Charter.

Changes to minority interest consist of the following:

	Minority Interest
Balance, December 31, 2004	\$648
CC VIII 2% Priority Return (see Note 20)	9
Changes in fair value of interest rate agreements	8
	—
Balance, September 30, 2005	\$665
	—

8. Share Lending Agreement

On July 29, 2005, Charter issued 27.2 million shares of Class A common stock in a public offering, which was effected pursuant to an effective registration statement that initially covered the issuance and sale of up to 150 million shares of Class A common stock. The shares were issued pursuant to the share lending agreement, pursuant to which Charter had previously agreed to loan up to 150 million shares to Citigroup Global Markets Limited (CGML). Because less than the full 150 million shares covered by the share lending agreement were sold in the offering, Charter remains obligated to issue, at CGML's request, up to an additional 122.8 million loaned shares in subsequent registered public offerings pursuant to the share lending agreement.

This offering of Charter's Class A common stock was conducted to facilitate transactions by which investors in Charter's 5.875% convertible senior notes due 2009, issued on November 22, 2004, hedged their investments in the convertible senior notes. Charter did not receive any of the proceeds from the sale of this Class A common stock. However, under the share lending agreement, Charter received a loan fee of \$.001 for each share that it lends to CGML.

The issuance of up to a total of 150 million shares of common stock (of which 27.2 million were issued in July 2005) pursuant to a share lending agreement executed by Charter in connection with the issuance of the 5.875% convertible senior notes in November 2004 is essentially analogous to a sale of shares coupled with a forward contract for the reacquisition of the shares at a future date. An instrument that requires physical settlement by repurchase of a fixed number of shares in exchange for cash is considered a forward purchase instrument. While the share lending agreement does not require a cash payment upon return of the shares, physical settlement is required (i.e., the shares borrowed must be returned at the end of the arrangement.) The fair value of the 27.2 million shares lent in July 2005 is approximately \$41 million as of September 30, 2005. However, the net effect on shareholders' deficit of the shares lent in July pursuant to the share lending agreement, which includes Charter's requirement to

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lend the shares and the counterparties' requirement to return the shares, is de minimis and represents the cash received upon lending of the shares and is equal to the par value of the common stock to be issued.

9. Comprehensive Income (Loss)

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income (loss) on the accompanying condensed consolidated balance sheets. Additionally, the Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive income (loss), after giving effect to the minority interest share of such gains and losses. Comprehensive income for the three months ended September 30, 2005 was \$77 million and comprehensive loss for the three months ended September 30, 2004 was \$3.3 billion and was \$627 million and \$4.0 billion for the nine months ended September 30, 2005 and 2004, respectively.

10. Accounting for Derivative Instruments and Hedging Activities

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

The Company does not hold or issue derivative instruments for trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the three months ended September 30, 2005 and 2004, net gain (loss) on derivative instruments and hedging activities includes gains of \$1 million and \$1 million, respectively, and for the nine months ended September 30, 2005 and 2004, net gain (loss) on derivative instruments and hedging activities includes gains of \$2 million and \$3 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended September 30, 2005 and 2004, a gain of \$5 million and \$2 million, respectively, and for the nine months ended September 30, 2005 and 2004, a gain of \$14 million and \$31 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive income (loss) and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are

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closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as gain (loss) on derivative instruments and hedging activities in the Company's condensed consolidated statements of operations. For the three months ended September 30, 2005 and 2004, net gain (loss) on derivative instruments and hedging activities includes gains of \$16 million and losses of \$9 million, respectively, and for the nine months ended September 30, 2005 and 2004, net gain (loss) on derivative instruments and hedging activities includes gains of \$41 million and \$45 million, respectively, for interest rate derivative instruments not designated as hedges.

As of September 30, 2005 and December 31, 2004, the Company had outstanding \$2.1 billion and \$2.7 billion and \$20 million and \$20 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

Certain provisions of the Company's 5.875% convertible senior notes issued in November 2004 were considered embedded derivatives for accounting purposes and were required to be accounted for separately from the convertible senior notes. In accordance with SFAS No. 133, these derivatives are marked to market with gains or losses recorded in interest expense on the Company's condensed consolidated statement of operations. For the three and nine months ended September 30, 2005, the Company recognized losses of \$1 million and gains of \$26 million, respectively. The loss resulted in an increase in interest expense whereas the gain resulted in a reduction in interest expense related to these derivatives. At September 30, 2005 and December 31, 2004, \$2 million and \$10 million, respectively, is recorded in accounts payable and accrued expenses relating to the short-term portion of these derivatives and \$3 million and \$21 million, respectively, is recorded in other long-term liabilities related to the long-term portion.

11. Revenues

Revenues consist of the following for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Video	\$ 848	\$ 839	\$2,551	\$2,534
High-speed Internet	230	189	671	538
Advertising sales	74	73	214	205
Commercial	71	61	205	175
Other	95	86	271	249
	<u>1,318</u>	<u>1,248</u>	<u>3,912</u>	<u>3,701</u>

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12. Operating Expenses

Operating expenses consist of the following for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Programming	\$ 357	\$ 328	\$ 1,066	\$ 991
Service	203	173	572	489
Advertising sales	26	24	76	72
	<u>586</u>	<u>525</u>	<u>1,714</u>	<u>1,552</u>

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
General and administrative	\$ 231	\$ 220	\$ 658	\$ 636
Marketing	38	32	104	99
	<u>269</u>	<u>252</u>	<u>762</u>	<u>735</u>

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

14. Hurricane Asset Retirement Loss

Certain of the Company's cable systems in Louisiana suffered significant plant damage as a result of hurricanes Katrina and Rita. Based on preliminary evaluations, the Company wrote off \$19 million of its plants' net book value. Insignificant amounts of other expenses were recorded related to hurricanes Katrina and Rita.

The Company has insurance coverage for both property and business interruption. The Company has not recorded any potential insurance recoveries as it is still assessing the damage of its plant and the extent of insurance coverage.

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15. Special Charges

The Company has recorded special charges as a result of reducing its workforce, consolidating administrative offices and management realignment in 2004 and 2005. The activity associated with this initiative is summarized in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Beginning Balance	\$ 4	\$ 6	\$ 6	\$ 14
Special Charges	1	6	5	9
Payments	(1)	(3)	(7)	(14)
Balance at September 30,	\$ 4	\$ 9	\$ 4	\$ 9

For the three and nine months ended September 30, 2005, special charges also included \$1 million related to legal settlements. For the nine months ended September 30, 2005, special charges were offset by approximately \$2 million related to an agreed upon discount in respect of the portion of the settlement consideration payable under the Stipulations of Settlement of the consolidated Federal Class Action and the Federal Derivative Action allocable to plaintiff's attorney fees and Charter's insurance carrier as a result of the election to pay such fees in cash (see Note 17).

For the nine months ended September 30, 2004, special charges also includes approximately \$85 million as part of the terms set forth in memoranda of understanding regarding settlement of the consolidated Federal Class Action and Federal Derivative Action and approximately \$9 million of litigation costs related to the tentative settlement of the South Carolina national class action suit, which were approved by the respective courts. For the three and nine months ended September 30, 2004, the severance costs were offset by \$3 million received from a third party in settlement of a dispute.

16. Income Taxes

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

As of September 30, 2005 and December 31, 2004, the Company had net deferred income tax liabilities of approximately \$287 million and \$216 million, respectively. Approximately \$214 million and \$208 million of the deferred tax liabilities recorded in the condensed consolidated financial statements at September 30, 2005 and December 31, 2004, respectively relate to certain indirect subsidiaries of Charter Holdco, which file separate income tax returns.

During the three and nine months ended September 30, 2005, the Company recorded \$29 million and \$75 million of income tax expense, respectively, and during the three and nine months ended September 30, 2004, the Company recorded \$304 million and \$207 million of income tax benefit, respectively. The Company recorded the portion of the income tax benefit associated with the adoption of Topic D-108 as a \$91 million reduction of the cumulative effect of accounting change on the

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accompanying statement of operations for the three and nine months ended September 30, 2004. The sale of systems to Atlantic Broadband, LLC in March and April 2004 resulted in income tax expense of \$15 million for the nine months ended September 30, 2004.

Income tax expense is recognized through increases in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as current federal and state income tax expense and increases to the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries. The Company recorded an additional deferred tax asset of approximately \$222 million during the nine months ended September 30, 2005 relating to net operating loss carryforwards, but recorded a valuation allowance with respect to this amount because of the uncertainty of the ability to realize a benefit from the Company's carryforwards in the future.

The Company has deferred tax assets of approximately \$3.7 billion and \$3.5 billion as of September 30, 2005 and December 31, 2004, respectively, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. The deferred tax assets include approximately \$2.3 billion and \$2.1 billion of tax net operating loss carryforwards as of September 30, 2005 and December 31, 2004, respectively (generally expiring in years 2005 through 2025), of Charter and its indirect corporate subsidiaries. Valuation allowances of \$3.4 billion and \$3.2 billion as of September 30, 2005 and December 31, 2004, respectively, exist with respect to these deferred tax assets.

Realization of any benefit from the Company's tax net operating losses is dependent on: (1) Charter and its indirect corporate subsidiaries ability to generate future taxable income and (2) the absence of certain future ownership changes of Charter's common stock. An ownership change, as defined in the applicable federal income tax rules, would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate the Company's ability to use a substantial portion of its net operating losses to offset any future taxable income. Future transactions and the timing of such transactions could cause an ownership change. Such transactions include additional issuances of common stock by the Company (including but not limited to the issuance of up to a total of 150 million shares of common stock (of which 27.2 million were issued in July 2005) under the share lending agreement, the issuance of shares of common stock upon future conversion of Charter's convertible senior notes and the issuance of common stock in the class action settlement discussed in Note 17, reacquisition of the borrowed shares by Charter, or acquisitions or sales of shares by certain holders of Charter's shares, including persons who have held, currently hold, or accumulate in the future five percent or more of Charter's outstanding stock (including upon an exchange by Mr. Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco into CCI common stock)). Many of the foregoing transactions are beyond management's control.

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

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

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17. Contingencies

Securities Class Actions and Derivative Suits

Fourteen putative federal class action lawsuits (the *Federal Class Actions*) were filed in 2002 against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages were sought by the plaintiffs. In general, the lawsuits alleged that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects. The Federal Class Actions were specifically and individually identified in public filings made by Charter prior to the date of this quarterly report. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Court subsequently consolidated the Federal Class Actions into a single action (the *Consolidated Federal Class Action*) for pretrial purposes. On August 5, 2004, the plaintiffs' representatives, Charter and the individual defendants who were the subject of the suit entered into a Memorandum of Understanding setting forth agreements in principle to settle the Consolidated Federal Class Action. These parties subsequently entered into Stipulations of Settlement dated as of January 24, 2005 (described more fully below) that incorporate the terms of the August 5, 2004 Memorandum of Understanding.

On September 12, 2002, a shareholders derivative suit (the *State Derivative Action*) was filed in the Circuit Court of the City of St. Louis, State of Missouri (the *Missouri State Court*), against Charter and its then current directors, as well as its former auditors. The plaintiffs alleged that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. On March 12, 2004, an action substantively identical to the State Derivative Action was filed in Missouri State Court against Charter and certain of its current and former directors, as well as its former auditors. On July 14, 2004, the Court consolidated this case with the State Derivative Action.

Separately, on February 12, 2003, a shareholders derivative suit (the *Federal Derivative Action*) was filed against Charter and its then current directors in the United States District Court for the Eastern District of Missouri. The plaintiff in that suit alleged that the individual defendants breached their fiduciary duties and grossly mismanaged Charter by failing to establish and maintain adequate internal controls and procedures.

As noted above, Charter and the individual defendants entered into a Memorandum of Understanding on August 5, 2004 setting forth agreements in principle regarding settlement of the Consolidated Federal Class Action, the State Derivative Action(s) and the Federal Derivative Action (the *Actions*). Charter and various other defendants in those actions subsequently entered into Stipulations of Settlement dated as of January 24, 2005, setting forth a settlement of the Actions in a manner consistent with the terms of the Memorandum of Understanding. The Stipulations of Settlement, along with various supporting documentation, were filed with the Court on February 2, 2005. On May 23, 2005 the United States District Court for the Eastern District of Missouri conducted the final fairness hearing for the Actions, and on June 30, 2005, the Court issued its final approval of the settlements. Members of the class had 30 days from the issuance of the June 30 order approving the settlement to file an appeal challenging the approval. Two notices of appeal were filed relating to the settlement. Those appeals were directed to the amount of fees that the attorneys for the class were to receive and to the fairness of the settlement. At the end of

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September 2005, Stipulations of Dismissal were filed with the Eighth Circuit Court of Appeals resulting in the dismissal of both appeals with prejudice. Procedurally therefore, the settlements are final.

As amended, the Stipulations of Settlement provide that, in exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter would pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which will include the fees and expenses of plaintiffs' counsel. Of this amount, \$64 million would be paid in cash (by Charter's insurance carriers) and the \$80 million balance was to be paid (subject to Charter's right to substitute cash therefor as described below) in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million, with such values in each case being determined pursuant to formulas set forth in the Stipulations of Settlement. However, Charter had the right, in its sole discretion, to substitute cash for some or all of the aforementioned securities on a dollar for dollar basis. Pursuant to that right, Charter elected to fund the \$80 million obligation with 13.4 million shares of Charter Class A common stock (having an aggregate value of approximately \$15 million pursuant to the formula set forth in the Stipulations of Settlement) with the remaining balance (less an agreed upon \$2 million discount in respect of that portion allocable to plaintiffs' attorneys' fees) to be paid in cash. In addition, Charter had agreed to issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million; however, by agreement with its carrier, Charter paid \$4.5 million in cash in lieu of issuing such shares. Charter delivered the settlement consideration to the claims administrator on July 8, 2005, and it was held in escrow pending resolution of the appeals. Those appeals are now resolved. On July 14, 2005, the Circuit Court for the City of St. Louis dismissed with prejudice the State Derivative Actions. The claims administrator is responsible for disbursing the settlement consideration.

As part of the settlements, Charter committed to a variety of corporate governance changes, internal practices and public disclosures, all of which have already been undertaken and none of which are inconsistent with measures Charter is taking in connection with the recent conclusion of the SEC investigation.

Government Investigations

In August 2002, Charter became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, and its reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office publicly stated that Charter was not a target of the investigation. Charter was also advised by the U.S. Attorney's Office that no current officer or member of its board of directors was a target of the investigation. On July 24, 2003, a federal grand jury charged four former officers of Charter with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. Each of the indicted former officers pled guilty to single conspiracy counts related to the original mail and wire fraud charges and were sentenced April 22, 2005. Charter fully cooperated with the investigation, and following the sentencings, the U.S. Attorney's Office for the Eastern District of Missouri announced that its investigation was concluded and that no further indictments would issue.

Indemnification

Charter was generally required to indemnify, under certain conditions, each of the named individual defendants in connection with the matters described above pursuant to the terms of its bylaws and (where

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applicable) such individual defendants' employment agreements. In accordance with these documents, in connection with the grand jury investigation, a now-settled SEC investigation and the above-described lawsuits, some of Charter's current and former directors and current and former officers were advanced certain costs and expenses incurred in connection with their defense. On February 22, 2005, Charter filed suit against four of its former officers who were indicted in the course of the grand jury investigation. These suits seek to recover the legal fees and other related expenses advanced to these individuals. One of these former officers has counterclaimed against Charter alleging, among other things, that Charter owes him additional indemnification for legal fees that Charter did not pay, and another of these former officers has counterclaimed against Charter for accrued sick leave.

Other Litigation

Charter is also party to other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or its liquidity.

18. Earnings (Loss) Per Share

Basic earnings (loss) per share is based on the average number of shares of common stock outstanding during the period. Diluted earnings per share is based on the average number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of stock options, restricted stock, convertible debt, convertible redeemable preferred stock and exchangeable membership units. Basic loss per share equals diluted loss per share for the three months ended September 30, 2004 and the nine months ended September 30, 2004 and 2005.

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

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

All options to purchase common stock, which were outstanding during the three months ended September 30, 2005, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares or they were otherwise antidilutive. Charter's 4.75% convertible senior notes, Charter's series A convertible redeemable

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preferred stock and all of the outstanding exchangeable membership units in Charter's indirect subsidiary, CC VIII, LLC, also were not included in the computation of diluted earnings per share because the effect of the conversions would have been antidilutive.

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

19. Stock Compensation Plans

Prior to January 1, 2003, the Company accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method, under which the Company recognizes compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in Financial Accounting Standards Board Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions resulted in utilizing a preferable accounting method as the condensed consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, the fair value method is being applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. The ongoing effect on consolidated results of operations or financial condition will depend on future stock-based compensation awards granted by the Company.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net income (loss) and income (loss) per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS No. 123 for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) applicable to common stock	\$ 75	\$ (3,295)	\$ (634)	\$ (4,005)
Add back stock-based compensation expense related to stock options included in reported net income (loss)	3	8	11	34
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards	(3)	(6)	(11)	(37)
Effects of unvested options in stock option exchange	—	—	—	48
Pro forma	\$ 75	\$ (3,293)	\$ (634)	\$ (3,960)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Basic income (loss) per common share	\$ 0.24	\$(10.89)	\$(2.06)	\$(13.38)
Add back stock-based compensation expense related to stock options included in reported net income (loss)	0.01	0.03	0.04	0.11
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards	(0.01)	(0.02)	(0.04)	(0.12)
Effects of unvested options in stock option exchange	—	—	—	0.16
Pro forma	\$ 0.24	\$(10.88)	\$(2.06)	\$(13.23)
Diluted income (loss) per common share	\$ 0.09	\$(10.89)	\$(2.06)	\$(13.38)
Add back stock-based compensation expense related to stock options included in reported net income (loss)	—	0.03	0.04	0.11
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards	—	(0.02)	(0.04)	(0.12)
Effects of unvested options in stock option exchange	—	—	—	0.16
Pro forma	\$ 0.09	\$(10.88)	\$(2.06)	\$(13.23)

In January 2004, Charter began an option exchange program in which the Company offered its employees the right to exchange all stock options (vested and unvested) under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. Based on a sliding exchange ratio, which varied depending on the exercise price of an employee's outstanding options, if an employee would have received more than 400 shares of restricted stock in exchange for tendered options, Charter issued to that employee shares of restricted stock in the exchange. If, based on the exchange ratios, an employee would have received 400 or fewer shares of restricted stock in exchange for tendered options, Charter instead paid the employee cash in an amount equal to the number of shares the employee would have received multiplied by \$5.00. The offer applied to options (vested and unvested) to purchase a total of 22,929,573 shares of Charter Class A common stock, or approximately 48% of the Company's 47,882,365 total options (vested and unvested) issued and outstanding as of December 31, 2003. Participation by employees was voluntary. Those members of Charter's board of directors who were not also employees of the Company were not eligible to participate in the exchange offer.

In the closing of the exchange offer on February 20, 2004, the Company accepted for cancellation eligible options to purchase approximately 18,137,664 shares of Charter Class A common stock. In exchange, the Company granted 1,966,686 shares of restricted stock, including 460,777 performance shares to eligible employees of the rank of senior vice president and above, and paid a total cash amount of approximately \$4 million (which amount includes applicable withholding taxes) to those employees who received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options exchangeable under the program.

The cost to the Company of the stock option exchange program was approximately \$10 million, with a 2004 cash compensation expense of approximately \$4 million and a non-cash compensation expense of approximately \$6 million to be expensed ratably over the three-year vesting period of the restricted stock issued in the exchange.

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In January 2004, the Compensation Committee of the board of directors of Charter approved Charter's Long-Term Incentive Program (LTIP), which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options and more senior level employees are eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance units vest on the third anniversary of the grant date and shares of Charter Class A common stock are issued, conditional upon Charter's performance against financial performance targets established by Charter's management and approved by its board of directors. Charter granted 6.9 million performance shares in January 2004 under this program and recognized expense of \$2 million and \$8 million during the three and nine months ended September 30, 2004, respectively. However, in the fourth quarter of 2004, the Company reversed the \$8 million of expense recorded in the first three quarters of 2004 based on the Company's assessment of the probability of achieving the financial performance measures established by Charter and required to be met for the performance shares to vest. In March and April 2005, Charter granted 2.8 million performance shares under the LTIP and recognized approximately \$1 million during the three and nine months ended September 30, 2005.

20. Related Party Transactions

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

CC VIII

As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, Charter's indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively the CC VIII interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the Comcast sellers). While held by the Comcast sellers, the CC VIII interest was entitled to a 2% priority return on its initial capital account and such priority return was entitled to preferential distributions from available cash and upon liquidation of CC VIII. While held by the Comcast sellers, the CC VIII interest generally did not share in the profits and losses of CC VIII. Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast put right). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen, indirectly through a company controlled by him, Charter Investment, Inc. (CII), became the holder of the CC VIII interest. Consequently, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter has been allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would be entitled to a priority distribution with respect to the 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC, an indirect subsidiary of Charter (CC V), and Mr. Allen in proportion to CC V's capital account and Mr. Allen's capital account (which will equal the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003). The limited liability company agreement of CC VIII does not provide for a mandatory redemption of the CC VIII interest.

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An issue arose as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Specifically, under the terms of the Bresnan transaction documents that were entered into in June 1999, the Comcast sellers originally would have received, after adjustments, 24,273,943 Charter Holdco membership units, but due to an FCC regulatory issue raised by the Comcast sellers shortly before closing, the Bresnan transaction was modified to provide that the Comcast sellers instead would receive the preferred equity interests in CC VIII represented by the CC VIII interest. As part of the last-minute changes to the Bresnan transaction documents, a draft amended version of the Charter Holdco limited liability company agreement was prepared, and contract provisions were drafted for that agreement that would have required an automatic exchange of the CC VIII interest for 24,273,943 Charter Holdco membership units if the Comcast sellers exercised the Comcast put right and sold the CC VIII interest to Mr. Allen or his affiliates. However, the provisions that would have required this automatic exchange did not appear in the final version of the Charter Holdco limited liability company agreement that was delivered and executed at the closing of the Bresnan transaction. The law firm that prepared the documents for the Bresnan transaction brought this matter to the attention of Charter and representatives of Mr. Allen in 2002.

Thereafter, the board of directors of Charter formed a Special Committee (currently comprised of Messrs. Merritt, Tory and Wangberg) to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a scrivener's error had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units. The Special Committee further determined that, as part of such contract reformation or alternative relief, Mr. Allen should be required to contribute the CC VIII interest to Charter Holdco in exchange for 24,273,943 Charter Holdco membership units. The Special Committee also recommended to the board of directors of Charter that, to the extent contract reformation were achieved, the board of directors should consider whether the CC VIII interest should ultimately be held by Charter Holdco or Charter Holdings or another entity owned directly or indirectly by them.

Mr. Allen disagreed with the Special Committee's determinations described above and so notified the Special Committee. Mr. Allen contended that the transaction was accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures.

The parties engaged in a process of non-binding mediation to seek to resolve this matter, without success. The Special Committee evaluated what further actions or processes to undertake to resolve this dispute. To accommodate further deliberation, each party agreed to refrain from initiating legal proceedings over this matter until it had given at least ten days' prior notice to the other. In addition, the Special Committee and Mr. Allen determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute.

As of October 31, 2005, Mr. Allen, the Special Committee, Charter, Charter Holdco and certain of their affiliates, having investigated the facts and circumstances relating to the dispute involving the CC VIII interest, after consultation with counsel and other advisors, and as a result of the Delaware Chancery Court's non-binding mediation program, agreed to settle the dispute, and execute certain permanent and irrevocable releases pursuant to the Settlement Agreement and Mutual Release agreement dated October 31, 2005 (the "Settlement").

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Pursuant to the Settlement, CII has retained 30% of its CC VIII interest (the Remaining Interests). The Remaining Interests are subject to certain drag along, tag along and transfer restrictions as detailed in the revised CC VIII Limited Liability Company Agreement. CII transferred the other 70% of the CC VIII interest directly and indirectly, through Charter Holdco, to a newly formed entity, CCHC, LLC (a direct subsidiary of Charter Holdco and the direct parent of Charter Holdings, CCHC). Of that other 70% of the CC VIII preferred interests, 7.4% has been transferred by CII for a subordinated exchangeable note of CCHC with an initial accreted value of \$48.2 million, accreting at 14%, compounded quarterly, with a 15-year maturity (the Note). The remaining 62.6% has been transferred for no consideration.

As part of the Settlement, CC VIII issued approximately 49 million additional Class B units to CC V in consideration for prior capital contributions to CC VIII by CC V, with respect to transactions that were unrelated to the dispute in connection with CII s membership units in CC VIII. As a result, Mr. Allen s pro rata share of the profits and losses of CC VIII attributable to the Remaining Interests is approximately 5.6%.

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

CCHC has the right to redeem the Note under certain circumstances, for cash in an amount equal to the then accreted value. CCHC must redeem the Note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity.

The Board of Directors has determined that the transferred CC VIII interests remain at CCHC.

TechTV, Inc.

TechTV, Inc. (TechTV) operated a cable television network that offered programming mostly related to technology. Pursuant to an affiliation agreement that originated in 1998 and that terminates in 2008, TechTV has provided the Company with programming for distribution via Charter s cable systems. The affiliation agreement provides, among other things, that TechTV must offer Charter certain terms and conditions that are no less favorable in the affiliation agreement than are given to any other distributor that serves the same number of or fewer TechTV viewing customers. Additionally, pursuant to the affiliation agreement, the Company was entitled to incentive payments for channel launches through December 31, 2003.

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in

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settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter's interactive television platforms through December 31, 2006 (exclusive for the first year). For each of the three and nine months ended September 30, 2005 and 2004, the Company recognized approximately \$0.3 million and \$1 million, respectively, of the Vulcan Programming payment as an offset to programming expense. For the three and nine months ended September 30, 2005, the Company paid approximately \$1 million and \$2 million, respectively, and for the three and nine months ended September 30, 2004, the Company paid approximately \$0.5 million and \$1 million, respectively, under the affiliation agreement.

The Company believes that Vulcan Programming, which is 100% owned by Mr. Allen, owned an approximate 98% equity interest in TechTV at the time Vulcan Programming sold TechTV to an unrelated third party in May 2004. Until September 2003, Mr. Savoy, a former Charter director, was the president and director of Vulcan Programming and was a director of TechTV. Mr. Wangberg, one of Charter's directors, was the chairman, chief executive officer and a director of TechTV. Mr. Wangberg resigned as the chief executive officer of TechTV in July 2002. He remained a director of TechTV along with Mr. Allen until Vulcan Programming sold TechTV.

Digeo, Inc.

In March 2001, a subsidiary of Charter, Charter Communications Ventures, LLC (Charter Ventures), and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo, Inc. (Digeo), an entity controlled by Mr. Allen. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures Incorporated. The equity interest is subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. After Vulcan Ventures recovers its amount contributed and any cumulative loss allocations, Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls, to Digeo. DBroadband Holdings, LLC is therefore not included in the Company's consolidated financial statements. Pursuant to an amended version of this arrangement, in 2003 Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf.

On March 2, 2001, Charter Ventures entered into a broadband carriage agreement with Digeo Interactive, LLC (Digeo Interactive), a wholly owned subsidiary of Digeo. The carriage agreement provided that Digeo Interactive would provide to Charter a portal product, which would function as the television-based Internet portal (the initial point of entry to the Internet) for Charter's customers who received Internet access from Charter. The agreement term was for 25 years and Charter agreed to use the Digeo portal exclusively for six years. Before the portal product was delivered to Charter, Digeo terminated development of the portal product.

On September 27, 2001, Charter and Digeo Interactive amended the broadband carriage agreement. According to the amendment, Digeo Interactive would provide to Charter the content for enhanced Wink interactive television services, known as Charter Interactive Channels (i-channels). In order to provide the i-channels, Digeo Interactive sublicensed certain Wink technologies to Charter. Charter is entitled to share in the revenues generated by the i-channels. Currently, the Company's digital video customers who receive i-channels receive the service at no additional charge.

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On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment superseded the amendment of September 27, 2001. It provided for the development by Digeo Interactive of future features to be included in the Basic i-TV service to be provided by Digeo and for Digeo's development of an interactive toolkit to enable Charter to develop interactive local content. Furthermore, Charter could request that Digeo Interactive manage local content for a fee. The amendment provided for Charter to pay for development of the Basic i-TV service as well as license fees for customers who would receive the service, and for Charter and Digeo to split certain revenues earned from the service. The Company paid Digeo Interactive approximately \$1 million and \$2 million for the three and nine months ended September 30, 2005, respectively, and \$1 million and \$2 million for the three and nine months ended September 30, 2004, respectively, for customized development of the i-channels and the local content tool kit. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

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 is being supplied by Digeo Interactive, LLC under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deployed from a maximum of 10 headends through year-end 2004. This maximum number of headends was increased from 10 to 15 pursuant to a letter agreement executed on June 11, 2004 and the date for entering into license agreements for units deployed was extended to June 30, 2005. The number of headends was increased from 15 to 20 pursuant to a letter agreement dated August 4, 2004, from 20 to 30 pursuant to a letter agreement dated September 28, 2004 and from 30 to 50 headends by a letter agreement in February 2005. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement provides that Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. Charter paid approximately \$1 million in license and maintenance fees for each of the three and nine months ended September 30, 2005.

In April 2004, the Company launched DVR service using units containing the Digeo software in Charter's Rochester, Minnesota market using a broadband media center that is an integrated set-top terminal with a cable converter, DVR hard drive and connectivity to other consumer electronics devices (such as stereos, MP3 players, and digital cameras).

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Product development and testing has been completed. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$41 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances. Charter paid approximately \$7 million and \$9 million for the three and nine months

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ended September 30, 2005, respectively, and \$0.2 million for each of the three and nine months ended September 30, 2004 in capital purchases under this agreement.

In late 2003, Microsoft sued Digeo for \$9 million in a breach of contract action, involving an agreement that Digeo and Microsoft had entered into in 2001. Digeo informed us that it believed it had an indemnification claim against us for half that amount. Digeo settled with Microsoft agreeing to make a cash payment and to purchase certain amounts of Microsoft software products and consulting services through 2008. In consideration of Digeo agreeing to release us from its potential claim against us, after consultation with outside counsel we agreed, in June 2005, to purchase a total of \$2.3 million in Microsoft consulting services through 2008, a portion of which amounts Digeo has informed us will count against Digeo's purchase obligations with Microsoft.

In October 2005, Charter Holdco and Digeo Interactive entered into a binding Term Sheet for the test market deployment of the Moxi Entertainment Applications Pack (MEAP). The MEAP is an addition to the Moxi Client Software and will contain ten games (such as Video Poker and Blackjack), a photo application and jukebox application. The term sheet is limited to a test market application of approximately 14,000 subscribers and the aggregate value is not expected to exceed \$0.1 million. In the event the test market proves successful, the companies will replace the Term Sheet with a long form agreement including a planned roll-out across additional markets. The Term Sheet expires on May 1, 2006.

The Company believes that Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 60% equity interest in Digeo, Inc., on a fully-converted non-diluted basis. Mr. Allen, Lance Conn and Jo Allen Patton, directors of Charter, are directors of Digeo, and Mr. Vogel was a director of Digeo in 2004. During 2004 and 2005, Mr. Vogel held options to purchase 10,000 shares of Digeo common stock.

Oxygen Media LLC

Oxygen Media LLC (Oxygen) provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen whereby the Company agreed to carry programming content from Oxygen. Under the carriage agreement, the Company currently makes Oxygen programming available to approximately 5 million of its video customers. The term of the carriage agreement was retroactive to February 1, 2000, the date of launch of Oxygen programming by the Company, and runs for a period of five years from that date. For the three and nine months ended September 30, 2005, the Company paid Oxygen approximately \$2 million and \$7 million, respectively, and for the three and nine months ended September 30, 2004, the Company paid Oxygen approximately \$3 million and \$11 million, respectively, for programming content. In addition, Oxygen pays the Company marketing support fees for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. The Company recorded approximately \$0.1 million related to these launch incentives as a reduction of programming expense for the nine months ended September 30, 2005 and \$0.4 million and \$1 million for the three and nine months ended September 30, 2004, respectively.

Concurrently with the execution of the carriage agreement, Charter Holdco entered into an equity issuance agreement pursuant to which Oxygen's parent company, Oxygen Media Corporation (Oxygen Media), granted a subsidiary of Charter Holdco a warrant to purchase 2.4 million shares of Oxygen Media common stock for an exercise price of \$22.00 per share. In February 2005, this warrant expired unexercised. Charter Holdco was also to receive unregistered shares of Oxygen Media common stock with a guaranteed fair market value on the date of issuance of \$34 million, on or prior to February 2, 2005,

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with the exact date to be determined by Oxygen Media, but this commitment was later revised as discussed below.

The Company recognized the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the nine months ended September 30, 2005, the Company recorded approximately \$2 million as a reduction of programming expense and for the three and nine months ended September 30, 2004, the Company recorded approximately \$3 million and \$11 million as a reduction of programming expense, respectively. The carrying value of the Company's investment in Oxygen was approximately \$33 million and \$32 million as of September 30, 2005 and December 31, 2004, respectively.

In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revises the number of the Company's customers to which Oxygen programming must be carried and for which the Company must pay, (b) releases Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) requires Oxygen to make payment on outstanding receivables for marketing support fees due to the Company under the carriage agreement and (d) requires that Oxygen provide its programming content to the Company on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than the Company. The renewal of the carriage agreement (a) extends the period that the Company will carry Oxygen programming to the Company's customers through January 31, 2008 and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks.

In August 2004, Charter Holdco and Oxygen also amended the equity issuance agreement to provide for the issuance of 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share plus accrued dividends to Charter Holdco on February 1, 2005 in place of the \$34 million of unregistered shares of Oxygen Media common stock. Oxygen Media delivered these shares in March 2005. The preferred stock is convertible into common stock after December 31, 2007 at a conversion ratio per share of preferred stock, the numerator of which is the liquidation preference and the denominator of which is the fair market value per share of Oxygen Media common stock on the conversion date.

As of September 30, 2005, through Vulcan Programming, Mr. Allen owned an approximate 31% interest in Oxygen assuming no exercises of outstanding warrants or conversion or exchange of convertible or exchangeable securities. Ms. Jo Allen Patton is a director and the President of Vulcan Programming. Mr. Lance Conn is a Vice President of Vulcan Programming. Mr. Nathanson has an indirect beneficial interest of less than 1% in Oxygen.

Helicon

In 1999, the Company purchased the Helicon cable systems. As part of that purchase, Mr. Allen entered into a put agreement with a certain seller of the Helicon cable systems that received a portion of the purchase price in the form of a preferred membership interest in Charter Helicon, LLC with a redemption price of \$25 million plus accrued interest. Under the Helicon put agreement, such holder had the right to sell any or all of the interest to Mr. Allen prior to its mandatory redemption in cash on July 30, 2009. On August 31, 2005, 40% of the preferred membership interest was put to Mr. Allen. The remaining 60% of the preferred interest in Charter Helicon, LLC remained subject to the put to Mr. Allen. Such preferred interest was recorded in other long-term liabilities as of September 30, 2005 and December 31, 2004. On October 6, 2005, Charter Helicon, LLC redeemed all of the preferred membership interest for the redemption price of \$25 million plus accrued interest.

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21. Subsequent Events

In November 2005, Charter repurchased 484,908 shares of its Series A Convertible Redeemable Preferred Stock (the Preferred Stock) for an aggregate purchase price of approximately \$29 million (or \$60 per share). The shares had liquidation preference of approximately \$48 million and had accrued but unpaid dividends of approximately \$3 million. Following the repurchase, 60,351 shares of Preferred Stock remained outstanding.

In connection with the repurchase, the holders of Preferred Stock consented to an amendment to the Certificate of Designation governing the Preferred Stock that will eliminate the quarterly dividends on all of the outstanding Preferred Stock and will provide that the liquidation preference for the remaining shares outstanding will be \$105.4063 per share, which amount shall accrete from September 30, 2005 at an annual rate of 7.75%, compounded quarterly. Certain holders of Preferred Stock also released Charter from various threatened claims relating to their acquisition and ownership of the Preferred Stock, including threatened claims for breach of contract.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Charter Communications, Inc.:

We have audited the accompanying consolidated balance sheets of Charter Communications, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2004. 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 audit 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 Charter Communications, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

As discussed in note 3 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

As discussed in note 7 to the consolidated financial statements, effective September 30, 2004, the Company adopted EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*.

As discussed in note 19 to the consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123*.

/s/ KPMG LLP

St. Louis, Missouri
March 1, 2005

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	December 31,	
	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 650	\$ 127
Accounts receivable, less allowance for doubtful accounts of \$15 and \$17, respectively	190	189
Prepaid expenses and other current assets	82	34
	<u>922</u>	<u>350</u>
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation of \$5,311 and \$3,950, respectively	6,289	7,014
Franchises	9,878	13,680
	<u>16,167</u>	<u>20,694</u>
OTHER NONCURRENT ASSETS	584	320
	<u>\$ 17,673</u>	<u>\$ 21,364</u>
LIABILITIES AND SHAREHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,217	\$ 1,286
	<u>1,217</u>	<u>1,286</u>
LONG-TERM DEBT	19,464	18,647
DEFERRED MANAGEMENT FEES RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	681	848
MINORITY INTEREST	648	689
PREFERRED STOCK REDEEMABLE; \$.001 par value; 1 million shares authorized; 545,259 shares issued and outstanding	55	55
SHAREHOLDERS DEFICIT:		
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 305,203,770 and 295,038,606 shares issued and outstanding, respectively		
Class B Common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding		

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Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding		
Additional paid-in capital	4,794	4,700
Accumulated deficit	(9,196)	(4,851)
Accumulated other comprehensive loss	(4)	(24)
	<u> </u>	<u> </u>
Total shareholders' deficit	(4,406)	(175)
	<u> </u>	<u> </u>
Total liabilities and shareholders' deficit	\$ 17,673	\$ 21,364
	<u> </u>	<u> </u>

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

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Table of Contents**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in millions, except per share and share data)

	Year Ended December 31,		
	2004	2003	2002
REVENUES	\$ 4,977	\$ 4,819	\$ 4,566
COSTS AND EXPENSES:			
Operating (excluding depreciation and amortization)	2,080	1,952	1,807
Selling, general and administrative	971	940	963
Depreciation and amortization	1,495	1,453	1,436
Impairment of franchises	2,433		4,638
(Gain) loss on sale of fixed assets	(86)	5	3
Option compensation expense, net	31	4	5
Special charges, net	104	21	36
Unfavorable contracts and other settlements	(5)	(72)	
	7,023	4,303	8,888
Income (loss) from operations	(2,046)	516	(4,322)
OTHER INCOME AND EXPENSES:			
Interest expense, net	(1,670)	(1,557)	(1,503)
Gain (loss) on derivative instruments and hedging activities, net	69	65	(115)
Loss on debt to equity conversions	(23)		
Gain (loss) on extinguishment of debt	(31)	267	
Other, net	3	(16)	(4)
	(1,652)	(1,241)	(1,622)
Loss before minority interest, income taxes and cumulative effect of accounting change	(3,698)	(725)	(5,944)
MINORITY INTEREST	19	377	3,176
Loss before income taxes and cumulative effect of accounting change	(3,679)	(348)	(2,768)
INCOME TAX BENEFIT	103	110	460
Loss before cumulative effect of accounting change	(3,576)	(238)	(2,308)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	(765)		(206)
Net loss	(4,341)	(238)	(2,514)
Dividends on preferred stock redeemable	(4)	(4)	(3)
Net loss applicable to common stock	\$ (4,345)	\$ (242)	\$ (2,517)

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LOSS PER COMMON SHARE, basic and diluted	\$ (14.47)	\$ (0.82)	\$ (8.55)
	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding, basic and diluted	300,291,877	294,597,519	294,440,261
	<u> </u>	<u> </u>	<u> </u>

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

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Table of Contents**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIT)**

(Dollars in millions)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity (Deficit)
BALANCE, December 31, 2001	\$	\$	\$4,694	\$(2,092)	\$(17)	\$ 2,585
Issuance of common stock related to acquisitions			2			2
Changes in fair value of interest rate agreements					(30)	(30)
Option compensation expense, net			2			2
Loss on issuance of equity by subsidiary			(1)			(1)
Dividends on preferred stock redeemable				(3)		(3)
Net loss				(2,514)		(2,514)
BALANCE, December 31, 2002			4,697	(4,609)	(47)	41
Changes in fair value of interest rate agreements					23	23
Option compensation expense, net			2			2
Issuance of common stock related to acquisitions			2			2
Loss on issuance of equity by subsidiary			(1)			(1)
Dividends on preferred stock redeemable				(4)		(4)
Net loss				(238)		(238)
BALANCE, December 31, 2003			4,700	(4,851)	(24)	(175)
Changes in fair value of interest rate agreements					20	20
Option compensation expense, net			27			27
Issuance of common stock in exchange for convertible notes			67			67
Dividends on preferred stock redeemable				(4)		(4)
Net loss				(4,341)		(4,341)
BALANCE, December 31, 2004	\$	\$	\$4,794	\$(9,196)	\$ (4)	\$(4,406)

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Year Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (4,341)	\$ (238)	\$ (2,514)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(19)	(377)	(3,176)
Depreciation and amortization	1,495	1,453	1,436
Impairment of franchises	2,433		4,638
Option compensation expense, net	27	4	5
Special charges, net	85		
Noncash interest expense	324	414	395
Gain on derivative instruments and hedging activities, net	(69)	(65)	115
(Gain) loss on sale of assets	(86)	5	3
Loss on debt to equity conversions	23		3
(Gain) loss on extinguishment of debt	20	(267)	
Deferred income taxes	(109)	(110)	(460)
Cumulative effect of accounting change, net	765		206
Unfavorable contracts and other settlements	(5)	(72)	
Other, net	(3)	3	
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(7)	70	27
Prepaid expenses and other assets	(2)	5	26
Accounts payable, accrued expenses and other	(59)	(69)	47
Receivables from and payables to related party, including deferred management fees		9	(3)
Net cash flows from operating activities	472	765	748
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(924)	(854)	(2,167)
Change in accrued expenses related to capital expenditures	(43)	(33)	(55)
Proceeds from sale of systems	744	91	
Payments for acquisitions, net of cash acquired			(139)
Purchases of investments	(17)	(11)	(12)
Other, net	(3)	(10)	10
Net cash flows from investing activities	(243)	(817)	(2,363)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock			2
Borrowings of long-term debt	3,148	738	4,106
Repayments of long-term debt	(5,448)	(1,368)	(2,134)
Proceeds from issuance of long-term debt	2,882	529	
Payments for debt issuance costs	(145)	(41)	(40)
Purchase of pledge securities	(143)		
Net cash flows from financing activities	294	(142)	1,934

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	523	(194)	319
CASH AND CASH EQUIVALENTS, beginning of period	127	321	2
CASH AND CASH EQUIVALENTS, end of period	\$ 650	\$ 127	\$ 321
CASH PAID FOR INTEREST	\$ 1,302	\$ 1,111	\$ 1,103
NONCASH TRANSACTIONS:			
Debt exchanged for Charter Class A common stock	\$ 30	\$	\$
Issuance of debt by CCH II, LLC		1,572	
Retirement of debt		1,866	
Issuances of preferred stock redeemable, as payment for acquisitions		4	
Issuance of equity as partial payments for acquisitions		2	

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

(Dollars in millions, except where indicated)

1. Organization and Basis of Presentation

Charter Communications, Inc. (Charter) is a holding company whose principal assets at December 31, 2004 are the 47% controlling common equity interest in Charter Communications Holding Company, LLC (Charter Holdco) and mirror notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Charter Holdco is the sole owner of Charter Communications Holdings, LLC (Charter Holdings). The consolidated financial statements include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly owned subsidiaries where the underlying operations reside, collectively referred to herein as the

Company. Charter consolidates Charter Holdco on the basis of voting control. Charter Holdco's limited liability company agreement provides that so long as Charter's Class B common stock retains its special voting rights, Charter will maintain a 100% voting interest in Charter Holdco. Voting control gives Charter full authority and control over the operations of Charter Holdco. All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed data services and, in some areas, advanced broadband services such as high definition television, video on demand and telephony. The Company sells its cable video programming, high-speed data and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

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

Reclassifications. Certain prior year amounts have been reclassified to conform with the 2004 presentation.

2. Liquidity and Capital Resources

The Company incurred net loss applicable to common stock of \$4.3 billion, \$242 million and \$2.5 billion in 2004, 2003 and 2002, respectively. The Company's net cash flows from operating activities were \$472 million, \$765 million and \$748 million for the years ending December 31, 2004, 2003 and 2002, respectively.

The Company has a significant level of debt. The Company's long-term financing as of December 31, 2004 consists of \$5.5 billion of credit facility debt, \$13.3 billion principal amount of high-yield notes and \$1.0 billion principal amount of convertible senior notes. In 2005, \$30 million of the Company's debt will mature and in 2006, an additional \$186 million of the Company's debt will mature. In 2007 and beyond, significant additional amounts will become due under the Company's remaining long-term debt obligations.

The Company has historically required significant cash to fund capital expenditures and debt service costs. Historically, the Company has funded these requirements through cash flows from operating activities, borrowings under its credit facilities, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the year ended December 31, 2004, the Company generated \$472 million of net cash flows from operating activities, after paying cash interest of \$1.3 billion. In addition, the Company generated approximately \$744 million from the sale of assets, substantially all of which was used to fund operations, including capital expenditures.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2004, 2003 and 2002
(Dollars in millions, except where indicated)**

Finally, the Company had net cash flows from financing activities of \$294 million, which included, among other things, the proceeds from the issuance in December of \$550 million of CCO Holdings, LLC (CCO Holdings) Notes. This debt issuance was the primary reason cash on hand increased by \$523 million to \$650 million at December 31, 2004. Approximately \$622 million was used to repay outstanding borrowings under the Company s revolving credit facility, through a series of transactions executed in February 2005.

The Company expects that cash on hand, cash flows from operating activities and the amounts available under its credit facilities will be adequate to meet its cash needs in 2005. Cash flows from operating activities and amounts available under the Company s credit facilities may not be sufficient to fund the Company s operations and satisfy its principal repayment obligations that come due in 2006 and, the Company believes, will not be sufficient to fund its operations and satisfy such repayment obligations thereafter.

It is likely that the Company will require additional funding to repay debt maturing after 2006. The Company is working with its financial advisors to address such funding requirements. However, there can be no assurance that such funding will be available to the Company. Although Mr. Allen and his affiliates have purchased equity from the Company in the past, Mr. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to the Company in the future.

Credit Facilities and Covenants

The Company s ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Communications Operating, LLC (Charter Operating) credit facilities. These credit facilities, along with the Company s indentures, are subject to certain restrictive covenants, some of which require the Company to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from the Company s independent auditors. As of December 31, 2004, the Company was in compliance with the covenants under the Company s indentures and under its credit facilities and the Company expects to remain in compliance with those covenants for the next twelve months. As of December 31, 2004, the Company had borrowing availability under the credit facilities of \$804 million, none of which was restricted due to covenants. Continued access to the Company s credit facilities is subject to the Company remaining in compliance with the applicable covenants of these credit facilities, including covenants tied to the Company s operating performance. If the Company s operating performance results in non-compliance with these covenants, or if any of certain other events of non-compliance under these credit facilities or indentures governing the Company s debt occurs, funding under the credit facilities may not be available and defaults on some or potentially all of the Company s debt obligations could occur. An event of default under the covenants governing any of the Company s debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company s consolidated financial condition or results of operations.

The Charter Operating credit facilities require the Company to redeem the CC V Holdings notes within 45 days after the first date that the Charter Holdings leverage ratio is less than 8.75 to 1.0. In satisfaction of this requirement, CC V Holdings, LLC has called for redemption all of its outstanding notes, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption, which is expected to be March 14, 2005. The total cost of the redemption including accrued and unpaid interest is expected to be \$122 million. The Company intends to fund the redemption with borrowings under its credit facilities.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(Dollars in millions, except where indicated)**

Specific Limitations

Charter's ability to make interest payments on its convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of its convertible senior notes, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco or its subsidiaries, including CCH II, LLC (CCH II), CCO Holdings, LLC (CCO Holdings) and Charter Operating. The indentures governing the CCH II notes, CCO Holdings notes, and Charter Operating notes, however, restrict these entities and their subsidiaries from making distributions to their parent companies (including Charter and Charter Holdco) for payment of principal on Charter's convertible senior notes, in each case unless there is no default under the applicable indenture and a specified leverage ratio test is met at the time of such event. CCH II, CCO Holdings and Charter Operating meet the applicable leverage ratio test under each of their respective indentures, and as a result are not prohibited from making any such distributions to their respective direct parent.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended December 31, 2004, there was no default under Charter Holdings' indentures and other specified tests were met. In addition, Charter Holdings met the leverage ratio of 8.75 to 1.0 based on December 31, 2004 financial results. As a result, distributions from Charter Holdings to Charter or Charter Holdco are not currently restricted. Such distributions will again be restricted, however, if Charter Holdings fails to meet its leverage ratio test. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test and there can be no assurance that Charter Holdings will satisfy this test in the future.

During periods when such distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures. As of December 31, 2004, Charter Holdco had \$106 million in cash on hand and was owed \$29 million in intercompany loans from its subsidiaries, which were available to pay interest on Charter's 4.75% convertible senior notes, which is expected to be approximately \$7 million in 2005. In addition, Charter has \$144 million of governmental securities pledged as security for the six interest payments on Charter's 5.875% convertible senior notes.

Sale of Assets

In March 2004, the Company closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware and West Virginia to Atlantic Broadband Finance, LLC. The Company closed the sale of an additional cable system in New York to Atlantic Broadband Finance, LLC in April 2004. These transactions resulted in a \$104 million pretax gain recorded as a gain on sale of assets in the Company's consolidated statements of operations. Subject to post-closing contractual adjustments, the total net proceeds from the sale of all of these systems were approximately \$733 million. The proceeds were used to repay a portion of amounts outstanding under the Company's credit facilities.

3. Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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Property, Plant and Equipment

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. 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	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture and fixtures	5 years

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 as defined by Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. All franchises that qualify for indefinite-life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually as of October 1, or more frequently as warranted by events or changes in circumstances (see Note 7). The Company concluded that 99% of its franchises qualify for indefinite-life treatment; however, certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs are amortized on a straight-line basis over 10 years. Costs incurred in renewing cable franchises are deferred and amortized over 10 years.

Other Noncurrent Assets

Other noncurrent assets primarily include goodwill, deferred financing costs, governmental securities and investments in equity securities. Costs related to borrowings are deferred and amortized to interest expense over the terms of the related borrowings.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Charter recognizes losses for any decline in value considered to be other than temporary. Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income or loss.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2004, 2003 and 2002
(Dollars in millions, except where indicated)

The following summarizes investment information as of and for the years ended December 31, 2004 and 2003:

	Carrying Value at December 31,		Gain (loss) for the Years Ended December 31,		
	2004	2003	2004	2003	2002
Equity investments, under the cost method	\$ 39	\$ 30	\$(3)	\$(2)	\$
Equity investments, under the equity method	25	11	7	(1)	(5)
Marketable securities, at market value					2
	—	—	—	—	—
	\$ 64	\$ 41	\$ 4	\$(3)	\$(3)

As required by the indentures to the Company's 5.875% convertible senior notes issued in November 2004, the Company purchased U.S. government securities valued at approximately \$144 million with maturities corresponding to the interest payment dates for the convertible senior notes. These securities were pledged and are held in escrow to provide payment in full for the first six interest payments of the convertible senior notes (see Note 9). These securities are accounted for as held-to-maturity securities. At December 31, 2004, the carrying value and fair value of the securities was approximately \$144 million with approximately \$48 million recorded in prepaid and other assets and approximately \$96 million recorded in other assets in the Company's consolidated balance sheet.

Valuation of Property, Plant and Equipment

The Company evaluates the recoverability of property, plant and equipment 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 franchise under SFAS No. 142, 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 poor 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 impairment of property, plant and equipment occurred in 2004, 2003 and 2002.

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. For those instruments which qualify as hedging activities, related gains or losses are recorded in accumulated other comprehensive income. For all other derivative instruments, the related gains or losses are recorded in the income statement. The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements, interest rate cap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of the Company's subsidiaries. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate cap agreements are used to lock in a maximum interest rate should variable rates rise, but enable the Company to otherwise pay lower market rates. Interest rate collar agreements are used to limit exposure to

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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(Dollars in millions, except where indicated)**

and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates. The Company does not hold or issue any derivative financial instruments for trading purposes.

Certain provisions of the Company's 5.875% convertible senior notes issued in November 2004 were considered embedded derivatives for accounting purposes and were required to be separately accounted for from the convertible senior notes. In accordance with SFAS No. 133, these derivatives are marked to market with gains or losses recorded in interest expense on the Company's consolidated statement of operations. For the year ended December 31, 2004, the Company recognized \$1 million in losses related to these derivatives. At December 31, 2004, \$10 million is recorded in accounts payable and accrued expenses relating to the short-term portion of these derivatives and \$21 million is recorded in other long-term liabilities related to the long-term portion.

Revenue Recognition

Revenues from residential and commercial video and high-speed data 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. Local governmental authorities impose franchise fees on the Company ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreement. Such fees are collected on a monthly basis from the Company's customers and are periodically remitted to local franchise authorities. Franchise fees are reported as revenues on a gross basis with a corresponding operating expense.

Programming Costs

The Company has various contracts to obtain analog, 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 subject to adjustment based on periodic audits performed by the programmers. Certain programming contracts contain launch incentives to be paid by the programmers. The Company receives these payments related to the activation of the programmer's cable television channel and recognizes the launch 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 \$59 million, \$62 million and \$57 million for the years ended December 31, 2004, 2003 and 2002, respectively. Programming costs included in the accompanying statement of operations were \$1.3 billion, \$1.2 billion and \$1.2 billion for the years ended December 31, 2004, 2003 and 2002, respectively. As of December 31, 2004 and 2003, the deferred amount of launch incentives, included in other long-term liabilities, totaled \$106 million and \$170 million, 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 \$72 million, \$62 million and \$60 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Stock-Based Compensation

The Company has historically accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. On January 1,

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2004, 2003 and 2002
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2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in Financial Accounting Standards Board Interpretation (FIN) No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions resulted in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, the fair value method was applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date were accounted for under APB No. 25, unless they were modified or settled in cash.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net loss and loss per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS No. 123 for the years presented:

	Year Ended December 31,		
	2004	2003	2002
Net loss applicable to common stock	\$(4,345)	\$ (242)	\$(2,517)
Add back stock-based compensation expense related to stock options included in reported net loss (net of minority interest)	31	2	2
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards (net of minority interest)	(33)	(14)	(56)
Effects of unvested options in stock option exchange (see Note 19)	48		
Pro forma	\$(4,299)	\$ (254)	\$(2,571)
Loss per common shares, basic and diluted:			
As reported	\$(14.47)	\$(0.82)	\$ (8.55)
Pro forma	\$(14.32)	\$(0.86)	\$ (8.73)

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, 2004, 2003 and 2002, respectively: risk-free interest rates of 3.3%, 3.0%, and 3.6%; expected volatility of 92.4%, 93.6% and 64.2%; and expected lives of 4.6 years, 4.5 years and 4.3 years, respectively. The valuations assume no dividends are paid.

Unfavorable Contracts and Other Settlements

The Company recognized \$5 million of benefit for the year ended December 31, 2004 related to changes in estimated legal reserves established as part of previous business combinations, which, based on an evaluation of current facts and circumstances, are no longer required.

The Company recognized \$72 million of benefit for the year ended December 31, 2003 as a result of the settlement of estimated liabilities recorded in connection with prior business combinations. The majority of this benefit (approximately \$52 million) is due to the renegotiation of a major programming

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contract, for which a liability had been recorded for the above market portion of the agreement in conjunction with the Falcon acquisition in 1999 and the Bresnan acquisition in 2000. The remaining benefit relates to the reversal of previously recorded liabilities, which are no longer required.

Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's 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 21).

Minority Interest

Minority interest on the consolidated balance sheets represents the portion of members' equity of Charter Holdco not owned by Charter, plus preferred membership interests in an indirect subsidiary of Charter held by Mr. Paul G. Allen. Minority interest totaled \$648 million and \$689 million as of December 31, 2004 and 2003, respectively, on the accompanying consolidated balance sheets. Gains or losses arising from issuances by Charter Holdco of its membership units are recorded as capital transactions thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the consolidated balance sheets. These losses totaled \$0, \$1 million and \$1 million for the years ended December 31, 2004, 2003 and 2002, respectively, on the accompanying consolidated statements of changes in shareholders' equity. Operating losses are allocated to the minority owners based on their ownership percentage, thereby reducing the Company's net loss.

Reported losses allocated to minority interest on the statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in 2004, Charter began to absorb substantially all future losses before income taxes that otherwise would have been allocated to minority interest.

Loss per Common Share

Basic loss per common share is computed by dividing the net loss applicable to common stock by 300,291,877 shares, 294,597,519 shares and 294,440,261 shares for the years ended December 31, 2004, 2003 and 2002, representing the weighted-average common shares outstanding during the respective periods. Diluted loss per common share equals basic loss per common share for the periods presented, as the effect of stock options is antidilutive because the Company incurred net losses. All membership units of Charter Holdco are exchangeable on a one-for-one basis into common stock of Charter at the option of the holders. As of December 31, 2004, Charter Holdco has 644,385,801 membership units outstanding. Should the holders exchange units for shares, the effect would not be dilutive because the Company incurred net losses.

Segments

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, established standards for reporting information about operating segments in annual financial statements and in interim financial reports issued to shareholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief

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operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company's operations are managed on the basis of geographic divisional operating segments. The Company has evaluated the criteria for aggregation of the geographic operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of the respective criteria set forth. The Company delivers similar products and services within each of its geographic divisional operations. Each geographic and divisional 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 divisional 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 divisional operating structure, management has determined that the Company has one reportable segment, broadband services.

4. Acquisitions

On February 28, 2002, CC Systems, LLC, a subsidiary of the Company, and High Speed Access Corp. (HSA) closed the Company's acquisition from HSA of the contracts and associated assets, and assumed related liabilities, that served certain of the Company's high-speed data customers. At closing, the Company paid approximately \$78 million in cash and delivered 37,000 shares of HSA's Series D convertible preferred stock and all the warrants to buy HSA common stock owned by the Company. The purchase price has been allocated to assets acquired and liabilities assumed based on fair values, including approximately \$8 million assigned to intangible assets and amortized over an average useful life of three years and approximately \$52 million assigned to goodwill. During the period from 1997 to 2000, certain subsidiaries of the Company entered into Internet-access related service agreements with HSA, and both Vulcan Ventures and certain of the Company's subsidiaries made equity investments in HSA. (see Note 22 for additional information).

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of Charter Holdings, completed the purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/ Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar IV/ PBD Systems Venture, serving approximately 21,600 (unaudited) customers, for a total cash purchase price of \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable systems, serving approximately 6,400 (unaudited) customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including \$41 million assigned to franchises and \$4 million assigned to other intangible assets amortized over a useful life of three years.

The 2002 acquisitions were funded primarily from borrowings under the credit facilities of the Company's subsidiaries.

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5. Allowance for Doubtful Accounts

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

	Year Ended December 31,		
	2004	2003	2002
Balance, beginning of year	\$ 17	\$ 19	\$ 33
Charged to expense	92	79	108
Uncollected balances written off, net of recoveries	(94)	(81)	(122)
	\$ 15	\$ 17	\$ 19

6. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2004 and 2003:

	2004	2003
Cable distribution systems	\$ 6,596	\$ 6,347
Customer equipment and installations	3,500	3,160
Vehicles and equipment	433	430
Buildings and leasehold improvements	578	583
Furniture and fixtures	493	444
	11,600	10,964
Less: accumulated depreciation	(5,311)	(3,950)
	\$ 6,289	\$ 7,014

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.

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was \$1.5 billion, \$1.5 billion and \$1.4 billion respectively.

7. Franchises and Goodwill

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, which eliminates the amortization of indefinite-lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite-life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually based on valuations, or more frequently as warranted by events or changes in circumstances. Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue

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No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic 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.

The Company's valuations, which are based on the present value of projected after tax cash flows, result in a value of property, plant and equipment, franchises, customer relationships and its total entity

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value. The value of goodwill is the difference between the total entity value and amounts assigned to the other assets.

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 telephony to the potential customers (service marketing rights). Fair value is determined based on estimated 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 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 franchise. Prior to the adoption of EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, discussed below, the Company followed a residual method of valuing its franchise assets, which had the effect of including goodwill with the franchise assets.

The Company follows the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, in valuing customer relationships. Customer relationships, for valuation purposes, represent the value of the business relationship with existing customers and are calculated by projecting future after-tax cash flows from these customers including the right to deploy and market additional services such as interactivity and telephony to these customers. The present value of these after-tax cash flows yield the fair value of the customer relationships. Substantially all acquisitions occurred prior to January 1, 2002. The Company did not record any value associated with the customer relationship intangibles related to those acquisitions. For acquisitions subsequent to January 1, 2002 the Company did assign a value to the customer relationship intangible, which is amortized over its estimated useful life.

In September 2004, the SEC staff issued Topic D-108 which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. The Company performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total franchise impairment of approximately \$3.3 billion. The Company recorded a cumulative effect of accounting change of \$765 million (approximately \$875 million before tax effects of \$91 million and minority interest effects of \$19 million) for the year ended December 31, 2004 representing the portion of the Company's total franchise impairment attributable to no longer including goodwill with franchise assets. The effect of the adoption was to increase net loss and loss per share by \$765 million and \$2.55 for the year ended December 31, 2004. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in the Company's valuation, and was recorded as impairment of franchises in the Company's accompanying consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by the Company in the third quarter of 2004 primarily as a result of increased competition from direct broadcast satellite providers and decreased growth rates in the Company's high-speed data customers in the third quarter of 2004, in part, as a result of increased competition from digital subscriber line service providers led to the lower projected growth rates and the revised estimates of future cash flows from those used at October 1, 2003.

The valuation completed at October 1, 2003 showed franchise values in excess of book value and thus resulted in no impairment. The Company's annual impairment assessment as of October 1, 2002, based on revised estimates from January 1, 2002 of future cash flows and projected long-term growth rates in the Company's valuation, led to the recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002.

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As of December 31, 2004 and 2003, indefinite-lived and finite-lived intangible assets are presented in the following table:

	December 31,					
	2004			2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises with indefinite lives	\$9,845	\$	\$9,845	\$13,606	\$	\$13,606
Goodwill	52		52	52		52
	\$9,897	\$	\$9,897	\$13,658	\$	\$13,658
Finite-lived intangible assets:						
Franchises with finite lives	\$ 37	\$ 4	\$ 33	\$ 107	\$ 33	\$ 74

For the year ended December 31, 2004, the net carrying amount of indefinite-lived intangible assets was reduced by \$490 million as a result of the sale of cable systems, primarily the sale to Atlantic Broadband Finance, LLC, discussed in Note 2. Additionally, in the first and fourth quarters of 2004, approximately \$29 million and \$8 million, respectively, of franchises that were previously classified as finite-lived were reclassified to indefinite-lived, based on the Company's renewal of these franchise assets in 2003 and 2004. Franchise amortization expense for the years ended December 31, 2004, 2003 and 2002 was \$4 million, \$9 million and \$9 million, respectively, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. The Company expects that amortization expense on franchise assets will be approximately \$3 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2004 and 2003:

	2004	2003
Accounts payable - trade	\$ 148	\$ 163
Accrued capital expenditures	65	108
Accrued expenses:		
Interest	324	277
Programming costs	278	319
Franchise related fees	67	70
State sales tax	47	61
Other	288	288
	\$1,217	\$1,286

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9. Long-Term Debt

Long-term debt consists of the following as of December 31, 2004 and 2003:

	2004		2003	
	Face Value	Accreted Value	Face Value	Accreted Value
Long-Term Debt				
Charter Communications, Inc.:				
5.75% convertible senior notes due 2005	\$	\$	\$ 618	\$ 618
4.750% convertible senior notes due 2006	156	156	156	156
5.875% convertible senior notes due 2009	863	834		
Charter Holdings:				
8.250% senior notes due 2007	451	451	451	450
8.625% senior notes due 2009	1,244	1,243	1,244	1,242
9.920% senior discount notes due 2011	1,108	1,108	1,108	1,082
10.000% senior notes due 2009	640	640	640	640
10.250% senior notes due 2010	318	318	318	318
11.750% senior discount notes due 2010	450	448	450	400
10.750% senior notes due 2009	874	874	874	873
11.125% senior notes due 2011	500	500	500	500
13.500% senior discount notes due 2011	675	589	675	517
9.625% senior notes due 2009	640	638	640	638
10.000% senior notes due 2011	710	708	710	708
11.750% senior discount notes due 2011	939	803	939	717
12.125% senior discount notes due 2012	330	259	330	231
CCH II, LLC:				
10.250% senior notes due 2010	1,601	1,601	1,601	1,601
CCO Holdings, LLC:				
8 3/4% senior notes due 2013	500	500	500	500
Senior floating notes due 2010	550	550		
Charter Operating:				
8% senior second-lien notes due 2012	1,100	1,100		
8 3/8% senior second-lien notes due 2014	400	400		
Renaissance Media Group LLC:				
10.000% senior discount notes due 2008	114	116	114	116
CC V Holdings, LLC:				
11.875% senior discount notes due 2008	113	113	113	113
Credit Facilities				
Charter Operating	5,515	5,515	4,459	4,459
CC VI Operating			868	868
Falcon Cable			856	856
CC VIII Operating			1,044	1,044
	<u>\$ 19,791</u>	<u>\$ 19,464</u>	<u>\$ 19,208</u>	<u>\$ 18,647</u>

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The accreted values presented above represents the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.

On November 22, 2004, the Company issued \$862.5 million original principal amount of 5.875% convertible senior notes due 2009, which are convertible into shares of Charter's Class A common stock, par value \$.001 per share, at a rate of 413.2231 shares per \$1,000 principal amount of notes (or approximately \$2.42 per share), subject to adjustment in certain circumstances. On December 23, 2004, the Company used a portion of the proceeds from the sale of the notes to redeem all of its outstanding 5.75% convertible senior notes due 2005 (total principal amount of \$588 million). The redemption resulted in a loss on extinguishment of debt of \$10 million.

In April 2004, Charter's indirect subsidiaries, Charter Operating and Charter Communications Operating Capital Corp., sold \$1.5 billion of senior second-lien notes in a private transaction. Additionally, Charter Operating amended and restated its \$5.1 billion credit facilities, among other things, to defer maturities and increase availability under those facilities to approximately \$6.5 billion, consisting of a \$1.5 billion six-year revolving credit facility, a \$2.0 billion six-year term loan facility and a \$3.0 billion seven-year term loan facility. Charter Operating used the additional borrowings under the amended and restated credit facilities, together with proceeds from the sale of the Charter Operating senior second-lien notes to refinance the credit facilities of its subsidiaries, CC VI Operating Company, LLC (CC VI Operating), Falcon Cable Communications, LLC (Falcon Cable), and CC VIII Operating, LLC (CC VIII Operating), all in concurrent transactions. In addition, Charter Operating was substituted as the lender in place of the banks under those subsidiaries' credit facilities. These transactions resulted in losses on extinguishment of debt of \$21 million.

The Company recognized a loss of approximately \$23 million recorded as loss on debt to equity conversion on the accompanying consolidated statement of operations for the year ended December 31, 2004 from privately negotiated exchanges of a total of \$30 million principal amount of Charter's 5.75% convertible senior notes for shares of Charter Class A common stock. The exchanges resulted in the issuance of more shares in the exchange transaction than would have been issuable under the original terms of the convertible senior notes.

In September 2003, Charter, Charter Holdings and their indirect subsidiary, CCH II purchased, in a non-monetary transaction, a total of approximately \$609 million principal amount of Charter's outstanding convertible senior notes and approximately \$1.3 billion principal amount of the senior notes and senior discount notes issued by Charter Holdings from institutional investors in a small number of privately negotiated transactions. As consideration for these securities, CCH II issued approximately \$1.6 billion principal amount of 10.25% notes due 2010, and realized approximately \$294 million of debt discount. CCH II also issued an additional \$30 million principal amount of 10.25% notes for an equivalent amount of cash and used the proceeds for transaction costs and for general corporate purposes. This transaction resulted in a gain on extinguishment of debt of \$267 million for the year ended December 31, 2003. See discussion of the CCH II notes below for more details.

5.75% Charter Convertible Notes. In October and November 2000, Charter issued 5.75% convertible senior notes with a total principal amount at maturity of \$750 million. The 5.75% Charter convertible notes were convertible at the option of the holder into shares of Class A common stock at a conversion rate of 46.3822 shares per \$1,000 principal amount of notes, which was equivalent to a price of \$21.56 per share, subject to certain adjustments. The remaining \$588 million of these notes was redeemed on December 23, 2004 at a price of 101.15% of the outstanding principal amount plus accrued and unpaid interest through the redemption date.

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4.75% Charter Convertible Notes. In May 2001, Charter issued 4.75% convertible senior notes with a total principal amount at maturity of \$633 million. As of December 31, 2004, there was \$156 million in total principal amount of these notes outstanding. The 4.75% Charter convertible notes rank equally with any of Charter's future unsubordinated and unsecured indebtedness, but are structurally subordinated to all existing and future indebtedness and other liabilities of Charter's subsidiaries.

The 4.75% Charter convertible notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.0952 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, Charter may adjust the conversion ratio under certain circumstances when deemed appropriate. These notes are redeemable at Charter's option at amounts decreasing from 101.9% to 100% of the principal amount, plus accrued and unpaid interest beginning on June 4, 2004, to the date of redemption. Interest is payable semiannually on December 1 and June 1, beginning December 1, 2001, until maturity on June 1, 2006.

Upon a change of control, subject to certain conditions and restrictions, Charter may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

5.875% Charter Convertible Notes. In November 2004, Charter issued 5.875% convertible senior notes due 2009 with a total original principal amount of \$862.5 million. The 5.875% Charter convertible notes are convertible at any time at the option of the holder into shares of Class A common stock at an initial conversion rate of 413.2231 shares per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$2.42 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. The conversion rate may also be increased (but not to exceed 462 shares per \$1,000 principal amount of notes) upon a specified change of control transaction. Additionally, Charter may elect to increase the conversion rate under certain circumstances when deemed appropriate and subject to applicable limitations of the NASDAQ stock market. Holders who convert their notes prior to November 16, 2007 will receive an early conversion make whole amount in respect of their notes based on a proportional share of the portfolio of pledged securities described below, with specified adjustments.

The 5.875% Charter convertible notes are unsecured (except with respect to the collateral as described below) and rank equally with existing and future unsubordinated and unsecured indebtedness (except with respect to the collateral described below), but are structurally subordinated to all existing and future indebtedness and other liabilities of Charter's subsidiaries. Upon a change of control and certain other fundamental changes, subject to certain conditions and restrictions, Charter may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

Interest is payable semi-annually in arrears. Charter Holdco used a portion of the proceeds from the sale of the notes to purchase a portfolio of U.S. government securities in an amount which the Company believes will be sufficient to make the first six interest payments on the notes. These government securities were pledged to the Company as security for a mirror note issued by Charter Holdco to Charter (as discussed below) and pledged to the trustee under the indenture governing the notes as security for the Company's obligations thereunder. The Company expects to use such securities to fund the first six interest payments under the notes. The pledged securities totaled \$144 million at December 31, 2004. Any holder that converts its notes prior to the third anniversary of the issue date will be entitled to receive, in

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addition to the requisite number of shares upon conversion, an interest make whole payment equal to the cash proceeds from the sale by the trustee of that portion of the remaining pledged U.S. government securities which secure interest payments on the notes so converted, subject to certain limitations with respect to notes that have not been sold prior to being registered under the Securities Act of 1933.

Following the earlier of the sale of the notes pursuant to an effective registration statement or the date two years following the issue date, the notes in whole or in part may be redeemed for cash at any time at a redemption price equal to 100% of the aggregate principal amount plus accrued and unpaid interest, deferred interest and liquidated damages, if any, but only if for any 20 trading days in any 30 consecutive trading day period the closing price has exceeded 180% of the conversion price, if such 30 trading day period begins prior to November 16, 2007 or 150% of the conversion price, if such 30 trading period begins thereafter. Holders who convert notes that the Company has called for redemption shall receive, in addition to the early conversion make whole amount, if applicable, the present value of the interest on the notes converted that would have been payable for the period from the later of November 17, 2007 and the redemption date through the scheduled maturity date for the notes, plus any accrued deferred interest.

The Company is required to register the 5.875% Charter convertible notes by April 21, 2005. If the 5.875% Charter convertible notes are not registered by such date, the Company will incur liquidating damages as defined in the related indenture. In conjunction with issuing the 5.875% Charter convertible notes, the Company filed a registration statement to sell up to 150 million shares of the Company's Class A common stock pursuant to a share lending agreement. The share lending agreement is required to be registered by April 1, 2005. If the share lending agreement is not registered by such date, the Company will incur liquidating damages as defined in the related indenture.

In connection with our November 2004 sale of the \$862.5 million principal amount of 5.875% convertible senior notes due 2009, Charter Holdco issued to Charter mirror notes in identical principal amount in exchange for the proceeds from its offering. Charter Holdco then purchased and pledged certain U.S. government securities to Charter as security for the mirror notes (which were in turn repledged by Charter to the trustee for the benefit of holders of Charter's 5.875% convertible senior notes and which Charter expects to use to fund the first six interest payments on the notes), and agreed to lend common units to Charter, the terms of which will, to the extent practicable, mirror the terms of the shares. Charter Holdco also redeemed the remaining \$588 million principal amount of the mirror notes in respect of our 5.75% convertible senior notes due 2005 concurrently with its December 23, 2004 redemption of its 5.75% convertible senior notes.

In addition, in December 2004, Charter Holdco entered into a unit lending agreement with Charter in which it agreed to lend common units to Charter that would mirror the anticipated loan of Class A common shares by Charter to Citigroup Global Markets pursuant to a share lending agreement. The members of Charter Holdco (including the entities controlled by Mr. Allen) also at that time entered into a letter agreement providing, among other things, that for purposes of the allocation provisions of the Limited Liability Company Agreement of Charter Holdco, the mirror units be treated as disregarded and not outstanding until such time (and except to the extent) that, under Charter's share lending agreement, Charter treats the loaned shares in a manner that assumes they will neither be returned by Charter by the borrower nor otherwise be acquired by Charter in lieu of such a return.

March 1999 Charter Holdings Notes. The March 1999 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Communications Capital Corporation (Charter Capital). The March 1999 8.250% Charter Holdings notes mature on April 1, 2007, and as of December 31, 2004, there was \$451 million in total principal amount outstanding. The March 1999 8.625% Charter Holdings notes mature on April 1, 2009 and as of December 31, 2004, there was \$1.2 billion in total principal

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amount outstanding. The March 1999 9.920% Charter Holdings notes mature on April 1, 2011 and as of December 31, 2004, the total principal amount outstanding and accreted value was \$1.1 billion. Cash interest on the March 1999 9.920% Charter Holdings notes began to accrue on April 1, 2004.

The March 1999 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the March 1999 8.250% Charter Holdings notes prior to their maturity on April 1, 2007. On or after April 1, 2004, Charter Holdings and Charter Capital may redeem some or all of the March 1999 8.625% Charter Holdings notes and the March 1999 9.920% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of March 1999 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after April 1, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding March 1999 Charter Holdings notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the March 1999 Charter Holdings notes contain restrictive covenants that limit certain transactions or activities by Charter Holdings and its restricted subsidiaries. Substantially all of Charter Holdings direct and indirect subsidiaries are currently restricted subsidiaries.

January 2000 Charter Holdings Notes. The January 2000 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The January 2000 10.00% Charter Holdings notes mature on April 1, 2009, and as of December 31, 2004, there was \$640 million in total principal amount of these notes outstanding. The January 2000 10.25% Charter Holdings notes mature on January 15, 2010 and as of December 31, 2004, there was \$318 million in total principal amount of these notes outstanding. The January 2000 11.75% Charter Holdings notes mature on January 15, 2010 and as of December 31, 2004, the total principal amount outstanding was \$450 million and the total accreted value of these notes was approximately \$448 million. Cash interest on the January 2000 11.75% Charter Holdings notes began to accrue on January 15, 2005.

The January 2000 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the January 2000 10.00% Charter Holdings notes prior to their maturity on April 1, 2009. Charter Holdings and Charter Capital may redeem some or all of the January 2000 10.25% Charter Holdings notes and the January 2000 11.75% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2000 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2008.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2000 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

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The indentures governing the January 2000 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes.

January 2001 Charter Holdings Notes. The January 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The January 2001 10.750% Charter Holdings notes mature on October 1, 2009, and as of December 31, 2004, there was \$874 million in total principal amount of these notes outstanding. The January 2001 11.125% Charter Holdings notes mature on January 15, 2011 and as of December 31, 2004, there was \$500 million in total principal amount outstanding. The January 2001 13.500% Charter Holdings notes mature on January 15, 2011 with a total principal amount at maturity of \$675 million. As of December 31, 2004, the total accreted value of these 13.500% notes was approximately \$589 million. Cash interest on the January 2001 13.500% Charter Holdings notes will not accrue prior to January 15, 2006.

The January 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the January 2001 10.750% Charter Holdings notes prior to their maturity date on October 1, 2009. On or after January 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the January 2001 11.125% Charter Holdings notes and the January 2001 13.500% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 and January 2000 Charter Holdings notes.

May 2001 Charter Holdings Notes. The May 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The May 2001 9.625% Charter Holdings notes mature on November 15, 2009, and as of December 31, 2004, combined with the January 2002 additional bond issue, there was \$640 million in total principal amount outstanding. The May 2001 10.000% Charter Holdings notes mature on May 15, 2011 and as of December 31, 2004, combined with the January 2002 additional bond issue, there was \$710 million in total principal amount outstanding. The May 2001 11.750% Charter Holdings notes mature on May 15, 2011 and as of December 31, 2004, the total principal amount outstanding was \$939 million and the total accreted value of the 11.750% notes was approximately \$803 million. Cash interest on the May 2001 11.750% Charter Holdings notes will not accrue prior to May 15, 2006.

The May 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings

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subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

Charter Holdings and Charter Capital will not have the right to redeem the May 2001 9.625% Charter Holdings notes prior to their maturity on November 15, 2009. On or after May 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the May 2001 10.000% Charter Holdings notes and the May 2001 11.750% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the May 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after May 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding May 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the May 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999, January 2000 and January 2001 Charter Holdings notes.

January 2002 Charter Holdings Notes. The January 2002 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The January 2002 Charter Holdings notes consist of \$330 million in total principal amount at maturity of 12.125% senior discount notes due 2012.

The January 2002 12.125% senior discount notes mature on January 15, 2012, and as of December 31, 2004, the total principal amount outstanding was \$330 million and the total accreted value of these notes was approximately \$259 million. Cash interest on the January 2002 12.125% Charter Holdings notes will not accrue prior to January 15, 2007.

The January 2002 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with the current and future unsecured and unsubordinated debt of Charter Holdings. They are structurally subordinated to the obligations of Charter Holdings subsidiaries, including the CCH II notes, the CCO Holdings notes, the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

The Charter Holdings 12.125% senior discount notes are redeemable at the option of the issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2002 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2002 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999, January 2000, January 2001 and May 2001 Charter Holdings notes.

CCH II Notes. In September 2003, CCH II and CCH II Capital Corp. jointly issued \$1.6 billion total principal amount of 10.25% senior notes due 2010. The CCH II notes are general unsecured obligations of CCH II and CCH II Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCH II and CCH II Capital Corp. The CCH II notes are structurally subordinated to all obligations of subsidiaries of CCH II, including the CCO Holdings notes, the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

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Interest on the CCH II notes accrues at 10.25% per annum and is payable semi-annually in arrears on each March 15 and September 15, commencing on March 15, 2004.

At any time prior to September 15, 2006, the issuers of the CCH II notes may redeem up to 35% of the total principal amount of the CCH II notes on a pro rata basis at a redemption price equal to 110.25% of the principal amount of CCH II notes redeemed, plus any accrued and unpaid interest.

On or after September 15, 2008, the issuers of the CCH II notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 105.125% to a redemption price on or after September 15, 2009 of 100.0% of the principal amount of the CCH II notes redeemed, plus, in each case, any 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.

The indenture governing the CCH II notes contains restrictive covenants that limit certain transactions or activities by CCH II and its restricted subsidiaries. Substantially all of CCH II's direct and indirect subsidiaries are currently restricted subsidiaries.

CCO Holdings Notes.

8 3/4% Senior Notes due 2013

In November 2003, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$500 million total principal amount of 8 3/4% senior notes due 2013. The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings' subsidiaries, including the Renaissance notes, the CC V Holdings notes, the Charter Operating credit facilities and the Charter Operating notes.

Interest on the CCO Holdings senior notes accrues at 8 3/4% per year and is payable semi-annually in arrears on each May 15 and November 15.

At any time prior to November 15, 2006, the issuers of the CCO Holdings senior notes may redeem up to 35% of the total principal amount of the CCO Holdings senior notes to the extent of public equity proceeds they have received on a pro rata basis at a redemption price equal to 108.75% of the principal amount of CCO Holdings senior notes redeemed, plus any accrued and unpaid interest.

On or after November 15, 2008, the issuers of the CCO Holdings senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 104.375% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings 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.

Senior Floating Rate Notes Due 2010

In December 2004, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$550 million total principal amount of senior floating rate notes due 2010.

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Interest on the CCO Holdings senior floating rate notes accrues at the LIBOR rate plus 4.125% annually, from December 15, 2004 or, if interest already has been paid, from the date it was most recently paid. Interest is reset and payable quarterly in arrears on each March 15, June 15, September 15 and December 15, commencing on March 15, 2005.

At any time prior to December 15, 2006, the issuers of the senior floating rate notes may redeem up to 35% of the notes in an amount not to exceed the amount of proceeds of one or more public equity offerings at a redemption price equal to 100% of the principal amount, plus a premium equal to the interest rate per annum applicable to the notes on the date notice of redemption is given, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the original aggregate principal amount of the notes issued remains outstanding after the redemption.

The issuers of the senior floating rate notes may redeem the notes in whole or in part at the issuers' option from December 15, 2006 until December 14, 2007 for 102% of the principal amount, from December 15, 2007 until December 14, 2008 for 101% of the principal amount and from and after December 15, 2008, at par, in each case, plus accrued and unpaid interest.

The indentures governing the CCO Holdings senior notes contain restrictive covenants that limit certain transactions or activities by CCO Holdings and its restricted subsidiaries. Substantially all of CCO Holdings' direct and indirect subsidiaries are currently restricted subsidiaries.

Charter Operating Notes. On April 27, 2004, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.1 billion of 8% senior second-lien notes due 2012 and \$400 million of 8 3/8% senior second-lien notes due 2014, for total gross proceeds of \$1.5 billion. Interest on the Charter Operating notes is payable semi-annually in arrears on each April 30 and October 30, commencing on October 30, 2004.

The Charter Operating notes were sold in a private transaction that was not subject to the registration requirements of the Securities Act of 1933. The Charter Operating notes are not expected to have the benefit of any exchange or other registration rights, except in specified limited circumstances. On the issue date of the Charter Operating notes, because of restrictions contained in the Charter Holdings indentures, there were no Charter Operating note guarantees, even though Charter Operating's immediate parent, CCO Holdings, and certain of the Company's subsidiaries were obligors and/or guarantors under the Charter Operating credit facilities. Upon the occurrence of the guarantee and pledge date (generally, the fifth business day after the Charter Holdings leverage ratio is certified to be below 8.75 to 1.0), CCO Holdings and those subsidiaries of Charter Operating that are then guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations will be required to guarantee the Charter Operating notes. The note guarantee of each such guarantor will be:

a senior obligation of such guarantor;

structurally senior to the outstanding senior notes of CCO Holdings and CCO Holdings Capital Corp. (except in the case of CCO Holdings note guarantee, which ranks equally with such senior notes), the outstanding senior notes of CCH II and CCH II Capital Corp., the outstanding senior notes and senior discount notes of Charter Holdings and the outstanding convertible senior notes of Charter (but subject to provisions in the Charter Operating indenture that permit interest and, subject to meeting the 4.25 to 1.0 leverage ratio test, principal payments to be made thereon); and

senior in right of payment to any future subordinated indebtedness of such guarantor.

As a result of the above leverage ratio test being met, CCO Holdings and certain of its subsidiaries provided the additional guarantees described above during the first quarter of 2005.

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All the subsidiaries of Charter Operating (except CCO NR Sub, LLC, and certain other subsidiaries that are not deemed material and are designated as nonrecourse subsidiaries under the Charter Operating credit facilities) are restricted subsidiaries of Charter Operating under the Charter Operating notes. Unrestricted subsidiaries generally will not be subject to the restrictive covenants in the Charter Operating indenture.

In the event of specified change of control events, Charter Operating must offer to purchase the Charter Operating 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.

The indenture governing the Charter Operating senior notes contains restrictive covenants that limit certain transactions or activities by Charter Operating and its restricted subsidiaries. Substantially all of Charter Operating's direct and indirect subsidiaries are currently restricted subsidiaries.

Renaissance Notes. In connection with the acquisition of Renaissance in April 1999, the Company assumed \$163 million principal amount at maturity of 10.000% senior discount notes due 2008 of which \$49 million was repurchased in May 1999. The Renaissance notes did not require the payment of interest until April 15, 2003. From and after April 15, 2003, the Renaissance notes bear interest, payable semi-annually, on April 15 and October 15, commencing on October 15, 2003. The Renaissance notes are due on April 15, 2008.

CC V Holdings Notes. Charter Holdco acquired CC V Holdings in November 1999 and assumed CC V Holdings' outstanding 11.875% senior discount notes due 2008 with an accreted value of \$113 million as of December 31, 2003. Commencing December 1, 2003, cash interest on the CC V Holdings 11.875% notes will be payable semi-annually on June 1 and December 1 of each year. In February 2005, these notes were called with an anticipated redemption date of March 14, 2005.

High-Yield Restrictive Covenants; Limitation on Indebtedness. The indentures governing the notes of the Company's subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, CCH II, CCH II Capital Corp., CCO Holdings, CCO Holdings Capital Corp., Charter Operating, Charter Communications Operating Capital Corp., the CC V Holdings notes issuers, Renaissance Media Group, 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.

Charter Operating Credit Facilities. In April 2004, Charter Operating amended and restated its \$5.1 billion credit facilities, among other things, to defer maturities and increase availability under those

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facilities to approximately \$6.5 billion, consisting of a \$1.5 billion revolving credit facility with a maturity date in 2010; a \$2.0 billion Term A loan facility of which 12.5% matures in 2007, 30% matures in 2008, 37.5% matures in 2009 and 20% matures in 2010; and a \$3.0 billion Term B loan facility which is repayable in 27 equal quarterly installments aggregating in each loan year to 1% of the original amount of the Term B facility, with the remaining balance due at final maturity in 2011. Charter Operating used the additional borrowings under the amended and restated credit facilities, together with proceeds from the sale of the Charter Operating senior second-lien notes to refinance the credit facilities of its subsidiaries, CC VI Operating, Falcon Cable, and CC VIII Operating,, all in concurrent transactions. In addition, Charter Operating was substituted as the lender in place of the banks under those subsidiaries' credit facilities.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating's election, at a base rate or the Eurodollar rate (2.07% to 2.28% as of December 31, 2004), as defined, plus a margin for Eurodollar loans of up to 3.00% for the Term A facility and revolving credit facility, and up to 3.25% for the Term B facility, and for base rate loans of up to 2.00% for the Term A facility and revolving credit facility, and up to 2.25% for the Term B facility. A quarterly commitment fee of up to .75% is payable on the average daily unborrowed balance of the revolving credit facilities.

The obligations of Charter's subsidiaries 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 immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of the provisions of other indebtedness to which they are subject (the non-guarantor subsidiaries, primarily Renaissance and CC V Holdings and their subsidiaries). The Obligations are also secured by (i) a lien on 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) by 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. Upon the Charter Holdings Leverage Ratio (as defined in the indenture governing the Charter Holdings senior notes and senior discount notes) being under 8.75 to 1.0, the Charter Operating credit facilities require that the 11.875% notes due 2008 issued by CC V Holdings, LLC be redeemed. Because such Leverage Ratio was determined to be under 8.75 to 1.0 in February 2005, CC V Holdings has called for redemption of such notes with an anticipated redemption date of March 14, 2005. Following such redemption and provided the Leverage Ratio of Charter Holdings remains under 8.75 to 1.0, CC V Holdings and its subsidiaries (other than non-guarantor subsidiaries) will guarantee the Obligations and grant a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

The Charter Operating credit facilities were amended and restated previously as of June 19, 2003 to allow for the insertion of intermediate holding companies between Charter Holdings and Charter Operating. In exchange for the lenders' consent to the organizational restructuring, Charter Operating's pricing increased by 50 basis points across all levels in the pricing grid then in effect under the Charter Operating credit facilities.

Amounts under the Charter Operating credit facilities, as amended in 2003, bore interest at the Eurodollar rate or the base rate, each as defined, plus a margin of up to 3.0% for Eurodollar loans (3.15% to 3.92% as of December 31, 2003) and 2.0% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum was payable on the unborrowed balance of the revolving credit facilities.

As of December 31, 2004, outstanding borrowings under the Charter Operating credit facilities were approximately \$5.5 billion and the unused total potential availability was \$804 million.

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CC VI Operating Credit Facilities. As discussed above, in April 2004, Charter Operating was substituted as the lender in place of the banks for the CC VI Operating Credit Facilities.

Prior to April 2004, amounts under the CC VI Operating credit facilities bore interest at the Eurodollar rate or the base rate, each as defined, plus a margin of up to 2.5% for Eurodollar loans (2.40% to 3.66% as of December 31, 2003) and 1.5% for base rate loans. A quarterly commitment fee of 0.25% per year was payable on the unborrowed balance of the Term A facility and the revolving facility.

Falcon Cable Credit Facilities. As discussed above, in April 2004, Charter Operating was substituted as the lender in place of the banks for the Falcon Cable Credit Facilities.

Prior to April 2004, amounts under the Falcon Cable credit facilities bore interest at the Eurodollar rate or the base rate, each as defined, plus a margin of up to 2.25% for Eurodollar loans (2.40% to 3.42% as of December 31, 2003) and up to 1.25% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per year was payable on the unborrowed balance of the revolving facilities.

CC VIII Operating Credit Facilities. As discussed above, in April 2004, Charter Operating was substituted as the lender in place of the banks for the CC VIII Operating Credit Facilities.

Prior to April 2004, amounts under the CC VIII Operating credit facilities bear interest at the Eurodollar rate or the base rate, each as defined, plus a margin of up to 2.50% for Eurodollar loans (2.15% to 3.66% as of December 31, 2003) and up to 1.50% for base rate loans. A quarterly commitment fee of 0.25% was payable on the unborrowed balance of the revolving credit facilities.

Charter Operating Credit Facilities Restrictive Covenants. The Charter Operating credit facilities contain representations and warranties, affirmative and negative covenants similar to those described above with respect to the indentures governing the Company's notes, information requirements, events of default and financial covenants. The financial covenants, as defined, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense on a quarterly basis or as applicable. Additionally, the credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not promptly reinvested in assets useful in the business of the borrower within a specified period. The Charter Operating credit facilities also provide that in the event that any indebtedness of CCO Holdings remains outstanding on the date, which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facilities will mature and the revolving credit facilities will terminate on such date. 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 with an unqualified opinion from the Company's independent auditors,

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 \$50 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,

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Paul 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 of Charter Operating,

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 of Charter Operating, unless the Paul Allen Group holds a greater share of ordinary voting power of Charter Operating,

certain of Charter Operating s indirect or direct parent companies having indebtedness in excess of \$500 million aggregate principal amount which remains undefeased three months prior to the final maturity of such indebtedness, and

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

In the event of a default under the Company s subsidiaries credit facilities or notes, the subsidiaries creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, the subsidiaries credit facilities and indentures would not permit the Company s subsidiaries to distribute funds to Charter Holdco or Charter to pay interest or principal on Charter s notes. In addition, the lenders under the Company s credit facilities could foreclose on their collateral, which includes equity interests in the Company s subsidiaries, and exercise other rights of secured creditors. In any such case, the Company might not be able to repay or make any payments on its notes. Additionally, an acceleration or payment default under Charter Operating s credit facilities would cause a cross-default in the indentures governing the Charter Holdings notes, CCH II notes, CCO Holdings notes, Charter Operating notes and Charter s convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of the subsidiaries credit facilities or notes might adversely affect the holders of Charter s notes and the Company s growth, financial condition and results of operations and could force the Company to examine all options, including seeking the protection of the bankruptcy laws.

Based upon outstanding indebtedness as of December 31, 2004, the amortization of term loans, scheduled reductions in available borrowings of the revolving credit facilities, and the maturity dates for all senior and subordinated notes and debentures, total future principal payments on the total borrowings under all debt agreements as of December 31, 2004, are as follows:

Year	Amount
2005	\$ 30
2006	186
2007	731
2008	858
2009	5,040
Thereafter	12,946
	\$19,791

For the amounts of debt scheduled to mature during 2005, it is management s intent to fund the repayments from borrowings on the Company s revolving credit facility. The accompanying consolidated balance sheet reflects this intent by presenting all debt balances as long-term while the table above reflects actual debt maturities as of the stated date.

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10. Minority Interest and Equity Interest of Charter Holdco

Charter is a holding company whose primary asset is a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems, and \$990 million and \$774 million at December 31, 2004 and 2003, respectively, of mirror notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Minority interest on the Company's consolidated balance sheets represents the ownership percentage of Charter Holdco not owned by Charter, or 52.8% of total members equity of Charter Holdco, plus \$656 million and \$694 million of preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, as of December 31, 2004 and 2003 respectively. As more fully described in Note 22, this preferred interest arises from the approximately \$630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000. As of December 31, 2003, minority interest also includes \$25 million of preferred interest in Charter Helicon, LLC, another indirect subsidiary of Charter Holdco, issued in connection with the 1999 Helicon acquisition. As of December 31, 2004, the preferred interest in Charter Helicon, LLC was reclassified to other long-term liabilities.

Members' equity of Charter Holdco was (\$4.4) billion, (\$57) million and \$662 million as of December 31, 2004, 2003 and 2002, respectively. Gains and losses arising from the issuance by Charter Holdco of its membership units are recorded as capital transactions, thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the accompanying consolidated balance sheets. Minority interest was 52.8% as of December 31, 2004 and 53.5% as of December 31, 2003 and 2002. Minority interest includes the proportionate share of changes in fair value of interest rate risk derivative agreements. Such amounts are temporary as they are contractually scheduled to reverse over the life of the underlying instrument. Additionally, reported losses allocated to minority interest on the consolidated statement of operations are limited to the extent of any remaining minority interest on the balance sheet related to Charter Holdco. Because minority interest in Charter Holdco was substantially eliminated at December 31, 2003, beginning in 2004, the Company began to absorb substantially all losses before income taxes that otherwise would have been allocated to minority interest. This resulted in an additional \$2.4 billion of net loss for the year ended December 31, 2004. Subject to any changes in Charter Holdco's capital structure, future losses will be substantially absorbed by Charter. Changes to minority interest consist of the following for the periods presented:

	Minority Interest
Balance, December 31, 2001	\$ 4,434
Minority interest in loss of a subsidiary	(3,176)
Minority interest in change in accounting principle	(306)
Minority interest in income tax benefit	132
Changes in fair value of interest rate agreements	(35)
Other	1
	<hr/>
Balance, December 31, 2002	1,050
Minority interest in loss of a subsidiary	(377)
Minority interest in income tax benefit	(8)
Changes in fair value of interest rate agreements	25
Other	(1)
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	Minority Interest
Balance, December 31, 2003	689
Minority interest in loss of a subsidiary	(19)
Minority interest in cumulative effect of accounting change	(19)
Reclass of Helicon, LLC interest	(25)
Changes in fair value of interest rate agreements	22
	—
Balance, December 31, 2004	\$ 648

11. Preferred Stock Redeemable

On August 31, 2001, in connection with its acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., the Company issued 505,664 shares of Series A Convertible Redeemable Preferred Stock (the Preferred Stock) valued at and with a liquidation preference of \$51 million. Holders of the Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Preferred Stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. The Preferred Stock is convertible, in whole or in part, at the option of the holders from April 1, 2002 through August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Preferred Stock is the Liquidation Preference of \$100, subject to certain customary adjustments. In the first quarter of 2003, the Company issued 39,595 additional shares of preferred stock valued at and with a liquidation preference of \$4 million.

12. Common Stock

The Company's Class A common stock and Class B common stock are identical except with respect to certain voting, transfer and conversion rights. Holders of Class A common stock are entitled to one vote per share and holder of Class B common stock is entitled to ten votes for each share of Class B common stock held and for each Charter Holdco membership unit held. The Class B common stock is subject to significant transfer restrictions and is convertible on a share for share basis into Class A common stock at the option of the holder. Charter Holdco membership units are exchangeable on a one-for-one basis for shares of Class A common stock.

13. Comprehensive Loss

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying consolidated balance sheets. Additionally, the Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive loss, after giving effect to the minority interest share of such gains and losses. Comprehensive loss for the years ended December 31, 2004, 2003 and 2002 was \$4.3 billion, \$219 million and \$2.5 billion, respectively.

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14. Accounting for Derivative Instruments and Hedging Activities

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

The Company does not hold or issue derivative instruments for trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the years ended December 31, 2004, 2003 and 2002, net gain (loss) on derivative instruments and hedging activities includes gains of \$4 million and \$8 million and losses of \$14 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria SFAS No. 133 are reported in accumulated other comprehensive loss. For the years ended December 31, 2004, 2003 and 2002, a gain of \$42 million and \$48 million and losses of \$65 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as gain (loss) on derivative instruments and hedging activities in the Company's consolidated statement of operations. For the years ended December 31, 2004, 2003 and 2002, net gain (loss) on derivative instruments and hedging activities includes gains of \$65 million, \$57 million and losses of \$101 million, respectively, for interest rate derivative instruments not designated as hedges.

As of December 31, 2004, 2003 and 2002, the Company had outstanding \$2.7 billion, \$3.0 billion and \$3.4 billion and \$20 million, \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

15. Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments as of December 31, 2004 and 2003 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.

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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 Company is exposed to market price risk volatility with respect to investments in publicly traded and privately held entities.

The fair value of interest rate agreements represents the estimated amount the Company would receive or pay upon termination of the agreements. Management believes that the sellers of the interest rate agreements will be able to meet their obligations under the agreements. In addition, some of the interest rate agreements are with certain of the participating banks under the Company's credit facilities, thereby reducing the exposure to credit loss. The Company has policies regarding the financial stability and credit standing of major counterparties. Nonperformance by the counterparties is not anticipated nor would it have a material adverse effect on the Company's consolidated financial condition or results of operations.

The estimated fair value of the Company's notes and interest rate agreements at December 31, 2004 and 2003 are based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

A summary of the carrying value and fair value of the Company's debt and related interest rate agreements at December 31, 2004 and 2003 is as follows:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Charter convertible notes	\$ 990	\$ 1,127	\$ 774	\$ 732
Charter Holdings debt	8,579	7,669	8,316	7,431
CCH II debt	1,601	1,698	1,601	1,680
CCO Holdings debt	1,050	1,064	500	510
Charter Operating debt	1,500	1,563		
Credit facilities	5,515	5,502	7,227	6,949
Other	229	236	229	238
Interest Rate Agreements				
Assets (Liabilities)				
Swaps	(69)	(69)	(171)	(171)
Collars	(1)	(1)	(8)	(8)

The weighted average interest pay rate for the Company's interest rate swap agreements was 8.07% and 7.25% at December 31, 2004 and 2003, respectively.

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16. Revenues

Revenues consist of the following for the years presented:

	Year Ended December 31,		
	2004	2003	2002
Video	\$3,373	\$3,461	\$3,420
High-speed data	741	556	337
Advertising sales	289	263	302
Commercial	238	204	161
Other	336	335	346
	<u>\$4,977</u>	<u>\$4,819</u>	<u>\$4,566</u>

17. Operating Expenses

Operating expenses consist of the following for the years presented:

	Year Ended December 31,		
	2004	2003	2002
Programming	\$1,319	\$1,249	\$1,166
Advertising sales	98	88	87
Service	663	615	554
	<u>\$2,080</u>	<u>\$1,952</u>	<u>\$1,807</u>

18. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following for the years presented:

	Year Ended December 31,		
	2004	2003	2002
General and administrative	\$849	\$833	\$810
Marketing	122	107	153
	<u>\$971</u>	<u>\$940</u>	<u>\$963</u>



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

19. Stock Compensation Plans

The Company grants stock options, restricted stock and other incentive compensation pursuant to the 2001 Stock Incentive Plan of Charter (the 2001 Plan). Prior to 2001, options were granted under the 1999 Option Plan of Charter Holdco (the 1999 Plan).

The 1999 Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and current and prospective non-employee directors of Charter. Options granted generally vest over five years from the grant date, with 25% vesting 15 months after the anniversary of the grant date and ratably thereafter. Options not exercised accumulate and are exercisable, in whole or in part, in any subsequent period, but

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not later than 10 years from the date of grant. Membership units received upon exercise of the options are automatically exchanged into Class A common stock of Charter on a one-for-one basis.

The 2001 Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 3,000,000), as each term is defined in the 2001 Plan. Employees, officers, consultants and directors of the Company and its subsidiaries and affiliates are eligible to receive grants under the 2001 Plan. Options granted generally vest over four years from the grant date, with 25% vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date.

The 2001 Plan allows for the issuance of up to a total of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock). The total shares available reflect a July 2003 amendment to the 2001 Plan approved by the board of directors and the shareholders of Charter to increase available shares by 30,000,000 shares. In 2001, any shares covered by options that terminated under the 1999 Plan were transferred to the 2001 Plan, and no new options can be granted under the 1999 Plan.

In the years ended December 31, 2004 and 2003, certain directors were awarded a total of 182,932 and 80,603 shares, respectively, of restricted Class A common stock of which 25,705 shares had been cancelled as of December 31, 2004. The shares vest one year from the date of grant. In December 2003 and January 2004, in connection with new employment agreements, certain officers were awarded 50,000 and 50,000 shares, respectively, of restricted Class A common stock of which 50,000 shares had been cancelled as of December 31, 2004. The shares vest annually over a four-year period beginning from the date of grant. As of December 31, 2004, deferred compensation remaining to be recognized in future period totaled \$0.4 million.

A summary of the activity for the Company's stock options, excluding granted shares of restricted Class A common stock, for the years ended December 31, 2004, 2003 and 2002, is as follows (amounts in thousands, except per share data):

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	47,882	\$ 12.48	53,632	\$ 14.22	46,558	\$ 17.10
Granted	9,405	4.88	7,983	3.53	13,122	4.88
Exercised	(839)	2.02	(165)	3.96		
Cancelled	(31,613)	15.16	(13,568)	14.10	(6,048)	16.32
Options outstanding, end of period	24,835	\$ 6.57	47,882	\$ 12.48	53,632	\$ 14.22
Weighted average remaining contractual life	8 years		8 years		8 years	
Options exercisable, end of period	7,731	\$ 10.77	22,861	\$ 16.36	17,844	\$ 17.93
Weighted average fair value of options granted	\$ 3.71		\$ 2.71		\$ 2.89	

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The following table summarizes information about stock options outstanding and exercisable as of December 31, 2004:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
	(In thousands)			(In thousands)		
\$ 1.11 - \$1.60	3,144	8 years	\$ 1.52	782	8 years	\$ 1.45
\$ 2.85 - \$4.56	7,408	8 years	3.45	2,080	8 years	3.28
\$ 5.06 - \$5.17	8,857	9 years	5.14	533	9 years	5.06
\$ 9.13 - \$13.68	2,264	7 years	11.08	1,481	7 years	11.28
\$13.96 - \$23.09	3,162	5 years	19.63	2,855	5 years	19.59

On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123, under which the Company recognizes compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date. Adoption of these provisions resulted in utilizing a preferable accounting method as the consolidated financial statements present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 123, the fair value method will be applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. The ongoing effect on consolidated results of operations or financial condition will be dependent upon future stock based compensation awards granted. The Company recorded \$31 million of option compensation expense for the year ended December 31, 2004.

Prior to the adoption of SFAS No. 123, the Company used the intrinsic value method prescribed by APB No. 25, *Accounting for Stock Issued to Employees*, to account for the option plans. Option compensation expense of \$5 million for the year ended December 31, 2002, was recorded in the consolidated statements of operations since the exercise prices of certain options were less than the estimated fair values of the underlying membership interests on the date of grant.

In January 2004, the Company began an option exchange program in which the Company offered its employees the right to exchange all stock options (vested and unvested) under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. Based on a sliding exchange ratio, which varied depending on the exercise price of an employees outstanding options, if an employee would have received more than 400 shares of restricted stock in exchange for tendered options, Charter issued that employee shares of restricted stock in the exchange. If, based on the exchange ratios, an employee would have received 400 or fewer shares of restricted stock in exchange for tendered options, Charter instead paid the employee cash in an amount equal to the number of shares the employee would have received multiplied by \$5.00. The offer applied to options (vested and unvested) to purchase a total of 22,929,573 shares of Class A common stock, or approximately 48% of the Company's 47,882,365 total options issued and outstanding as of December 31, 2003. Participation by employees was voluntary. Those members of the Company's board of directors who were not also employees of the Company or any of its subsidiaries were not eligible to participate in the exchange offer.

In the closing of the exchange offer on February 20, 2004, the Company accepted for cancellation eligible options to purchase approximately 18,137,664 shares of its Class A common stock. In exchange,

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the Company granted 1,966,686 shares of restricted stock, including 460,777 performance shares to eligible employees of the rank of senior vice president and above, and paid a total cash amount of approximately \$4 million (which amount includes applicable withholding taxes) to those employees who received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options eligible to be exchanged under the program.

The cost to the Company of the stock option exchange program was approximately \$10 million, with a 2004 cash compensation expense of approximately \$4 million and a non-cash compensation expense of approximately \$6 million to be expensed ratably over the three-year vesting period of the restricted stock in the exchange.

In January 2004, the Compensation Committee of the board of directors of Charter approved Charter's Long-Term Incentive Program (LTIP), which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options, and more senior level employees are eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance shares vest on the third anniversary of the grant date and shares of Charter Class A common stock are issued, 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. Charter granted 6.9 million shares in January 2004 under this program and recognized expense of \$8 million in the first three quarters of 2004. However, in the fourth quarter of 2004, the Company reversed the entire \$8 million of expense based on the Company's assessment of the probability of achieving the financial performance measures established by Charter and required to be met for the performance shares to vest.

20. Special Charges

In the fourth quarter of 2002, the Company began a workforce reduction program and consolidation of its operations from three divisions and ten regions into five operating divisions, eliminating redundant practices and streamlining its management structure. The Company has recorded special charges as a result of reducing its workforce and consolidating administrative offices in 2003 and 2004. The activity associated with this initiative is summarized in the table below.

	<u>Severance /Leases</u>	<u>Litigation</u>	<u>Other</u>	<u>Total Special Charge</u>
Special Charges	\$ 31	\$	\$ 5	\$ 36
Balance at December 31, 2002	31			
Special Charges	26	\$	\$(5)	\$ 21
Payments	(43)			
Balance at December 31, 2003	14			
Special Charges	12	\$ 92	\$	\$ 104
Payments	(20)			
Balance at December 31, 2004	\$ 6			

For the year ended December 31, 2002 special charges include \$4 million related to legal and other costs associated with the Company's ongoing grand jury investigation, shareholder lawsuits and SEC investigation and \$1 million associated with severance costs related to a 2001 restructuring plan. For the

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year ended December 31, 2003, the severance and lease costs were offset by a \$5 million settlement from the Internet service provider Excite@Home related to the conversion of high-speed data customers to Charter Pipeline service in 2001. For the year ended December 31, 2004, special charges include approximately \$85 million, representing the aggregate value of the Charter Class A common stock and warrants to purchase Charter Class A common stock contemplated to be issued as part of a settlement of consolidated federal and state class actions and federal derivative action lawsuits and approximately \$10 million of litigation costs related to the tentative settlement of a national class action suit, all of which are subject to final documentation and court approval (see Note 23). For the year ended December 31, 2004, special charges were offset by \$3 million received from a third party in settlement of a dispute.

21. Income Taxes

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

The LLC Agreement provides for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Pursuant to the LLC Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units were allocated instead to membership units held by Vulcan Cable and Charter Investment (the Special Loss Allocations) to the extent of their respective capital account balances. After 2003, pursuant to the LLC Agreement, net tax losses of Charter Holdco are to be allocated to Charter, Vulcan Cable and Charter Investment based generally on their respective percentage ownership of outstanding common units to the extent of their respective capital account balances. The LLC Agreement further provides that, beginning at the time Charter Holdco generates net tax profits, the net tax profits that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common membership units will instead generally be allocated to Vulcan Cable and Charter Investment (the Special Profit Allocations). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The amount and timing of the Special Profit Allocations are subject to the potential application of, and interaction with, the Curative Allocation Provisions described in the following paragraph. The LLC Agreement generally provides that any additional net tax profits are to be allocated among the members of Charter Holdco based generally on their respective percentage ownership of Charter Holdco common membership units.

Because the respective capital account balance of each of Vulcan Cable and Charter Investment was reduced to zero by December 31, 2002, certain net tax losses of Charter Holdco that were to be allocated for 2002, 2003, 2004 and possibly later years (subject to resolution of the issue described in Note 22) to Vulcan Cable and Charter Investment instead have been and will be allocated to Charter (the Regulatory Allocations). The LLC Agreement further provides that, to the extent possible, the effect of the Regulatory Allocations is to be offset over time pursuant to certain curative allocation provisions (the Curative Allocation Provisions) so that, after certain offsetting adjustments are made, each member's capital account balance is equal to the capital account balance such member would have had if the

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Regulatory Allocations had not been part of the LLC Agreement. The cumulative amount of the actual tax losses allocated to Charter as a result of the Regulatory Allocations through the year ended December 31, 2004 is approximately \$4.0 billion.

As a result of the Special Loss Allocations and the Regulatory Allocations referred to above, the cumulative amount of losses of Charter Holdco allocated to Vulcan Cable and Charter Investment is 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. The cumulative amount of such excess losses was approximately \$2.1 billion through December 31, 2003 and \$1.0 billion through December 31, 2004.

In certain situations, the Special Loss Allocations, Special Profit Allocations, Regulatory Allocations and Curative Allocation Provisions described above could result in Charter paying taxes in an amount that is more or less than if Charter Holdco had allocated net tax profits and net tax losses among its members based generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to the application of section 704(c) under the Internal Revenue Code, (iii) the potential interaction between the Special Profit Allocations and the Curative Allocation Provisions, (iv) the amount and timing of alternative minimum taxes paid by Charter, if any, (v) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (vi) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit Allocations, Special Loss Allocations, Regulatory Allocations and Curative Allocation Provisions will change significantly pursuant to the provisions of the income tax regulations or the terms of a contribution agreement with respect to such contribution. Such change could defer the actual tax benefits to be derived by Charter with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards. The ability to utilize net operating loss carryforwards is potentially subject to certain limitations as discussed below.

In addition, under their exchange agreement with Charter, Vulcan Cable and Charter Investment may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable and Charter Investment could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. Mr. Allen has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter. The ability of Charter to utilize net operating loss carryforwards is potentially subject to certain limitations as discussed below. If Charter were to become subject to certain limitations (whether as a result of an exchange described above or otherwise), and as a result were to owe taxes resulting from the Special Profit Allocations, then Mr. Allen may not be obligated to reimburse Charter for such income taxes.

For the years ended December 31, 2004, 2003 and 2002, the Company recorded deferred income tax benefits as shown below. The income tax benefits were realized through reductions in the deferred tax

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liabilities related to Charter's investment in Charter Holdco, as well as the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries. In 2003, Charter received tax loss allocations from Charter Holdco. Previously, the tax losses had been allocated to Vulcan Cable and Charter Investment in accordance with the Special Loss Allocations provided under the Charter Holdco amended and restated limited liability company agreement. The Company does not expect to recognize a similar benefit related to its investment in Charter Holdco after 2003 due to limitations on its ability to offset future tax benefits against the remaining deferred tax liabilities. However, the actual tax provision calculation in future periods will be the result of current and future temporary differences, as well as future operating results.

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

	December 31,		
	2004	2003	2002
Current expense:			
Federal income taxes	\$ 2	\$ 1	\$
State income taxes	4	1	2
	6	2	2
Current income tax expense			
Deferred benefit:			
Federal income taxes	(175)	(98)	(456)
State income taxes	(25)	(14)	(66)
	(200)	(112)	(522)
Deferred income tax benefit:			
Total income benefit	\$(194)	\$(110)	\$(520)

The Company recorded the portion of the income tax benefit associated with the adoption of EITF Topic D-108 and SFAS No. 142 as a \$91 million and a \$60 million reduction of the cumulative effect of accounting change on the accompanying statement of operations for the years ended December 31, 2004 and December 31, 2002, respectively.

The Company's effective tax rate differs from that derived by applying the applicable federal income tax rate of 35%, and average state income tax rate of 5% for the years ended December 31, 2004, 2003 and 2002 as follows:

	December 31,		
	2004	2003	2002
Statutory federal income taxes	\$(1,288)	\$(122)	\$(969)
State income taxes, net of federal benefit	(184)	(17)	(138)
Valuation allowance provided	1,278	29	587
	(194)	(110)	(520)
Less: cumulative effect of accounting change	91		60
Income tax benefit	\$ (103)	\$(110)	\$(460)



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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, 2004 and 2003 which are included in long-term liabilities are presented below.

	December 31,	
	2004	2003
Deferred tax assets:		
Net operating loss carryforward	\$ 3,533	\$ 1,723
Other	8	6
	3,541	1,729
Total gross deferred tax assets	3,541	1,729
Less: valuation allowance	(3,151)	(1,291)
	\$ 390	\$ 438
Net deferred tax assets	\$ 390	\$ 438
Deferred tax liabilities:		
Investment in Charter Holdco	\$ (365)	\$ (553)
Indirect Corporate Subsidiaries:		
Property, plant & equipment	(40)	(42)
Franchises	(201)	(260)
	(606)	(855)
Gross deferred tax liabilities	(606)	(855)
Net deferred tax liabilities	\$ (216)	\$ (417)
	\$ (216)	\$ (417)

As of December 31, 2004, the Company has deferred tax assets of \$3.5 billion, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. The deferred tax assets include \$2.1 billion of tax net operating loss carryforwards (generally expiring in years 2005 through 2024) of Charter and its indirect corporate subsidiaries. Valuation allowances of \$3.2 billion exist with respect to these deferred tax assets.

The change of approximately \$1.9 billion in valuation allowance between the years ended December 31, 2004 and 2003, presented above, includes the provision for valuation allowance, the impact of the decrease in deferred tax liabilities and the impact of additional losses resulting from the cumulative effect of accounting change.

Full realization of the Company's tax net operating losses is dependent on: (1) Charter and its indirect corporate subsidiaries' ability to generate future taxable income and (2) the absence of certain future ownership changes of Charter's common stock. An ownership change as defined in the applicable federal income tax rules, would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate the Company's ability to use a substantial portion of its net operating losses to offset future taxable income. Future transactions and the timing of such transactions could cause an ownership change. Such transactions include additional issuances of common stock by the Company (including but not limited to the anticipated issuances of 150 million shares of common stock under the share lending agreement in conjunction with the issuance of 5.875% convertible senior notes in November 2004 or upon future conversion of Charter's convertible senior notes), reacquisitions of the borrowed shares by Charter, or acquisitions or sales of shares by certain holders of Charter's shares, including persons who have held, currently hold, or accumulate in the future five percent or more of Charter's outstanding stock (including upon an exchange).

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by Paul Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco into CCI common stock). Many of the foregoing transactions are beyond management's control.

The total valuation allowance for deferred tax assets as of December 31, 2004 and 2003 was \$3.2 billion and \$1.3 billion, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset certain deferred tax liabilities.

The Company is currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on the Company's consolidated financial condition or results of operation.

22. Related Party Transactions

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

Charter is a holding company and its principal assets are its equity interest in Charter Holdco and certain mirror notes payable by Charter Holdco to Charter and mirror preferred units held by Charter, which have the same principal amount and terms as those of Charter's convertible senior notes and Charter's outstanding preferred stock. In 2004, Charter Holdco paid to Charter \$49 million related to interest on the mirror notes, and Charter Holdco paid an additional \$4 million related to dividends on the mirror preferred membership units. Further, during 2004 Charter Holdco issued 7,252,818 common membership units to Charter in cancellation of \$30 million principal amount of mirror notes so as to mirror the issuance by Charter of Class A common stock in exchange for a like principal amount of its outstanding convertible notes.

Charter is a party to management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable systems owned or operated by its subsidiaries. The management services include such services as centralized customer billing services, data 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 billed and charged directly to the Company's operating subsidiaries and are included within operating costs in the accompanying consolidated statements of operations. Such costs totaled \$202 million, \$210 million and \$176 million for the years ended December 31, 2004, 2003 and 2002, respectively. All other costs incurred on the 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. For the years ended December 31, 2004, 2003 and 2002, 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. The credit facilities of the Company's operating subsidiaries prohibit payments of management fees in excess of 3.5% of revenues until repayment of the outstanding indebtedness. In the event any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per year, compounded annually, from the date it was due and payable until the date it is paid.

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Mr. Allen, the controlling shareholder of Charter, and a number of his affiliates have interests in various entities that provide services or programming to Charter's subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter and Charter Holdco, under the terms of their respective organizational documents, may not, and may not allow their subsidiaries to engage in any business transaction outside the cable transmission business except for certain existing approved investments. Should Charter or Charter Holdco or any of their subsidiaries wish to pursue, or allow their subsidiaries to pursue, a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries engaging in the business transaction, they will be able to do so. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable systems owned, operated or managed by Charter, Charter Holdco or any of their subsidiaries from time to time.

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 TechTV L.L.C. (TechTV), Oxygen Media Corporation (Oxygen Media), Digeo, Inc., Click2learn, Inc., Trail Blazer Inc., Action Sports Cable Network (Action Sports) and Microsoft Corporation. In addition, Mr. Allen and William Savoy, a former Charter director, were directors of USA Networks, Inc. (USA Networks), who operates the USA Network, The Sci-Fi Channel, Trio, World News International and Home Shopping Network, owning approximately 5% and less than 1%, respectively, of the common stock of USA Networks. In 2002, Mr. Allen and Mr. Savoy sold their common stock and are no longer directors of the USA Network. In May 2004, TechTV was sold to an unrelated third party. 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 Allen Patton is a director and the President and Chief Executive Officer of Vulcan Inc. and is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is Executive Vice President of Vulcan Inc. and Vulcan Ventures. Mr. Savoy was a vice president and a director of Vulcan Ventures until his resignation in September 2003 and he resigned as a director of Charter in April 2004. The various cable, media, Internet and telephony 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.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of the Company and its business. The Company cannot assure that, in the event that the Company or any of its subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to the Company as terms it might have obtained from an unrelated third party. Also, conflicts could arise with respect to the allocation of corporate opportunities between the Company and Mr. Allen and his affiliates. The Company has not instituted any formal plan or arrangement to address potential conflicts of interest.

High Speed Access Corp. (High Speed Access) was a provider of high-speed Internet access services over cable modems. During the period from 1997 to 2000, certain Charter entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity owned by Mr. Allen, and Charter Holdco made equity investments in High Speed Access.

On February 28, 2002, Charter's subsidiary, CC Systems, purchased from High Speed Access the contracts and associated assets, and assumed related liabilities, that served the Company's customers, including a customer contact center, network operations center and provisioning software. Immediately prior to the asset purchase, Vulcan Ventures beneficially owned approximately 37%, and the Company

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beneficially owned approximately 13%, of the common stock of High Speed Access (including the shares of common stock which could be acquired upon conversion of the Series D preferred stock, and upon exercise of the warrants owned by Charter Holdco). Following the consummation of the asset purchase, neither the Company nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

The Company receives or will receive programming for broadcast via its cable systems from TechTV (now G4), USA Networks, Oxygen Media, Trail Blazers Inc. and Action Sports. The Company pays a fee for the programming service generally based on the number of customers receiving the service. Such fees for the years ended December 31, 2004, 2003 and 2002 were each less than 1% of total operating expenses with the exception of USA Networks which was 2%, 2% and 2% of total operating expenses for the years ended December 31, 2004, 2003 and 2002, respectively. In addition, the Company receives commissions from USA Networks for home shopping sales generated by its customers. Such revenues for the years ended December 31, 2004, 2003 and 2002 were less than 1% of total revenues. On November 5, 2002, Action Sports announced that it was discontinuing its business. The Company believes that the failure of Action Sports will not materially affect the Company's business or results of operations.

Tech TV. The Company receives from TechTV programming for distribution via its cable system pursuant to an affiliation agreement. The affiliation agreement provides, among other things, that TechTV must offer Charter certain terms and conditions that are no less favorable in the affiliation agreement than are given to any other distributor that serves the same number of or fewer TechTV viewing customers. Additionally, pursuant to the affiliation agreement, the Company was entitled to incentive payments for channel launches through December 31, 2003.

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter's interactive television platforms through December 31, 2006 (exclusive for the first year). For the year ended December 31, 2004, the Company recognized approximately \$5 million of the Vulcan Programming payment as an offset to programming expense and paid approximately \$2 million to Tech TV under the affiliation agreement.

Oxygen. Concurrently with the execution of a carriage agreement, Charter Holdco entered into an equity issuance agreement pursuant to which Oxygen Media LLC's (Oxygen) parent company, Oxygen Media Corporation (Oxygen Media), granted a subsidiary of Charter Holdco a warrant to purchase 2.4 million shares of common stock of Oxygen Media for an exercise price of \$22.00 per share. In February 2005, the warrant expired unexercised. Charter Holdco was also to receive unregistered shares of Oxygen Media common stock with a guaranteed fair market value on the date of issuance of \$34 million, on or prior to February 2, 2005 with the exact date to be determined by Oxygen Media, but this commitment was later revised as discussed below.

The Company recognizes the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the years ended December 31, 2004, 2003 and 2002, the Company recorded approximately \$13 million, \$9 million, and \$6 million, respectively, as a

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reduction of programming expense. The carrying value of the Company's investment in Oxygen was approximately \$32 million and \$19 million as of December 31, 2004 and 2003, respectively.

In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revises the number of the Company's customers to which Oxygen programming must be carried and for which the Company must pay, (b) releases Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) requires Oxygen to make payment on outstanding receivables for marketing support fees due to the Company under the affiliation agreement; and (d) requires that Oxygen provide its programming content to the Company on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than the Company. The renewal of the carriage agreement (a) extends the period that the Company will carry Oxygen programming to its customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks.

In August 2004, Charter Holdco and Oxygen also amended the equity issuance agreement to provide for the issuance of 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share plus accrued dividends to Charter Holdco on February 1, 2005 in place of the \$34 million of unregistered shares of Oxygen Media common stock. Oxygen Media will deliver these shares in March 2005. The preferred stock is convertible into common stock after December 31, 2007 at a conversion ratio, the numerator of which is the liquidation preference and the denominator which is the fair market value per share of Oxygen Media common stock on the conversion date.

Digeo, Inc. In March 2001, Charter Ventures and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures Incorporated. The equity interest is subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. After Vulcan Ventures recovers its amount contributed and any cumulative loss allocations, Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls, and may require Vulcan Ventures, through January 24, 2004, to make certain additional contributions through DBroadband Holdings, LLC to acquire additional equity in Digeo as necessary to maintain Charter Ventures' pro rata interest in Digeo in the event of certain future Digeo equity financings by the founders of Digeo. These additional equity interests are also subject to a priority return of capital to Vulcan Ventures up to amounts contributed by Vulcan Ventures on Charter Ventures' behalf. DBroadband Holdings, LLC is therefore not included in the Company's consolidated financial statements. Pursuant to an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf.

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 is being supplied by Digeo Interactive, LLC under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deploys from a maximum of 10 headends through year-end 2004. This maximum number of headends was increased from 10 to 15 pursuant to a letter agreement executed on June 11, 2004 and the date for entering into license agreements for units deployed was extended to June 30, 2005. The number of headends was increased again from 15 to 20 pursuant to a letter agreement

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dated August 4, 2004, from 20 to 30 pursuant to a letter agreement dated September 28, 2004 and from 30 to 50 headends by a letter agreement in February 2005. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement provides that Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. Charter paid \$474,400 in license and maintenance fees in 2004.

In April 2004, the Company launched DVR service (using units containing the Digeo software) in its Rochester, Minnesota market using a broadband media center that is an integrated set-top terminal with a cable converter, DVR hard drive and connectivity to other consumer electronics devices (such as stereos, MP3 players, and digital cameras).

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Product development and testing is continuing. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$41 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances.

A wholly owned subsidiary of Digeo, Digeo Interactive, provides interactive channel (i-channel) service to Charter on a month-to-month basis. In the years ended December 31, 2004, 2003 and 2002, Charter paid Digeo Interactive \$3 million, \$4 million and \$3 million, respectively, for customized development of i-channels and an interactive toolkit to enable Charter to develop interactive local content.

On January 10, 2003, the Company signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. HDNet Movies delivers a commercial-free schedule of full-length feature films converted from 35mm to high-definition, including titles from an extensive library of Warner Bros. films. HDNet Movies will feature a mix of theatrical releases, made-for-TV movies, independent films and shorts. The HDNet channel features a variety of HDTV programming, including live sports, sitcoms, dramas, action series, documentaries, travel programs, music concerts and shows, special events, and news features including HDNet World Report. HDNet also offers a selection of classic and recent television series. The Company paid HDNet and HDNet Movies approximately \$0.6 million in 2004. The Company believes that entities controlled by Mr. Cuban owned approximately 81% of HDNet as of December 31, 2004. As of December 31, 2004, the Company believes that Mark Cuban, co-founder and president of HDNet, owned approximately 6.2% of the total common equity in Charter based on a Schedule 13G filed with the SEC on May 21, 2003.

Certain related parties, including members of the board of directors and officers, hold interests in the Company's senior convertible debt and senior notes and discount notes of the Company's subsidiary of approximately \$59.6 million of face value at December 31, 2004.

As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, LLC, Charter's indirect limited liability company subsidiary,

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issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the CC VIII interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the Comcast sellers). While held by the Comcast sellers, the CC VIII interest was entitled to a 2% priority return on its initial capital account and such priority return was entitled to preferential distributions from available cash and upon liquidation of CC VIII. While held by the Comcast sellers, the CC VIII interest generally did not share in the profits and losses of CC VIII. Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast put right). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen has become the holder of the CC VIII interest, indirectly through an affiliate. Consequently, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter will be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would be entitled to a priority distribution with respect to the 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC and Mr. Allen in proportion to CC V Holdings, LLC 's capital account and Mr. Allen 's capital account (which will equal the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen 's pro rata share of CC VIII 's profits or losses (as computed for capital account purposes) after June 6, 2003). The limited liability company agreement of CC VIII does not provide for a mandatory redemption of the CC VIII interest.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Specifically, under the terms of the Bresnan transaction documents that were entered into in June 1999, the Comcast sellers originally would have received, after adjustments, 24,273,943 Charter Holdco membership units, but due to an FCC regulatory issue raised by the Comcast sellers shortly before closing, the Bresnan transaction was modified to provide that the Comcast sellers instead would receive the preferred equity interests in CC VIII represented by the CC VIII interest. As part of the last-minute changes to the Bresnan transaction documents, a draft amended version of the Charter Holdco limited liability company agreement was prepared, and contract provisions were drafted for that agreement that would have required an automatic exchange of the CC VIII interest for 24,273,943 Charter Holdco membership units if the Comcast sellers exercised the Comcast put right and sold the CC VIII interest to Mr. Allen or his affiliates. However, the provisions that would have required this automatic exchange did not appear in the final version of the Charter Holdco limited liability company agreement that was delivered and executed at the closing of the Bresnan transaction. The law firm that prepared the documents for the Bresnan transaction brought this matter to the attention of Charter and representatives of Mr. Allen in 2002.

Thereafter, the board of directors of Charter formed a Special Committee (currently comprised of Messrs. Merritt, Tory and Wangberg) to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a scrivener 's error had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek the reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units. The Special Committee further determined that, as part of such contract reformation or alternative relief, Mr. Allen should be required to contribute the CC VIII interest to Charter Holdco in exchange for 24,273,943 Charter Holdco membership units. The Special Committee also recommended to the board of directors of Charter that, to the extent the contract

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reformation is achieved, the board of directors should consider whether the CC VIII interest should ultimately be held by Charter Holdco or Charter Holdings or another entity owned directly or indirectly by them.

Mr. Allen disagrees with the Special Committee's determinations described above and has so notified the Special Committee. Mr. Allen contends that the transaction is accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures.

The parties engaged in a process of non-binding mediation to seek to resolve this matter, without success. The Special Committee is evaluating what further actions or processes it may undertake to resolve this dispute. To accommodate further deliberation, each party has agreed to refrain from initiating legal proceedings over this matter until it has given at least ten days' prior notice to the other. In addition, the Special Committee and Mr. Allen have determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute. If the Special Committee and Mr. Allen are unable to reach a resolution through that mediation process or to agree on an alternative dispute resolution process, the Special Committee intends to seek resolution of this dispute through judicial proceedings in an action that would be commenced, after appropriate notice, in the Delaware Court of Chancery against Mr. Allen and his affiliates seeking contract reformation, declaratory relief as to the respective rights of the parties regarding this dispute and alternative forms of legal and equitable relief. The ultimate resolution and financial impact of the dispute are not determinable at this time.

23. Commitments and Contingencies*Commitments*

The following table summarizes the Company's payment obligations as of December 31, 2004 for its contractual obligations.

	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>
Contractual Obligations							
Operating and Capital Lease Obligations(1)	\$ 88	\$ 23	\$ 17	\$ 13	\$ 10	\$ 7	\$ 18
Programming Minimum Commitments(2)	1,579	318	344	375	308	234	
Other(3)	272	62	50	47	25	21	67
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$1,939	\$403	\$411	\$435	\$343	\$262	\$ 85
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (1) The Company leases certain facilities and equipment under noncancellable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2004, 2003 and 2002, were \$23 million, \$30 million and \$31 million, respectively.
- (2) The Company pays programming fees under multi-year contracts ranging from three to six 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 \$1.3 billion, \$1.2 billion and \$1.2 billion for the years ended December 31, 2004, 2003 and 2002, 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.

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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 also 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 years ended December 31, 2004, 2003 and 2002, was \$43 million, \$40 million and \$41 million, respectively.

The Company pays franchise fees under multi-year franchise agreements based on a percentage of revenues earned 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 \$164 million, \$162 million and \$160 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company also has \$166 million in letters of credit, primarily to its various workers compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount the Company may borrow under its credit facilities.

Litigation

Fourteen putative federal class action lawsuits (the Federal Class Actions) were filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages were sought by the plaintiffs. In general, the lawsuits alleged that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects. The Federal Class Actions were specifically and individually identified in public filings made by Charter prior to the date of these financial statements.

In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the Panel) to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel's transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel's transfer order. StoneRidge subsequently filed a Consolidated Amended Complaint. The Court subsequently consolidated the Federal Class Actions into a single action (the Consolidated Federal Class Action) for pretrial purposes. On June 19, 2003, following a status and scheduling conference with the parties, the Court issued a Case Management Order setting forth a schedule for the pretrial phase of the Consolidated Class Action. Motions to dismiss the Consolidated Amended Complaint were filed. On February 10, 2004, in response to a joint motion made by StoneRidge and defendants, Charter, Vogel and Allen, the court entered an order providing, among other things, that: (1) the parties who filed such motion engage in a mediation within ninety (90) days; and (2) all proceedings in the Consolidated Federal Class Actions were stayed until May 10, 2004. On May 11, 2004, the Court extended the stay in the Consolidated Federal Class Action for an additional sixty (60) days. On July 12, 2004, the parties submitted a joint motion to again extend the stay, this time until September 10, 2004. The Court granted that extension on July 20, 2004. On August 5, 2004, Stoneridge, Charter and the individual defendants who were the subject of the suit entered into a Memorandum of Understanding setting forth agreements in principle to settle the Consolidated Federal Class Action. These parties subsequently entered into

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Stipulations of Settlement dated as of January 24, 2005 (described more fully below) which incorporate the terms of the August 5, 2004 Memorandum of Understanding.

On September 12, 2002, a shareholders derivative suit (the State Derivative Action) was filed in the Circuit Court of the City of St. Louis, State of Missouri (the Missouri State Court) against Charter and its then current directors, as well as its former auditors. A substantively identical derivative action was later filed and consolidated into the State Derivative Action. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter s behalf, were sought by the plaintiffs.

On March 12, 2004, an action substantively identical to the State Derivative Action was filed in the Missouri State Court, against Charter and certain of its current and former directors, as well as its former auditors. The plaintiffs in that case alleged that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter s behalf, were sought by plaintiffs. On July 14, 2004, the Court consolidated this case with the State Derivative Action.

Separately, on February 12, 2003, a shareholders derivative suit (the Federal Derivative Action) was filed against Charter and its then current directors in the United States District Court for the Eastern District of Missouri. The plaintiff in that suit alleged that the individual defendants breached their fiduciary duties and grossly mismanaged Charter by failing to establish and maintain adequate internal controls and procedures.

As noted above, Charter entered into Memoranda of Understanding on August 5, 2004 setting forth agreements in principle regarding settlement of the Consolidated Federal Class Action, the State Derivative Action(s) and the Federal Derivative Action (the Actions). Charter and various other defendants in those actions subsequently entered into Stipulations of Settlement dated as of January 24, 2005, setting forth a settlement of the Actions in a manner consistent with the terms of the Memorandum of Understanding. The Stipulations of Settlement, along with the various supporting documentation, were filed with the Court on February 2, 2005. The Settlements provide that, in exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter will pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which will include the fees and expenses of plaintiffs counsel. Of this amount, \$64 million will be paid in cash (by Charter s insurance carriers) and the balance will be paid in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million. The warrants would have an exercise price equal to 150% of the fair market value (as defined) of Charter Class A common stock as of the date of the entry of the order of final judgment approving the settlement. In addition, Charter expects to issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million. As a result, in the second quarter of 2004, the Company recorded a \$149 million litigation liability within other long-term liabilities and a \$64 million insurance receivable as part of other non-current assets on its consolidated balance sheet and an \$85 million special charge on its consolidated statement of operations. Additionally, as part of the settlements, Charter will also commit to a variety of corporate governance changes, internal practices and public disclosures, some of which have already been undertaken and none of which are inconsistent with measures Charter is taking in connection with the recent conclusion of the SEC investigation described below. Documents related to the settlement of the Actions have now been executed and filed. On February 15, 2005, the United States District Court for the Eastern District of Missouri gave preliminary approval to the settlement of the Actions. The settlement of each of the lawsuits remains conditioned upon, among other things, final judicial approval of the

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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settlements following notice to the class, and dismissal, with prejudice, of the consolidated derivative actions now pending in Missouri State Court, which are related to the Federal Derivative Action.

In addition to the Federal Class Actions, the State Derivative Action (s), the new Missouri State Court derivative action and the Federal Derivative Action, six putative class action lawsuits have been filed against Charter and certain of its then current directors and officers in the Court of Chancery of the State of Delaware (the Delaware Class Actions). The lawsuits were filed after the filing of a 13D amendment by Mr. Allen indicating that he was exploring a number of possible alternatives with respect to restructuring or expanding his ownership interest in Charter. Charter believes the plaintiffs speculated that Mr. Allen might have been contemplating an unfair bid for shares of Charter or some other sort of going private transaction on unfair terms and generally alleged that the defendants breached their fiduciary duties by participating in or acquiescing to such a transaction. The lawsuits, which are substantively identical, were brought on behalf of Charter's securities holders as of July 29, 2002, and sought unspecified damages and possible injunctive relief. However, no such transaction by Mr. Allen has been presented. On April 30, 2004, orders of dismissal without prejudice were entered in each of the Delaware Class Actions.

In August 2002, Charter became aware of a grand jury investigation being conducted by the U.S. Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers and its reporting of amounts received from digital set-top terminal suppliers for advertising. The U.S. Attorney's Office has publicly stated that Charter is not a target of the investigation. Charter was also advised by the U.S. Attorney's Office that no current officer or member of its board of directors is a target of the investigation. On July 24, 2003, a federal grand jury charged four former officers of Charter with conspiracy and mail and wire fraud, alleging improper accounting and reporting practices focusing on revenue from digital set-top terminal suppliers and inflated customer account numbers. Trial was set for February 7, 2005. Subsequently, each of the indicted former officers pled guilty to single conspiracy counts related to the original mail and wire fraud charges and are awaiting sentencing. The Company is fully cooperating with the investigation.

On November 4, 2002, Charter received an informal, non-public inquiry from the staff of the Securities and Exchange Commission (SEC). The SEC issued a formal order of investigation dated January 23, 2003, and subsequently served document and testimony subpoenas on Charter and a number of its former employees. The investigation and subpoenas generally concerned Charter's prior reports with respect to its determination of the number of customers, and various of its accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. On July 27, 2004, the SEC and Charter reached a final agreement to settle the investigation. In the Settlement Agreement and Cease and Desist Order, Charter agreed to entry of an administrative order prohibiting any future violation of United States securities laws and requiring certain other remedial internal practices and public disclosures. Charter neither admitted nor denied any wrongdoing, and the SEC assessed no fine against Charter.

Charter is generally required to indemnify each of the named individual defendants in connection with the matters described above pursuant to the terms of its bylaws and (where applicable) such individual defendants' employment agreements. In accordance with these documents, in connection with the pending grand jury investigation, the now-settled SEC investigation and the above-described lawsuits, some of Charter's current and former directors and current and former officers have been advanced certain costs and expenses incurred in connection with their defense. On February 22, 2005, Charter filed suit against four of its former officers who were indicted in the course of the grand jury investigation. These suits seek to recover the legal fees and other related expenses advanced to these individuals by Charter for the grand jury investigation, SEC investigation and class action and related lawsuits.

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In October 2001, two customers, Nikki Nicholls and Geraldine M. Barber, filed a class action suit against Charter Holdco in South Carolina Court of Common Pleas (the South Carolina Class Action), purportedly on behalf of a class of Charter Holdco's customers, alleging that Charter Holdco improperly charged them a wire maintenance fee without request or permission. They also claimed that Charter Holdco improperly required them to rent analog and/or digital set-top terminals even though their television sets were cable ready. A substantively identical case was filed in the Superior Court of Athens - Clarke County, Georgia by Emma S. Tobar on March 26, 2002 (the Georgia Class Action), alleging a nationwide class for these claims. Charter Holdco removed the South Carolina Class Action to the United States District Court for the District of South Carolina in November 2001, and moved to dismiss the suit in December 2001. The federal judge remanded the case to the South Carolina Court of Common Pleas in August 2002 without ruling on the motion to dismiss. The plaintiffs subsequently moved for a default judgment, arguing that upon return to state court, Charter Holdco should have, but did not file a new motion to dismiss. The state court judge granted the plaintiff's motion over Charter Holdco's objection in September 2002. Charter Holdco immediately appealed that decision to the South Carolina Court of Appeals and the South Carolina Supreme Court, but those courts ruled that until a final judgment was entered against Charter Holdco, they lacked jurisdiction to hear the appeal.

In January 2003, the Court of Common Pleas granted the plaintiffs' motion for class certification. In October and November 2003, Charter Holdco filed motions (a) asking that court to set aside the default judgment, and (b) seeking dismissal of plaintiffs' suit for failure to state a claim. In January 2004, the Court of Common Pleas granted in part and denied in part Charter Holdco's motion to dismiss for failure to state a claim. It also took under advisement Charter Holdco's motion to set aside the default judgment. In April 2004, the parties to both the Georgia and South Carolina Class Actions participated in a mediation. The mediator made a proposal to the parties to settle the lawsuits. In May 2004, the parties accepted the mediator's proposal and reached a tentative settlement, subject to final documentation and court approval. As a result of the tentative settlement, we recorded a special charge of \$9 million in our consolidated statement of operations in the first quarter of 2004. On July 8, 2004, the Superior Court of Athens - Clarke County, Georgia granted a motion to amend the Tobar complaint to add Nicholls, Barber and April Jones as plaintiffs in the Georgia Class Action and to add any potential class members in South Carolina. The court also granted preliminary approval of the proposed settlement on that date. On August 2, 2004, the parties submitted a joint request to the South Carolina Court of Common Pleas to stay the South Carolina Class Action pending final approval of the settlement and on August 17, 2004, that court granted the parties' request. On November 10, 2004, the court granted final approval of the settlement, rejecting positions advanced by two objectors to the settlement. On December 13, 2004 the court entered a written order formally approving that settlement. On January 11, 2005, certain class members appealed the order entered by the Georgia court. That appeal was dismissed on or about February 3, 2005. Additionally, one of the objectors to this settlement recently filed a similar, but not identical, lawsuit.

Furthermore, Charter is also party to, other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or its 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

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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 local telephone market. Among other things, it reduced the scope of cable rate regulation and encouraged additional competition in the video programming industry by allowing local telephone companies to provide video programming in their own telephone service areas.

The 1996 Telecom Act required the FCC to undertake a number of implementing rulemakings. Moreover, Congress and the FCC have frequently revisited the subject of cable regulation. Future legislative and regulatory changes could adversely affect the Company's operations.

24. 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. The Company matches 50% of the first 5% of participant contributions. The Company made contributions to the 401(k) plan totaling \$7 million, \$7 million and \$8 million for the years ended December 31, 2004, 2003 and 2002, respectively.

25. Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board issued the revised SFAS No. 123, *Share Based Payment*, which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. This statement will be effective for the Company beginning July 1, 2005. Because Charter adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, the Company does not expect this revised standard to have a material impact on its financial statements.

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

26. 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 Charter, the parent company. The following condensed parent-only financial statements of Charter account for the investment in Charter Holdco 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.

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Charter Communications, Inc. (Parent Company Only)

Condensed Balance Sheet

	December 31,	
	2004	2003
ASSETS		
Cash and cash equivalents	\$	\$ 1
Receivable from related party	20	9
Investment in Charter Holdco		
Notes receivable from Charter Holdco	1,073	828
	\$ 1,093	\$ 838
	\$ 1,093	\$ 838
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities	\$ 20	\$ 10
Convertible notes	990	774
Deferred income taxes	6	149
Losses in excess of investment	4,406	25
Other long term liabilities	22	
Preferred stock - redeemable	55	55
Shareholders' deficit	(4,406)	(175)
	\$ 1,093	\$ 838
	\$ 1,093	\$ 838

Condensed Statement of Operations

	Year Ended December 31,		
	2004	2003	2002
REVENUES			
Interest income	\$ 52	\$ 69	\$ 76
Management fees	15	11	9
	67	80	85
	67	80	85
EXPENSES			
Equity in losses of Charter Holdco	(4,488)	(359)	(2,922)
General and administrative expenses	(14)	(11)	(9)
Interest expense	(49)	(65)	(73)
	(4,551)	(435)	(3,004)
	(4,551)	(435)	(3,004)
Net loss before income taxes	(4,484)	(355)	(2,919)

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Income taxes	143	117	405
	<u> </u>	<u> </u>	<u> </u>
Net loss	(4,341)	(238)	(2,514)
Dividend on preferred equity	(4)	(4)	(3)
	<u> </u>	<u> </u>	<u> </u>
Net loss after preferred dividends	<u>\$ (4,345)</u>	<u>\$ (242)</u>	<u>\$ (2,517)</u>

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(Dollars in millions, except where indicated)

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss after preferred dividends	\$(4,345)	\$(242)	\$(2,517)
Equity in losses of Charter Holdco	4,488	359	2,922
Changes in operating assets and liabilities	(1)	(9)	10
Deferred income taxes	(143)	(117)	(405)
	(1)	(9)	10
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receivables from Charter Holdco	(863)		
Payments from Charter Holdco	588		
Investment in Charter Holdco	(2)		
	(277)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of convertible notes	863		
Paydown of convertible notes	(588)		
Net proceeds from issuance of common stock	2		
	277		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(1)	(9)	10
CASH AND CASH EQUIVALENTS, beginning of year	1	10	
	\$	\$ 1	\$ 10
CASH AND CASH EQUIVALENTS, end of year	\$	\$ 1	\$ 10

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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27. Unaudited Quarterly Financial Data

The following table presents quarterly data for the periods presented on the consolidated statement of operations:

	Year Ended December 31, 2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,214	\$ 1,239	\$ 1,248	\$ 1,276
Income (loss) from operations	175	15	(2,344)	108
Loss before minority interest and income taxes	(235)	(366)	(2,776)	(321)
Net loss applicable to common stock	(294)	(416)	(3,295)	(340)
Basic and diluted loss per common share	(1.00)	(1.39)	(10.89)	(1.12)
Weighted-average shares outstanding, basic and diluted	295,106,077	300,522,815	302,604,978	302,934,348
	Year Ended December 31, 2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,178	\$ 1,217	\$ 1,207	\$ 1,217
Income from operations	77	112	117	210
Income (loss) before minority interest and income taxes	(301)	(286)	23	(161)
Net income (loss) applicable to common stock	(182)	(38)	36	(58)
Basic income (loss) per common share	(0.62)	(0.13)	0.12	(0.20)
Diluted income (loss) per common share	(0.62)	(0.13)	0.07	(0.20)
Weighted-average shares outstanding, basic	294,466,137	294,474,596	294,566,878	294,875,504
Weighted-average shares outstanding, diluted	294,466,137	294,474,596	637,822,843	294,875,504

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ANNEX A

Form of Investor Acknowledgment

The undersigned acknowledges and agrees that the shares of Charter's Class A common stock offered pursuant to this prospectus are not being offered to, and may not be purchased by, any person who has an open short position in Charter's Class A common stock.

Each purchaser of Charter's Class A common stock hereby represents and agrees that, at the time it received an offer to purchase the shares and at the time of its purchase of the shares:

it did not have an open short position in Charter's Class A common stock; and

it is not purchasing the shares on behalf of, or for the account of, any person described in the first bullet above, and has no arrangement or understanding to resell, lend or otherwise transfer (directly or indirectly) the shares to any such person.

For purposes of the foregoing, an open short position means any contractual or other arrangement whereby a holder is economically short Class A common stock, including any so-called synthetic short position.

Each purchaser of Charter's Class A common stock in this offering must execute and deliver this Investor Acknowledgment to Citigroup by facsimile to (646) 843-3922.

Purchaser of Class A common stock

By:

Name:

Title:

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22,038,000 Shares

Class A Common Stock

PROSPECTUS
February 9, 2006

Citigroup