CHARTER COMMUNICATIONS INC /MO/
Form 10-K
March 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From to

Commission File Number: 000-27927

Charter Communications, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	43-1857213 (I.R.S. Employer Identification Number)
12405 Powerscourt Drive St. Louis, Missouri 63131 (Address of principal executive offices including zip code)	(314) 965-0555 (Registrant’s telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of Exchange which registered
Class A Common Stock, $.001 Par Value	NASDAQ Global Select Market

Preferred Share Purchase Rights	NASDAQ Global Select Market

Securities registered pursuant to section 12(g) of the Act: None

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

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

Indicate by check mark 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes oNo þ

The aggregate market value of the registrant of outstanding Class A Common Stock held by non-affiliates of the registrant at June 30, 2008 was approximately $393 million, computed based on the closing sale price as quoted on the NASDAQ Global Select Market on that date. For purposes of this calculation only, directors, executive officers and the principal controlling shareholder or entities controlled by such controlling shareholder of the registrant are deemed to be affiliates of the registrant.

There were 400,801,768 shares of Class A Common Stock outstanding as of February 28, 2009. There were 50,000 shares of Class B Common Stock outstanding as of the same date.

Documents Incorporated By Reference

Information required by Part III is incorporated by reference from Registrant's proxy statement or an amendment to this Annual Report on Form 10-K to be filed by April 30, 2009.

CHARTER COMMUNICATIONS, INC.
FORM 10-K — FOR THE YEAR ENDED DECEMBER 31, 2008

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This annual report on Form 10-K is for the year ended December 31, 2008. The Securities and Exchange Commission ("SEC") allows us to "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this annual report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this annual report. In this annual report, "we," "us" and "our" refer to Charter Communications, Inc., Charter Communications Holding Company, LLC and their subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding, among other things, our plans, strategies and prospects, both business and financial, including, without limitation, the forward-looking statements set forth in Part I. Item 1. under the heading "Business – Company Focus," and in Part II. Item 7. under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this annual report. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, without limitation, the factors described in Part I. Item 1A. under the heading "Risk Factors" and in Part II. Item 7. under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this annual report. Many of the forward-looking statements contained in this annual report may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "will," "may," "intend," "estimated," "aim," "on track," "target," "opportunity" and "potential," among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this annual report are set forth in this annual report and in other reports or documents that we file from time to time with the SEC, and include, but are not limited to:

- the completion of the Company's announced restructuring including the outcome, and impact on our business, of any resulting proceedings under Chapter 11 of the Bankruptcy Code;
- the availability and access, in general, of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash on hand, cash flows from operating activities, further borrowings or other sources and, in particular, our ability to fund debt obligations (by dividend, investment or otherwise) to the applicable obligor of such debt;
- our ability to comply with all covenants in our indentures and credit facilities, any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions;
- our ability to repay debt prior to or when it becomes due and/or successfully access the capital or credit markets to refinance that debt through new issuances, exchange offers or otherwise, including restructuring our balance sheet and leverage position, especially given recent volatility and disruption in the capital and credit markets;
- the impact of competition from other distributors, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband providers, and digital subscriber line ("DSL") providers;
- difficulties in growing and operating our telephone services, while adequately meeting customer expectations for the reliability of voice services;
- our ability to adequately meet demand for installations and customer service;
- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services, and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition;
- our ability to obtain programming at reasonable prices or to adequately raise prices to offset the effects of higher programming costs;
- general business conditions, economic uncertainty or downturn, including the recent volatility and disruption in the capital and credit markets and the significant downturn in the housing sector and overall economy; and
- the effects of governmental regulation on our business.

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

PART I

Item 1. Business.

Introduction

Charter Communications, Inc. ("Charter") operates broadband communications businesses in the United States with approximately 5.5 million customers at December 31, 2008. We offer residential and commercial customers traditional cable video programming (basic and digital video), high-speed Internet services, and telephone services, as well as advanced broadband services such as high definition television, Charter OnDemand™ ("OnDemand"), and digital video recorder ("DVR") service. We sell our cable video programming, high-speed Internet, telephone, and advanced broadband services primarily on a subscription basis. We also sell advertising to national and local clients on advertising supported cable networks. See "Item 1. Business — Products and Services" for further description of these terms, including "customers."

At December 31, 2008, we served approximately 5.0 million video customers, of which approximately 3.1 million were digital video customers. We also served approximately 2.9 million high-speed Internet customers and provided telephone service to approximately 1.3 million customers.

We have a history of net losses. Our net losses are principally attributable to insufficient revenue to cover the combination of operating expenses and interest expenses we incur because of our high amounts of debt, and depreciation expenses resulting from the capital investments we have made and continue to make in our cable properties.

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 at December 31, 2008 are the 55% controlling common equity interest (53% for accounting purposes) and a 100% voting interest in Charter Communications Holding Company, LLC ("Charter Holdco"), the direct parent of CCHC, LLC ("CCHC"), which is the direct parent of Charter Communications Holdings, LLC ("Charter Holdings"). As sole manager, Charter controls the affairs of Charter Holdco and its limited liability company subsidiaries.

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

Recent Developments – Restructuring

On February 12, 2009, we reached an agreement in principle with holders of certain of our subsidiaries' senior notes (the "Noteholders") holding approximately $4.1 billion in aggregate principal amount of notes issued by our subsidiaries, CCH I, LLC ("CCH I") and CCH II, LLC ("CCH II"). Pursuant to separate restructuring agreements, dated February 11, 2009, entered into with each Noteholder (the "Restructuring Agreements"), on or prior to April 1, 2009, we and our subsidiaries expect to file voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code to implement a restructuring pursuant to a joint plan of reorganization (the "Plan") aimed at improving our capital structure (the "Proposed Restructuring").

The Proposed Restructuring is expected to be funded with cash from operations, an exchange of debt of CCH II for other debt at CCH II (the "Notes Exchange"), the issuance of additional debt (the "New Debt Commitment"), and the proceeds of an equity offering (the "Rights Offering") for which we have received a back-stop commitment (the "Back-Stop Commitment") from certain Noteholders. In addition to the Restructuring Agreements, the Noteholders have entered into commitment letters with us (the "Commitment Letters"), pursuant to which they have agreed to exchange and/or purchase, as applicable, certain securities of Charter, as described in more detail below.

Under the Notes Exchange, existing holders of senior notes of CCH II and CCH II Capital Corp. ("CCH II Notes") will be entitled to exchange their CCH II Notes for new 13.5% Senior Notes of CCH II and CCH II Capital Corp. (the "New CCH II Notes"). CCH II Notes that are not exchanged in the Notes Exchange will be paid in cash in an amount equal to the outstanding principal amount of such CCH II Notes plus accrued but unpaid interest to the bankruptcy petition date plus post-petition interest, but excluding any call premiums or prepayment penalties and for the avoidance of doubt, any unmatured interest. The aggregate principal amount of New CCH II Notes to be issued pursuant to the Plan is expected to be approximately $1.5 billion plus accrued but unpaid interest to the bankruptcy petition date plus post-petition interest, but excluding any call premiums or prepayment penalties (collectively, the "Target Amount"), plus an additional $85 million.

Under the Commitment Letters, certain holders of CCH II Notes have committed to exchange, pursuant to the Notes Exchange, an aggregate of approximately $1.2 billion in aggregate principal amount of CCH II Notes, plus accrued but unpaid interest to the bankruptcy petition date plus post-petition interest, but excluding any call premiums or any prepayment penalties. In the event that the aggregate principal amount of New CCH II Notes to be issued pursuant to the Notes Exchange would exceed the Target Amount, each Noteholder participating in the Notes Exchange will receive a pro rata portion of such Target Amount of New CCH II Notes, based upon the ratio of (i) the aggregate principal amount of CCH II Notes it has tendered into the Notes Exchange to (ii) the total aggregate principal amount of CCH II Notes tendered into the Notes Exchange. Participants in the Notes Exchange will receive a commitment fee equal to 1.5% of the principal amount plus interest on the CCH II Notes exchanged by such participant in the Notes Exchange.

Under the New Debt Commitment, certain holders of CCH II Notes have committed to purchase an additional amount of New CCH II Notes in an aggregate principal amount of up to $267 million. Participants in the New Debt Commitment will receive a commitment fee equal to the greater of (i) 3.0% of their respective portion of the New Debt Commitment or (ii) 0.83% of its respective portion of the New Debt Commitment for each month beginning April 1, 2009 during which its New Debt Commitment remains outstanding.

Under the Rights Offering, we will offer to existing holders of senior notes of CCH I ("CCH I Notes") that are accredited investors (as defined in Regulation D promulgated under the Securities Act) or qualified institutional buyers (as defined under Rule 144A of the Securities Act), the right (the "Rights") to purchase shares of the new Class A Common Stock of Charter, to be issued upon our emergence from bankruptcy, in exchange for a cash payment at a discount to the equity value of Charter upon emergence. Upon emergence from bankruptcy, Charter's new Class A Common Stock is not expected to be listed on any public or over-the-counter exchange or quotation system and will be subject to transfer restrictions. It is expected, however, that we will thereafter apply for listing of Charter's new Class A Common Stock on the NASDAQ Stock Market as provided in a term sheet describing the Proposed Restructuring (the "Term Sheet"). The Rights Offering is expected to generate proceeds of up to approximately $1.6 billion and will be used to pay holders of CCH II Notes that do not participate in the Notes Exchange, repayment of certain amounts relating to the satisfaction of certain swap agreement claims against Charter Communications Operating, LLC ("Charter Operating") and for general corporate purposes.

Under the Commitment Letters, certain Noteholders (the "Backstop Parties") have agreed to subscribe for their respective pro rata portions of the Rights Offering, and certain of the Backstop Parties have, in addition, agreed to subscribe for a pro rata portion of any Rights that are not purchased by other holders of CCH I Notes in the Rights Offering (the "Excess Backstop"). Noteholders who have committed to participate in the Excess Backstop will be offered the option to purchase a pro rata portion of additional shares of Charter's new Class A Common Stock, at the same price at which shares of the new Class A Common Stock will be offered in the Rights Offering, in an amount equal to $400 million less the aggregate dollar amount of shares purchased pursuant to the Excess Backstop. The Backstop Parties will receive a commitment fee equal to 3% of its respective equity backstop.

The Restructuring Agreements further contemplate that upon consummation of the Plan (i) the notes and bank debt of our subsidiaries, Charter Operating and CCO Holdings, LLC ("CCO Holdings") will remain outstanding, (ii) holders of notes issued by CCH II will receive New CCH II Notes pursuant to the Notes Exchange and/or cash, (iii) holders of notes issued by CCH I will receive shares of Charter's new Class A Common Stock, (iv) holders of notes issued by CCH I Holdings, LLC ("CIH") will receive warrants to purchase shares of common stock in Charter, (v) holders of notes of Charter Holdings will receive warrants to purchase shares of Charter's new Class A Common Stock, (vi) holders of convertible notes issued by Charter will receive cash and preferred stock issued by Charter, (vii) holders of common stock will not receive any amounts on account of their common stock, which will be cancelled, and (viii) trade creditors will be paid in full. In addition, as part of the Proposed Restructuring, it is expected that consideration will be paid by holders of CCH I Notes to other entities participating in the financial restructuring. The recoveries summarized above are more fully described in the Term Sheet.

Pursuant to a separate restructuring agreement among Charter, Mr. Paul G. Allen, Charter's chairman and controlling shareholder, and an entity controlled by Mr. Allen (the "Allen Agreement"), in settlement of their rights, claims and remedies against Charter and its subsidiaries, and in addition to any amounts received by virtue of their holding any claims of the type set forth above, upon consummation of the Plan, Mr. Allen or his affiliates will be issued a number of shares of the new Class B Common Stock of Charter such that the aggregate voting power of such shares of new Class B Common Stock shall be equal to 35% of the total voting power of all new capital stock of Charter. Each share of new Class B Common Stock will be convertible, at the option of the holder, into one share of new Class A Common Stock, and will be subject to significant restrictions on transfer. Certain holders of new Class A Common Stock and new Class B Common Stock will receive certain customary registration rights with respect to their shares. Upon consummation of the Plan, Mr. Allen or his affiliates will also receive (i) warrants to purchase shares of new Class A common stock of Charter in an aggregate amount equal to 4% of the equity value of reorganized Charter, after giving effect to the Rights Offering, but prior to the issuance of warrants and equity-based awards provided for by the Plan, (ii) $85 million principal amount of New CCH II Notes, (iii) $25 million in cash for amounts owing to Charter Investment, Inc. ("CII") under a management agreement, (iv) up to $20 million in cash for reimbursement of fees and expenses in connection with the Proposed Restructuring, and (v) an additional $150 million in cash. The warrants described above shall have an exercise price per share based on a total equity value equal to the sum of the equity value of reorganized Charter, plus the gross proceeds of the Rights Offering, and shall expire seven years after the date of issuance. In addition, on the effective date of the Plan, CII will retain a 1% equity interest in reorganized Charter Holdco and a right to exchange such interest into new Class A common stock of Charter.

The Restructuring Agreements also contemplate that upon emergence from bankruptcy each holder of 10% or more of the voting power of Charter will have the right to nominate one member of the initial Board for each 10% of voting power; and that at least Charter's current Chief Executive Officer and Chief Operating Officer will continue in their same positions. The Restructuring Agreements require Noteholders to cast their votes in favor of the Plan and generally support the Plan and contain certain customary restrictions on the transfer of claims by the Noteholders.

In addition, the Restructuring Agreements contain an agreement by the parties that prior to commencement of the Chapter 11 cases, if performance by us of any term of the Restructuring Agreements would trigger a default under the debt instruments of CCO Holdings and Charter Operating, which debt is to remain outstanding such performance would be deemed unenforceable solely to the extent necessary to avoid such default.

The Restructuring Agreements and Commitment Letters are subject to certain termination events, including, among others:

- the commitments set forth in the respective Noteholder's Commitment Letter shall have expired or been terminated;
- Charter's board of directors shall have been advised in writing by its outside counsel that continued pursuit of the Plan is inconsistent with its fiduciary duties, and the board of directors determines in good faith that, (A) a proposal or offer from a third party is reasonably likely to be more favorable to the Company than is proposed under the Term Sheet, taking into account, among other factors, the identity of the third party, the likelihood that any such proposal or offer will be negotiated to finality within a reasonable time, and the potential loss to the company if the proposal or offer were not accepted and consummated, or (B) the Plan is no longer confirmable or feasible;
- the Plan or any subsequent plan filed by us with the bankruptcy court (or a plan supported or endorsed by us) is not reasonably consistent in all material respects with the terms of the Restructuring Agreements;
- Charter shall not have filed for Chapter 11 relief with the bankruptcy court on or before April 1, 2009;
- a disclosure statement order reasonably acceptable to Charter, the holders of a majority of the CCH I Notes held by the ad-hoc committee of certain Noteholders (the "Requisite Holders") and Mr. Allen has not been entered by the bankruptcy court on or before the 50th day following the bankruptcy petition date;
- a confirmation order reasonably acceptable to Charter, the Requisite Holders and Mr. Allen is not entered by the bankruptcy court on or before the 130th day following the bankruptcy petition date;
- any of the Chapter 11 cases of Charter is converted to cases under Chapter 7 of the Bankruptcy Code if as a result of such conversion the Plan is not confirmable;
- any Chapter 11 cases of Charter is dismissed if as a result of such dismissal the Plan is not confirmable;
- the order confirming the Plan is reversed on appeal or vacated; and
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any Restructuring Agreement or the Allen Agreement has terminated or been breached in any material respect subject to notice and cure provisions.

The Allen Agreement contains similar provisions to those provisions of the Restructuring Agreements. There is no assurance that the treatment of creditors outlined above will not change significantly. For example, because the Proposed Restructuring is contingent on reinstatement of the credit facilities and certain notes of Charter Operating and CCO Holdings, failure to reinstate such debt would require us to revise the Proposed Restructuring. Moreover, if reinstatement does not occur and current capital market conditions persist, we may not be able to secure adequate new financing and the cost of new financing would likely be materially higher. The Proposed Restructuring would result in the reduction of our debt by approximately $8 billion.

The above summary of the Restructuring Agreements, Commitment Letters, Term Sheet and Allen Agreement is qualified in its entirety by the full text of the Restructuring Agreements, Commitment Letters, Term Sheet and Allen Agreement, copies of which are filed as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, to this Annual Report on Form 10-K, and incorporated herein by reference. See "Part I. Item 1A - Risk Factors – Risks Relating to Bankruptcy."

Recent Developments – Interest Payments

Two of our subsidiaries, CIH and Charter Holdings, did not make scheduled payments of interest due on January 15, 2009 (the "January Interest Payment") on certain of their outstanding senior notes (the "Overdue Payment Notes"). Each of the respective governing indentures (the "Indentures") for the Overdue Payment Notes permits a 30-day grace period for such interest payments through (and including) February 15, 2009. On February 11, 2009, in connection with the Commitment Letters and Restructuring Agreements, Charter and certain of its subsidiaries also entered into an Escrow Agreement with members of the ad-hoc committee of holders of the Overdue Payment Notes ("Ad-Hoc Holders") and Wells Fargo Bank, National Association, as Escrow Agent (the "Escrow Agreement"). On February 13, 2009, Charter paid the full amount of the January Interest Payment to the Paying Agent for the Ad-Hoc Holders on the Overdue Payment Notes, which constitute payment under the Indentures. As required under the Indentures, Charter set a special record date for payment of such interest payments of February 28, 2009. Under the Escrow Agreement, the Ad-Hoc Holders agreed to deposit into an escrow account the amounts they receive in respect of the January Interest Payment (the "Escrow Amount") and the Escrow Agent will hold such amounts subject to the terms of the Escrow Agreement. Under the Escrow Agreement, if the transactions contemplated by the Restructuring Agreements are consummated on or before December 15, 2009 or such transactions are not consummated on or before December 15, 2009 due to material breach of the Restructuring Agreements by Charter or its direct or indirect subsidiaries, then the Ad-Hoc Holders will be entitled to receive their pro-rata share of the Escrow Amount. If the transactions contemplated by the Restructuring Agreements are not consummated on or prior to December 15, 2009 for any reason other than material breach of the Restructuring Agreements by Charter or its direct or indirect subsidiaries, then Charter, Charter Holdings, CIH or their designee shall be entitled to receive the Escrow Amount.

One of Charter's subsidiaries, CCH II, will not make its scheduled payment of interest on March 16, 2009 on certain of its outstanding senior notes. The governing indenture for such notes permits a 30-day grace period for such interest payments, and Charter expects to file its voluntary Chapter 11 Bankruptcy prior to the expiration of the grace period.

Recent Developments – Charter Operating Credit Facility

On February 3, 2009, Charter Operating made a request to the administrative agent under its Amended and Restated Credit Agreement, dated as of March 18, 1999, as amended and restated as of March 6, 2007 (the "Credit Agreement"), to borrow additional revolving loans under the Credit Agreement. Such borrowing request complied with the provisions of the Credit Agreement including section 2.2 ("Procedure for Borrowing") thereof. On February 5, 2009, we received a notice from the administrative agent asserting that one or more Events of Default (as defined in the Credit Agreement) had occurred and was continuing under the Credit Agreement. In response, we sent a letter to the administrative agent on February 9, 2009, among other things, stating that no Event of Default under the Credit Agreement occurred or was continuing and requesting the administrative agent to rescind its notice of default and fund Charter Operating's borrowing request. The administrative agent sent a letter to us on February 11, 2009, stating that it continues to believe that one or more events of default occurred and was continuing. As a result, with the exception of one lender who funded approximately $0.4 million, the lenders under the Credit Agreement have failed to fund Charter Operating's borrowing request.

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Corporate Organizational Structure

The chart below sets forth our organizational structure and that of our direct and indirect subsidiaries. This chart does not include all of our affiliates and subsidiaries and, in some cases, we have combined separate entities for presentation purposes. The equity ownership, voting percentages, and indebtedness amounts shown below are approximations as of December 31, 2008, and do not give effect to any exercise, conversion or exchange of then outstanding options, preferred stock, convertible notes, and other convertible or exchangeable securities debt eliminated in consolidation, or any change that would result from the Proposed Restructuring. Indebtedness amounts shown below are accreted values for financial reporting purposes as of December 31, 2008. See Note 9 to the accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data," which also includes the principal amount of the indebtedness described below.

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(1) Charter acts as the sole manager of Charter Holdco and its direct and indirect limited liability company subsidiaries. Charter's certificate of incorporation requires that its principal assets be securities of Charter Holdco, the terms of which mirror the terms of securities issued by Charter. See "Item 1. Business — Corporate Organizational Structure — Charter Communications, Inc." below.

(2) At December 31, 2008, these membership units were held by CII and Vulcan Cable III Inc. ("Vulcan Cable"), each of which was 100% owned by Paul G. Allen, Charter's Chairman and controlling shareholder. They are exchangeable at any time on a one-for-one basis for shares of Charter Class B common stock, which in turn are exchangeable into Charter Class A common stock on a one-for-one basis. In January 2009, Vulcan Cable merged into CII with CII being the surviving entity.

(3) The percentages shown in this table reflect the 21.8 million shares of Class A common stock outstanding as of December 31, 2008 issued pursuant to the Share Lending Agreement. However, for accounting purposes, Charter's common equity interest in Charter Holdco is 53%, and Paul G. Allen's ownership of Charter Holdco through his affiliates is 47%. These percentages exclude the 21.8 million mirror membership units outstanding as of December 31, 2008 issued pursuant to the Share Lending Agreement. See Note 13 to the accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

(4) Represents preferred membership interests in CC VIII, LLC ("CC VIII"), a subsidiary of CC V Holdings, LLC, and an exchangeable accreting note issued by CCHC. See Notes 10 and 11 to the accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

Charter Communications, Inc. Certain provisions of Charter's certificate of incorporation and Charter Holdco's limited liability company agreement effectively require that Charter's investment in Charter Holdco replicate, on a "mirror" basis, Charter's outstanding equity and debt structure. As a result of these coordinating provisions, whenever Charter issues equity or debt, Charter transfers the proceeds from such issuance to Charter Holdco, and Charter Holdco issues a "mirror" security to Charter that replicates the characteristics of the security issued by Charter. Consequently, Charter's principal assets are an approximate 55% common equity interest (53% for accounting purposes) and a 100% voting interest in Charter Holdco, and "mirror" notes that are payable by Charter Holdco to Charter that have the same principal amount and terms as Charter's convertible senior notes. Charter Holdco, through its subsidiaries, owns cable systems and certain strategic investments. As sole manager under applicable operating agreements, Charter controls the affairs of Charter Holdco and its limited liability company subsidiaries. In addition, Charter provides management services to Charter Holdco and its subsidiaries under a management services agreement.

The following table sets forth information as of December 31, 2008 with respect to the shares of common stock of Charter on an actual outstanding, "as converted" and "fully diluted" basis:

	Charter Communications, Inc. Actual Shares Outstanding (a)			Assuming Exchange of Charter Holdco Membership Units (b)		Fully Diluted Shares Outstanding (c)	
	Number of Common Shares Outstanding	Percentage of Common Shares Outstanding	Voting Percentage	Number of As Converted Common Shares Outstanding	Percentage of As Converted Common Shares Outstanding	Number of Fully Diluted Common Shares Outstanding	Percentage of Fully Diluted Common Shares Outstanding
Class A Common Stock	411,737,894	99.99%	9.86%	411,737,894	54.83%	411,737,894	41.78%
Class B Common Stock	50,000	0.01%	90.14%	50,000	0.01%	50,000	0.01%
Total Common Shares Outstanding	411,787,894	100.00%	100.00%				
One-for-One Exchangeable Equity in Subsidiaries:							
Charter Investment, Inc.				222,818,858	29.67%	222,818,858	22.61%
Vulcan Cable III Inc. (merged into Charter Investment, Inc. in January 2009)				116,313,173	15.49%	116,313,173	11.80%
Total As Converted Shares Outstanding				750,919,925	100.00%		
Other Convertible Securities							
Charter Communications, Inc.:							
Convertible Debt:							
5.875% Convertible Senior						1,287,190	0.13%

Notes (d)		
6.50% Convertible Senior Notes (e)	140,581,566	14.27%
Employee, Director and Consultant Stock Options (f)	22,332,904	2.27%
Employee Performance Shares (g)	33,036,871	3.35%
CCHC:		
14% Exchangeable Accreting Note (h)	37,266,479	3.78%
Fully Diluted Common Shares Outstanding	985,424,935	100.00%

(a) Paul G. Allen owns approximately 7% of Charter's outstanding Class A common stock (approximately 49% assuming the exchange by Mr. Allen of all units in Charter Holdco held by him and his affiliates for shares of Charter Class B common stock, which are in turn convertible into Class A common stock, but not assuming the conversion of an accreting note (the "CCHC note")) and beneficially controls approximately 91% of the voting power of Charter's capital stock. Mr. Allen is entitled to ten votes for each share of Class B common stock held by him and his affiliates and for each membership unit in Charter Holdco held by him and his affiliates.

(b) Assumes only the exchange of Charter Holdco membership units held by Mr. Allen and his affiliates for shares of Charter Class B common stock on a one-for-one basis pursuant to exchange agreements between the holders of such units and Charter, which shares are in turn convertible into Class A common stock on a one-for-one basis. Does not include shares issuable on conversion or exercise of any other convertible securities, including stock options, and convertible notes.

(c) Represents "fully diluted" common shares outstanding, assuming the exercise, exchange, vesting or conversion of all outstanding options and exchangeable or convertible securities, including the exchangeable membership units described in note (b) above, the 14% CCHC exchangeable accreting note, all outstanding 5.875% and 6.50% convertible senior notes of Charter, all employee, director and consultant stock options and employee performance shares.

(d) Reflects shares issuable upon conversion of all outstanding 5.875% convertible senior notes ($3 million total principal amount), which are convertible into shares of Class A common stock at an initial conversion rate of 413.2231 shares of Class A common stock per $1,000 principal amount of notes (or approximately $2.42 per share), subject to certain adjustments.

(e) Reflects shares issuable upon conversion of all outstanding 6.50% convertible senior notes ($479 million total principal amount), which are convertible into shares of Class A common stock at an initial conversion rate of 293.3868 shares of Class A common stock per $1,000 principal amount of notes (or approximately $3.41 per share), subject to certain adjustments.

(f) The weighted average exercise price of outstanding stock options was $3.82 as of December 31, 2008.

(g) Represents shares issuable under our long-term incentive plan ("LTIP"), which are subject to vesting based on continued employment and, in many cases, Charter's achievement of certain performance criteria.

(h) Mr. Allen, through his wholly owned subsidiary CII, holds the CCHC note that is exchangeable for Charter Holdco units. The CCHC note has a 15-year maturity. The CCHC note has an accreted value as of December 31, 2008 of $75 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 note in cash and the accreted value of the CCHC 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, which are exchangeable into shares of Charter Class B common stock, which shares are in turn convertible into Class A common stock, at a rate equal to the then accreted value, divided by $2.00. See Note 10 to our accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

Charter Communications Holding Company, LLC. Charter Holdco, a Delaware limited liability company formed on May 25, 1999, is the direct 100% parent of CCHC. At December 31, 2008, the common membership units of Charter Holdco were owned approximately 55% by Charter, 15% by Vulcan Cable and 30% by CII. In January 2009, Vulcan Cable merged into CII with CII being the surviving entity. All of the outstanding common membership units in Charter Holdco, which were held by Vulcan Cable and CII at December 31, 2008, are controlled by Mr. Allen and are exchangeable on a one-for-one basis at any time for shares of Class B common stock of Charter, which are in turn convertible into Class A common stock of Charter on a one-for-one basis. Charter controls 100% of the voting power of Charter Holdco and is its sole manager.

Certain provisions of Charter's certificate of incorporation and Charter Holdco's limited liability company agreement effectively require that Charter's investment in Charter Holdco replicate, on a "mirror" basis, Charter's outstanding equity and debt structure. As a result, in addition to its equity interest in common units of Charter Holdco, Charter also holds 100% of the 5.875% and the 6.50% mirror convertible notes of Charter Holdco that automatically convert into common membership units upon the conversion of Charter 5.875% or 6.50% convertible senior notes.

CCHC, LLC. CCHC, a Delaware limited liability company formed on October 25, 2005, is the issuer of an exchangeable accreting note. In October 2005, 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 the CCHC note to CII.

Interim Holding Company Debt Issuers. As indicated in the organizational chart above, our interim holding company debt issuers indirectly own the subsidiaries that own or operate all of our cable systems, subject to a CC VIII minority interest held by Mr. Allen and CCH I as described below. For a description of the debt issued by these issuers please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of Our Outstanding Debt."

Preferred Equity in CC VIII. CII owns 30% of the CC VIII preferred membership interests. CCH I, a direct subsidiary of CIH, directly owns the remaining 70% of these preferred interests. The common membership interests in CC VIII are indirectly owned by Charter Operating. See Notes 11 and 23 to our accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

Products and Services

We sell video, high-speed Internet, and telephone services utilizing our cable network. Our video services include traditional cable video services (basic and digital) and in most areas advanced broadband services such as OnDemand, high definition television, and DVR services. Our telephone services are primarily provided using voice over Internet protocol ("VoIP") technology, to transmit digital voice signals over our systems. Our video, high-speed Internet, and telephone services are offered to residential and commercial customers 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" or on an individual basis, and the equipment necessary to receive the services, with some variation in prices depending on geographic location.

The following table approximates our customer statistics for video, residential high-speed Internet and telephone as of December 31, 2008 and 2007.

	Approximate as of	
	December 31, 2008 (a)	December 31, 2007 (a)
Video Cable Services:		
Basic Video:		
Residential (non-bulk) basic video customers (b)	4,779,000	4,959,800
Multi-dwelling (bulk) and commercial unit customers (c)	266,700	260,100
Total basic video customers (b) (c)	5,045,700	5,219,900
Digital Video:		
Digital video customers (d)	3,133,400	2,920,400
Non-Video Cable Services:		
Residential high-speed Internet customers (e)	2,875,200	2,682,500
Telephone customers (f)	1,348,800	959,300
Total Revenue Generating Units (g)	12,403,100	11,782,100

After giving effect to sales of cable systems in 2008, December 31, 2007 basic video customers, digital video customers, high-speed Internet customers, and telephone customers would have been 5,203,200; 2,912,800; 2,676,900; and 959,300, respectively.

(a) "Customers" include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts. At December 31, 2008 and 2007, "customers" include approximately 36,000 and 48,200 persons, respectively, whose accounts were over 60 days past due in payment, approximately 5,300 and 10,700 persons, respectively, whose accounts were over 90 days past due in payment, and approximately 2,700 and 2,900 persons, respectively, whose accounts were over 120 days past due in payment.

(b) "Basic video customers" include all residential customers who receive video cable services.

(c) Included within "basic video customers" are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit ("EBU") basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. The EBU method of estimating video customers is consistent with the methodology used in determining costs paid to programmers and has been used consistently each reporting year.

(d) "Digital video customers" include all basic video customers that have one or more digital set-top boxes or cable cards deployed.

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

(f) “Telephone customers” include all customers receiving telephone service.

(g) "Revenue generating units" represent the sum total of all basic video, digital video, high-speed Internet and telephone customers, not counting additional outlets within one household. For example, a customer who receives two types of service (such as basic video and digital video) would be treated as two revenue generating units and, if that customer added on high-speed Internet service, the customer would be treated as three revenue generating units. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association (“NCTA”).

Video Services

In 2008, video services represented approximately 53% of our total revenues. Our video service offerings include the following:

- Basic 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 9 and 35 channels.

- Expanded Basic Video. This expanded programming level includes a package of satellite-delivered or non-broadcast channels and generally has between 20 and 60 channels in addition to the basic channel line-up.

- Digital Video. We offer digital video services including a digital set-top box, an interactive electronic programming guide with parental controls, an expanded menu of pay-per-view channels, including OnDemand (available nearly everywhere), digital quality music channels and the option to also receive a cable card. We also offer our customers certain digital tiers of programming including premium channels (for example, HBO®, Showtime® and Starz/Encore®) as well as tiers that offer customers a variety of programming and some tiers that emphasize, for example, sports or ethnic programming. In addition to video programming, digital video service enables customers to receive our advanced broadband services such as OnDemand, DVRs, and high definition television. Recently, Charter bundled its digital sports tier with premium sports content on charter.net.

- Premium Channels. These channels provide original programming, 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 digital video channel packages and premium channel packages, and we offer premium channels bundled with our advanced broadband 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.

- OnDemand and Subscription OnDemand. OnDemand service allows customers to select from hundreds of movies and other programming at any time. These programming options may be accessed for a fee or, in some cases, for no additional charge. In some systems we also offer subscription OnDemand for a monthly fee or included in a digital tier premium channel subscription.

- High Definition Television. High definition television offers our digital customers certain video programming at a higher resolution to improve picture quality versus standard basic or digital video images.

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

High-Speed Internet Services

In 2008, residential high-speed Internet services represented approximately 21% of our total revenues. We currently offer several tiers of high-speed Internet services with speeds ranging up to 60 megabytes to our residential customers via cable modems attached to personal computers. We also offer home networking gateways to these customers, which permit customers to connect up to five computers in their home to the Internet simultaneously.

Telephone Services

In 2008, telephone services represented approximately 9% of our total revenues. We provide voice communications services primarily using VoIP technology to transmit digital voice signals over our systems. Charter Telephone includes unlimited nationwide and in-state calling, voicemail, call waiting, caller ID, call forwarding and other features. Charter Telephone® also provides international calling either by the minute or in a package of 250 minutes per month.

Commercial Services

In 2008, commercial services represented approximately 6% of our total revenues. Commercial services, offered through Charter Business™, include scalable broadband communications solutions for business organizations, such as business-to-business Internet access, data networking, video and music entertainment services, and business telephone.

Sale of Advertising

In 2008, sales of advertising represented approximately 5% of our total revenues. 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 40 channels. We also provide cross-channel advertising to some programmers.

From time to time, certain of our vendors, including programmers and equipment vendors, have purchased advertising from us. For the years ending December 31, 2008, 2007 and 2006, we had advertising revenues from vendors of approximately $39 million, $15 million, and $17 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 customers pay for the services we offer. We typically charge a one-time installation fee which is sometimes waived or discounted during certain promotional periods. The prices we charge for our products and services vary based on the level of service the customer chooses and the geographic market.

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

We offer reduced-price service for promotional periods in order to attract new customers and to promote the bundling of two or more services. There is no assurance that these customers will remain as customers when the promotional pricing period expires. When customers bundle services, generally the prices are lower per service than if they had only purchased a single service.

Our Network Technology

Our network utilizes the hybrid fiber coaxial cable (“HFC”) architecture, which combines the use of fiber optic cable with coaxial cable. 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. On average, our system design enables typically up to 400 homes passed to be served by a single node and provides for six strands of fiber to each node, with two strands activated and four strands reserved for spares and future services. We believe that this hybrid network design provides high capacity and signal quality. The design also provides two-way signal capacity for the addition of future services.

HFC architecture benefits include:

- bandwidth capacity to enable traditional and two-way video and broadband services;
- dedicated bandwidth for two-way services, which avoids return signal interference problems that can occur with two-way communication capability; and
- signal quality and high service reliability.

The following table sets forth the technological capacity of our systems as of December 31, 2008 based on a percentage of homes passed:

Less than 550 megahertz	550 megahertz	750 megahertz	860/870 megahertz	Two-way activated
5%	5%	44%	46%	95%

Approximately 95% of our homes passed are served by systems that have bandwidth of 550 megahertz or greater. This bandwidth capacity enables us to offer digital television, high-speed Internet services, telephone service and other advanced services.

Through system upgrades and divestitures of non-strategic systems, we have reduced the number of headends that serve our customers from 1,138 at January 1, 2001 to 300 at December 31, 2008. Headends are the control centers of a cable system. Reducing the number of headends reduces related equipment, service personnel, and maintenance expenditures. As of December 31, 2008, approximately 91% of our customers were served by headends serving at least 10,000 customers.

As of December 31, 2008, our cable systems consisted of approximately 201,000 aerial and underground miles of coaxial cable, and approximately 58,000 aerial and underground miles of fiber optic cable, passing approximately 11.9 million households and serving approximately 5.5 million customers.

Management of Our Systems

Our corporate office, which includes employees of Charter, is responsible for coordinating and overseeing overall operations including establishing company-wide policies and procedures. The corporate office performs certain financial and administrative functions on a centralized basis and performs these services on a cost reimbursement basis pursuant to a management services agreement. In 2008, our field operations were managed within three divisions. Each division had a divisional president and was supported by operational, financial, legal, customer care, marketing and engineering functions. Effective 2009, our field operations are now managed within two operating groups. In addition, we formed shared service centers for our field sales and marketing function, our human resource and training function, finance, and certain areas of customer operations.

Customer Care

Our customer care centers are managed centrally, with the deployment and execution of end-to-end care strategies and initiatives conducted on a company-wide basis. We have eight internal customer care locations plus several third-party call center locations that through technology and procedures function as an integrated system. We provide service to our customers 24 hours a day, seven days a week. We also utilize our website to enable our customers to view and pay their bills online, obtain useful information, and perform various equipment troubleshooting procedures. Our customers may also obtain support through our on-line chat and e-mail functionality.

Sales and Marketing

Our marketing strategy emphasizes our bundled services through targeted marketing programs to existing and potential customers. Marketing expenditures increased by $32 million, or 14%, over the year ended December 31, 2007 to $268 million for the year ended December 31, 2008. Our marketing organization creates and executes marketing programs intended to increase customer relationships, retain existing customers and cross-sell additional products to current customers. We monitor the effectiveness of our marketing efforts, customer perception, competition, pricing, and service preferences, among other factors, to increase our responsiveness to our customers.

Programming

General

We believe that offering a wide variety of programming 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 written contracts. 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/or ongoing marketing support. We also negotiate volume discount pricing structures. Programming costs are usually payable each month based on calculations performed by us and are generally subject to annual cost escalations and audits by the programmers.

Costs

Programming is usually 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 revenue attributable to our customers' purchases, as well as, in some instances, incentives for channel placement.

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, and at a higher rate than in 2008, due to a variety of factors including amounts paid for retransmission consent, annual increases imposed by programmers and additional programming, including high-definition and OnDemand programming, being provided to customers. In particular, sports programming costs have increased significantly over the past several years. In addition, contracts to purchase sports programming sometimes provide for optional additional programming to be available on a surcharge basis during the term of the contract.

Federal law allows commercial television broadcast stations to make an election between "must-carry" rights and an alternative "retransmission-consent" regime. When a station opts for the retransmission-consent regime, we are not allowed to carry the station's signal without the station's permission. Continuing demands by owners of broadcast stations for carriage of other services or cash payments to those broadcasters in exchange for retransmission consent will likely increase our programming costs or require us to cease carriage of popular programming, potentially leading to a loss of customers in affected markets.

Over the past several years, our video service rates have not fully offset increasing programming costs, and with the impact of increasing competition and other marketplace factors, we do not expect them to do so in the foreseeable future. In addition, our inability to fully pass these programming cost increases on to our video customers has had and is expected in the future to have an adverse impact on our cash flow and operating margins associated with the video product. In order to mitigate reductions of our operating margins due to rapidly increasing programming costs, we continue to review our pricing and programming packaging strategies, and we plan to continue to migrate certain program services from our basic 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 only be part of an elective digital tier package offered to our customers for an additional fee. As a result, we expect that the customer base upon which we pay programming fees will proportionately decrease, and the overall expense for providing that service will also decrease. However, reductions in the size of certain programming customer bases may result in the loss of specific volume discount benefits.

We have programming contracts that have expired and others that will expire at or before the end of 2009. We will seek to renegotiate the terms of these agreements. 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 have been, and may in the future be, forced to remove such programming channels from our line-up, which may result in a loss of customers.

Franchises

As of December 31, 2008, our systems operated pursuant to a total of approximately 3,200 franchises, permits, and similar authorizations issued by local and state governmental authorities. Such governmental authorities 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 generally initiate renewal proceedings with the granting authorities. This process usually takes three years but can take a longer period of time. The Communications Act of 1934, as amended (the “Communications Act”), which is the primary federal statute regulating interstate communications, 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, such as building out certain of the franchise areas, customer service requirements, and supporting and carrying public access channels. 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 10% of our franchises, covering approximately 11% of our video customers were expired at December 31, 2008. On January 1, 2009, a number of these expired franchises converted to statewide authorization and were no longer considered expired. Approximately 4% of additional franchises, covering approximately 4% of additional video customers will expire on or before December 31, 2009, if not renewed prior to expiration. We expect to renew or continue to operate under all or substantially all of these franchises.

Proposals to streamline cable franchising recently have been adopted at both the federal and state levels. These franchise reforms are primarily intended to facilitate entry by new competitors, particularly telephone companies, but they often include substantive relief for incumbent cable operators, like us, as well. In many states, the local franchising process under which we have historically operated has been replaced by a streamlined state certification process. See “— Regulation and Legislation — Video Services — Franchise Matters.”

Competition

We face competition in the areas of price, service offerings, and service reliability. We compete with other providers of video, high-speed Internet access, telephone services, and other sources of home entertainment. We operate in a very competitive business environment, which can adversely affect the result of our business and operations. We cannot predict the impact on us of broadband services offered by our competitors.

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, telephone, and other interactive video services. In the broadband industry, our principal competitor for video services throughout our territory is direct broadcast satellite (“DBS”) and our principal competitor for high-speed Internet services is DSL provided by telephone companies. Our principal competitors for telephone services are established telephone companies, other telephone service providers, and other carriers, including VoIP providers. Based on telephone companies’ entry into video service and the upgrades of their networks, they will become increasingly more significant competitors for both high-speed Internet and video customers. We do not consider other cable operators to be significant competitors in our overall market, as overbuilds are infrequent and geographically spotty (although in any particular market, a cable operator overbuilder would likely be a significant competitor at the local level).

Our key competitors include:

DBS

Direct broadcast satellite is a significant competitor to cable systems. The DBS industry has grown rapidly over the last several years, and now serves more than 31 million subscribers nationwide. DBS service allows the subscriber to receive video services directly via satellite using a dish antenna.

Video compression technology and high powered satellites allow DBS providers to offer more than 250 digital channels from a single satellite, thereby surpassing the traditional analog cable system. In 2008, major DBS competitors offered a greater variety of channel packages, and were especially competitive with promotional pricing for more basic services. In addition, while we continue to believe that the initial investment by a DBS customer exceeds that of a cable customer, the 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. Also, DBS providers are offering more high definition programming, including local high definition programming. However, we believe that cable-delivered OnDemand and Subscription OnDemand services, which include HD programming, are superior to DBS service, because cable headends can provide two-way communication to deliver many 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. However, joint marketing arrangements between DBS providers and telecommunications carriers allow similar bundling of services in certain areas. DBS providers have also made attempts at deployment of high-speed Internet access services via satellite, but those services have been technically constrained and of limited appeal.

Telephone Companies and Utilities

Our telephone service competes directly with established telephone companies and other carriers, including Internet-based VoIP providers, for voice service customers. Because we offer voice services, we are subject to considerable competition from telephone companies and other telecommunications providers. The telecommunications industry is highly competitive and includes competitors with greater financial and personnel resources, strong brand name recognition, and long-standing relationships with regulatory authorities and customers. Moreover, mergers, joint ventures and alliances among our competitors have resulted in providers capable of offering cable television, Internet, and telephone services in direct competition with us. For example, major local exchange carriers have entered into joint marketing arrangements with DBS providers to offer bundled packages combining telephone (including wireless), high-speed Internet, and video services.

Most telephone companies, which already have plant, an existing customer base, and other operational functions in place (such as billing and service personnel), offer DSL service. DSL service allows Internet access to subscribers at data transmission speeds greater than those available over conventional telephone lines. We believe DSL service is competitive with high-speed Internet service and is often offered at prices lower than our Internet services, although often at speeds lower than the speeds we offer. 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 may also have the ability to bundle telephone with Internet services for a higher percentage of their customers. We expect DSL to remain a significant competitor to our high-speed Internet services, particularly as telephone companies bundle DSL with telephone and video service. In addition, the continuing deployment of fiber optics into telephone companies' networks (primarily by Verizon Communications, Inc. ("Verizon")) will enable them to provide even higher bandwidth Internet services.

Telephone companies, including AT&T Inc. ("AT&T") and Verizon, can offer video and other services in competition with us, and we expect they will increasingly do so in the future. Upgraded portions of AT&T's and Verizon's networks carry two-way video and data services. In the case of Verizon, high-speed data services (DSL and fiber optic service ("FiOS")) operate at speeds as high as or higher than ours and provide digital voice services similar to ours. In addition, these companies continue to offer their traditional telephone services, as well as service bundles that include wireless voice services provided by affiliated companies. Based on internal estimates, we believe that AT&T and Verizon are offering video services in areas serving approximately 14% to 17% of our estimated homes passed as of December 31, 2008. AT&T and Verizon have also launched campaigns to capture more of the multiple dwelling unit ("MDU") market. Additional upgrades and product launches are expected in markets in which we operate.

In addition to telephone companies obtaining franchises or alternative authorizations in some areas and seeking them in others, they have been successful through various means in reducing or streamlining the franchising requirements applicable to them. They have had significant success at the federal and state level, securing an FCC ruling and numerous state franchise laws that facilitate their entry into the video marketplace. Because telephone companies have been successful in avoiding or reducing the franchise and other regulatory requirements that remain applicable to cable operators like us, their competitive posture has often been enhanced. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of our cable systems.

Additionally, we are subject to competition from utilities that possess fiber optic transmission lines capable of transmitting signals with minimal signal distortion. Certain utilities are also developing broadband over power line technology, which may allow the provision of Internet and other broadband services to homes and offices. Utilities have deployed broadband over power line technology in a few limited markets. In some cases, it is the local municipalities that regulate us, which own cable systems that compete with us.

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 higher picture quality and more channel offerings than broadcast television. However, the recent licensing of digital spectrum by the FCC now provides 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 historically 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 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 cable overbuilds by private companies not affiliated with established local exchange carriers. 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 with equal or better service quality, on a more cost-effective basis than we can. Any such overbuild operation would require access to capital or access to facilities already in place that are capable of delivering cable television programming.

As of December 31, 2008, excluding telephone companies, we are aware of traditional overbuild situations impacting approximately 8% to 9% of our total homes passed and potential traditional overbuild situations in areas servicing approximately an additional 1% of our total homes passed. Additional overbuild situations may occur.

Private Cable

Additional competition is posed by satellite master antenna television systems, or SMATV systems, serving MDUs, such as condominiums, apartment complexes, and private residential communities. Private cable systems can offer 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. The FCC recently adopted regulations that favor SMATV and private cable operators serving MDU complexes, allowing them to continue to secure exclusive contracts with MDU owners. The FCC regulations have been appealed, and the FCC is currently considering whether to restrict their ability to enter into exclusive arrangements, but this sort of regulatory disparity, if it withstands judicial review, provides a competitive advantage to certain of our current and potential competitors.

Other Competitors

Local wireless Internet services have recently begun to operate in many markets using available unlicensed radio spectrum. Some cellular phone service operators are also marketing PC cards offering wireless broadband access to their cellular networks. These service options offer another alternative to cable-based Internet access.

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.

Regulation and Legislation

The following summary addresses the key regulatory and legislative developments affecting the cable industry and our three primary services: video service, high-speed Internet service, and telephone service. Cable system operations are extensively regulated by the federal government (primarily the FCC), certain state governments, and many 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 frequently revisited the subject of communications regulation often designed to increase competition to the cable industry, and they are likely to do so in the future. We could be materially disadvantaged in the future if we are subject to new regulations that do not equally impact our key competitors. We cannot provide assurance that the already extensive regulation of our business will not be expanded in the future.

Video Service

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 the minimum level of video programming service, referred to as "basic service," and associated equipment. All other cable offerings are now universally exempt from rate regulation. Although basic service 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 been certified to regulate basic service cable rates (and order rate reductions and refunds), but they generally retain the right to do so (subject to potential regulatory limitations under state franchising laws), except in those specific communities facing "effective competition," as defined under federal law. We have already secured FCC recognition of effective competition, and become rate deregulated, 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 legislative and regulatory interest in requiring cable operators 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 mandates could adversely affect our operations.

Federal rate regulations generally require cable operators to allow subscribers to purchase premium or pay-per-view services without the necessity of subscribing to any tier of service, other than the basic service tier. The applicability of this rule in certain situations remains unclear, and adverse decisions by the FCC could affect our pricing and packaging of services. As we attempt to respond to a changing marketplace with competitive pricing practices, such as targeted promotions and discounts, we may face Communications Act uniform pricing requirements that impede our ability to compete.

Must Carry/Retransmission Consent. There are two alternative legal methods for carriage of local broadcast television stations on cable systems. Federal "must carry" regulations require cable systems to carry local broadcast television stations upon the request of the local broadcaster. Alternatively, federal law includes "retransmission consent" regulations, by which 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. Broadcast stations must elect "must carry" or "retransmission consent" every three years, with the election date of October 1, 2008, for the current period of 2009 through 2011. Either option has a potentially adverse effect on our business by utilizing bandwidth capacity. In addition, popular stations invoking "retransmission consent" have been increasingly demanding cash compensation in their negotiations with cable operators.

In September 2007, the FCC adopted an order increasing the cable industry's existing must-carry obligations by requiring cable operators to offer "must carry" broadcast signals in both analog and digital format (dual carriage) for a three year period after the broadcast television industry will complete its ongoing transition from an analog to digital format, which is presently scheduled to occur on June 12, 2009. The burden could increase further if cable systems were ever required to carry multiple program streams included within a single digital broadcast transmission (multicast carriage), which the recent FCC order did not address. Additional government-mandated broadcast carriage obligations could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity, and limit our ability to offer services that appeal to our customers and generate revenues. We may need to take additional operational steps and/or make further operating and capital investments 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, who generally offer programming that our customers do not particularly desire. The FCC adopted new rules in 2007 mandating a significant reduction in the rates that operators can charge commercial leased access users and imposing additional administrative requirements that would be burdensome on the cable industry. The effect of the FCC's new rules was stayed by a federal court, pending a cable industry appeal and a finding that the new rules did not comply with the requirements of the Office of Management and Budget. Under federal statute, commercial leased access programmers are entitled to use up to 15% of a cable system's capacity. Increased activity in this area could further burden the channel capacity of our cable systems, and potentially limit the amount of services we are able to offer and may necessitate further investments to expand our network capacity.

Access to Programming. The Communications Act and the FCC's "program access" rules generally prevent satellite cable programming vendors in which a cable operator has an attributable interest and satellite broadcast programming vendors from favoring cable operators over competing multichannel video distributors, such as DBS, and limit the ability of such vendors to offer exclusive programming arrangements to cable operators. Given the heightened competition and media consolidation that we face, 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 have been either eliminated or substantially relaxed. In December 2007, the FCC reimposed a cable ownership cap, so that no single operator can serve more than 30% of domestic multichannel video subscribers, which could limit the ability of potential acquirers from acquiring our company or our systems. This same numerical cap was previously invalidated by the courts, and the new cap is currently being challenged. We cannot provide any assurance that the current ownership limitations will be invalidated.

The FCC is now engaged in a proceeding to determine whether cable's overall subscriber penetration levels merit additional regulations. Changes in this regulatory area could alter the business environment in which we operate.

Pole Attachments. The Communications Act requires most utilities owning utility poles to provide cable systems with access to poles and conduits and simultaneously subjects the rates charged for this access to either federal or state regulation. The Communications Act specifies that significantly higher rates apply if the cable plant is providing "telecommunications" services than only video services. Although the FCC previously determined that the lower rate was applicable to the mixed use of a pole attachment for the provision of both video and Internet access services (a determination upheld by the U.S. Supreme Court), the FCC issued a Notice of Proposed Rulemaking ("NPRM") on November 20, 2007, in which it "tentatively concludes" that such mixed use determination would likely be set aside. Under this NPRM, the FCC is seeking comment on its proposal to apply a single rate for all pole attachments over which a cable operator provides Internet access and other services, that allocates to the cable operators the additional cost associated with the "unusable space" of the pole. Such rate change could likely result in a substantial increase in our pole attachment costs.

Cable Equipment. In 1996, Congress enacted a statute seeking to promote the “competitive availability of navigational devices” by allowing cable subscribers to use set-top boxes obtained from third parties, including third-party retailers. The FCC has undertaken several steps to implement this statute designed to promote competition in the delivery of cable equipment and compatibility with new digital technology. The FCC expressly ruled that cable customers must be allowed to purchase set-top boxes from third parties, and it established a multi-year phase-in during which security functions (which allow a cable operator to control who may access their services and would remain in the operator's exclusive control) would be unbundled from the basic channel navigation converter functions, which could then be provided by third party vendors. The first phase of implementation has already passed, whereby cable operators began providing “CableCard” security modules and support to customer-owned televisions and similar devices equipped to receive one-way analog and digital video services without the need for an operator-provided set-top box. Effective July 1, 2007, cable operators were prohibited from acquiring for deployment integrated set-top boxes that perform both channel navigation and security functions.

The FCC has been considering regulatory proposals for “plug-and-play” retail devices that could access two-way cable services. Some of the proposals, if adopted, would impose substantial costs on us and impair our ability to innovate. In April 2008, we joined a multi-party contract among major consumer electronics and information technology companies and the largest six cable operators in the United States, to agree on how technology we use to support our current generation set-top boxes will be deployed in cable networks and in retail navigation devices to enable retail devices to access two-way cable services without impairing our ability to innovate. This voluntary agreement may preclude the need for additional FCC regulation in this area but there can be no assurance the FCC will not regulate this area notwithstanding this agreement.

MDUs / Inside Wiring. The FCC has adopted a series of regulations designed to spur competition to established cable operators in MDU complexes. These regulations allow our competitors to access certain existing cable wiring inside MDUs. The FCC also adopted regulations limiting the ability of established cable operators, like us, to enter into exclusive service contracts for MDU complexes. Significantly, it has not yet imposed a similar restriction on private cable operators and SMATV systems serving MDU properties but the FCC is currently considering extending the prohibition to such competitors. In their current form, the FCC’s regulations in this area favor our competitors.

Privacy Regulation. The Communications Act limits our ability to collect and disclose subscribers’ personally identifiable information for our video, telephone, and high-speed Internet services, as well as provides requirements to safeguard such information. We are subject to additional federal, state, and local laws and regulations that impose additional subscriber and employee privacy restrictions. Further, the FCC, FTC, and many states now regulate and restrict the telemarketing practices of cable operators, including telemarketing and online marketing efforts.

Other FCC Regulatory Matters. FCC regulations cover 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; and (13) emergency alert systems. Each of these regulations restricts our business practices to varying degrees.

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.

Copyright. Cable systems are subject to a federal copyright compulsory license covering carriage of television and radio broadcast signals. The possible modification or elimination of this compulsory copyright license is the subject of continuing legislative and administrative review and could adversely affect our ability to obtain desired broadcast programming. There is uncertainty regarding certain applications of the compulsory copyright license, including the royalty treatment of distant broadcast signals that are not available to all cable system subscribers served by a single headend. The Copyright Office is currently conducting an inquiry to consider a variety of issues affecting cable’s compulsory copyright license, including how the compulsory copyright license should apply to newly-offered digital broadcast signals. Current uncertainty regarding the compulsory copyright license could lead to legislative proposals, new administrative rules, or judicial decisions that would significantly increase our compulsory copyright payments for the carriage of 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.

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 utilize and cross public rights-of-way. Although some recently enacted state franchising laws grant indefinite franchises, 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 significantly between jurisdictions. Each franchise generally contains provisions governing cable operations, franchise fees, system construction, maintenance, technical performance, customer service standards, and changes in the ownership of the franchisee. 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, certain federal protections benefit cable operators. 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.

The traditional cable franchising regime is currently undergoing significant change as a result of various federal and state actions. In a series of recent rulemakings, the FCC adopted new rules that streamlined entry for new competitors (particularly those affiliated with telephone companies) and reduced certain franchising burdens for these new entrants. The FCC adopted more modest relief for existing cable operators.

At the same time, a substantial number of states recently have adopted new franchising laws. Again, these new laws were principally designed to streamline entry for new competitors, and they often provide advantages for these new entrants that are not immediately available to existing cable operators. In many instances, the new franchising regime does not apply to established cable operators until the existing franchise expires or a competitor directly enters the franchise territory. In a number of instances, however, incumbent cable operators have the ability to immediately “opt into” the new franchising regime, which can provide significant regulatory relief. The exact nature of these state franchising laws, and their varying application to new and existing video providers, will impact our franchising obligations and our competitive position.

Internet Service

Over the past several years, proposals have been advanced at the FCC and Congress to adopt “net neutrality” rules that would require cable operators offering Internet service to provide non-discriminatory access of customers to their networks and could interfere with the ability of cable operators to manage their networks. The FCC issued a non-binding policy statement in 2005 establishing four basic principles to guide its ongoing policymaking activities regarding broadband-related Internet services. Those principles state that consumers are entitled to access the lawful Internet content of their choice, consumers are entitled to run applications and services of their choice, subject to the needs of law enforcement, consumers are entitled to connect their choice of legal devices that do not harm the network, and consumers are entitled to competition among network providers, application and service providers and content providers. The FCC continues to study the network management practices of broadband providers, and it took action against one such provider in August 2008, based on the FCC’s belief that the provider’s network management practices were inconsistent with these principles. That FCC action is currently being appealed. It is unclear what, if any, additional regulations the FCC might impose on our Internet service, and what, if any, impact such regulations might have on our business. In addition, legislative proposals have been introduced in Congress to mandate how providers manage their networks and the broadband provisions of the newly enacted American Recovery and Reinvestment Act incorporate the FCC’s 2005 principles.

As the Internet has matured, it has become the subject of increasing regulatory interest. Congress and federal regulators have adopted a wide range of measures directly or potentially affecting Internet use, including, for example, consumer privacy, copyright protections (which afford copyright owners certain rights against us that could adversely affect our relationship with a customer accused of violating copyright laws), defamation liability, taxation, obscenity, and unsolicited commercial e-mail. Additionally, the FCC and Congress are considering subjecting high-speed Internet access services to the Universal Service funding requirements. This would impose significant new costs on our high-speed Internet service. State and local governmental organizations have also adopted Internet-related regulations. These various governmental jurisdictions are also considering additional regulations in these and other areas, such as pricing, service and product quality, and intellectual property ownership. The adoption of new Internet regulations or the adaptation of existing laws to the Internet could adversely affect our business.

Telephone Service

The 1996 Telecom Act created a more favorable regulatory environment for us to provide telecommunications services than had previously existed. In particular, it limited the regulatory role of local franchising authorities and established requirements ensuring that providers of traditional telecommunications services can interconnect with other telephone companies to provide competitive services. 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. The FCC and state regulatory authorities are considering, for example, whether common carrier regulation traditionally applied to incumbent local exchange carriers should be modified and whether any of those requirements should be extended to VoIP providers. The FCC has already determined that providers of telephone services using Internet Protocol technology must comply with 911 emergency service opportunities ("E911"), requirements for accommodating law enforcement wiretaps (CALEA), Universal Service fund collection, Customer Proprietary Network Information requirements, and telephone relay requirements. It is unclear whether and how the FCC will apply additional types of common carrier regulations, such as inter-carrier compensation to alternative voice technology. In March 2007, a federal appeals court affirmed the FCC's decision concerning federal regulation of certain VoIP services, but declined to specifically find that VoIP service provided by cable companies, such as we provide, should be regulated only at the federal level. As a result, some states have begun proceedings to subject cable VoIP services to state level regulation. Also, the FCC and Congress continue to consider to what extent, VoIP service will have interconnection rights with telephone companies. It is unclear how these regulatory matters ultimately will be resolved.

Employees

As of December 31, 2008, we had approximately 16,600 full-time equivalent employees. At December 31, 2008, approximately 80 of our employees were represented by collective bargaining agreements. We have never experienced a work stoppage.

Item 1A. Risk Factors.

Risks Relating to Bankruptcy

As mentioned above, we and our subsidiaries plan to file voluntary petitions under Chapter 11 of the United States Bankruptcy Code on or before April 1, 2009, in order to implement what we refer to herein as our agreement in principle with certain of our bondholders. A Chapter 11 filing involves many risks including, but not limited to the following.

Our operations will be subject to the risks and uncertainties of bankruptcy.

For the duration of the bankruptcy, our operations will be subject to the risks and uncertainties associated with bankruptcy which include, among other things:

- The actions and decisions of our creditors and other third parties with interests in our bankruptcy, including official and unofficial committees of creditors and equity holders, which may be inconsistent with our plans;

- objections to or limitations on our ability to obtain Bankruptcy Court approval with respect to motions in the bankruptcy that we may seek from time to time or potentially adverse decisions by the Bankruptcy Court with respect to such motions;

- objections to or limitations on our ability to avoid or reject contracts or leases that are burdensome or uneconomical;

- our ability to obtain customers and obtain and maintain normal terms with regulators, franchise authorities, vendors and service providers; and

- our ability to maintain contracts and leases that are critical to our operations.

These risks and uncertainties could negatively affect our business and operations in various ways. For example, negative events or publicity associated with our bankruptcy filings and events during the bankruptcy could adversely affect our relationships with franchise authorities, customers, vendors and employees, which in turn could adversely affect our operations and financial condition, particularly if the bankruptcy is protracted. Also, transactions by Charter will generally be subject to the prior approval of the applicable Bankruptcy Court, which may limit our ability to respond on a timely basis to certain events or take advantage of certain opportunities.

Because of the risks and uncertainties associated with our bankruptcy, the ultimate impact the events that occur during these cases will have on our business, financial condition and results of operations cannot be accurately predicted or quantified at this time.

The bankruptcy may adversely affect our operations going forward. Our seeking bankruptcy protection may adversely affect our ability to negotiate favorable terms from suppliers, landlords, contract or trading counterparties and others and to attract and retain customers and counterparties. The failure to obtain such favorable terms and to attract and retain customers, as well as other contract or trading counterparties could adversely affect our financial performance. In addition, we expect to incur substantial professional and other fees related to our restructuring.

We will remain subject to potential claims made after the date that we file for bankruptcy and other claims that are not discharged in the bankruptcy, which could have a material adverse effect on our results of operations and financial condition.

We are currently subject to claims in various legal proceedings, and may become subject to other legal proceedings in the future. Although such claims are generally stayed while the bankruptcy proceeding is pending, we may not be successful in ultimately discharging or satisfying such claims. The ultimate outcome of each of these matters, including our ability to have these matters satisfied and discharged in the bankruptcy proceeding, cannot presently be determined, nor can the liability that may potentially result from a negative outcome be reasonably estimated presently for every case. The liability we may ultimately incur with respect to any one of these matters in the event of a negative outcome may be in excess of amounts currently accrued with respect to such matters and, as a result, these matters may potentially be material to our business or to our financial condition and results of operations.

Transfers of our equity, or issuances of equity in connection with our restructuring, may impair our ability to utilize our federal income tax net operating loss carryforwards in the future.

Under federal income tax law, a corporation is generally permitted to deduct from taxable income in any year net operating losses carried forward from prior years. We have net operating loss carryforwards of approximately $8.7 billion as of December 31, 2008. Our ability to deduct net operating loss carryforwards will be subject to a significant limitation if we were to undergo an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, during or as a result of our bankruptcy and would be reduced by the amount of any cancellation of debt income resulting from the Proposed Restructuring that is allocable to Charter. See "—For tax purposes, it is anticipated that we will experience a deemed ownership change upon emergence from Chapter 11 bankruptcy, resulting in a material limitation on our future ability to use a substantial amount of our existing net operating loss carryforwards."

Our successful reorganization will depend on our ability to motivate key employees and successfully implement new strategies.

Our success is largely dependent on the skills, experience and efforts of our people. In particular, the successful implementation of our business plan and our ability to successfully consummate a plan of reorganization will be highly dependent upon our management. Our ability to attract, motivate and retain key employees is restricted by provisions of the Bankruptcy Code, which limit or prevent our ability to implement a retention program or take other measures intended to motivate key employees to remain with the Company during the pendency of the bankruptcy. In addition, we must obtain Bankruptcy Court approval of employment contracts and other employee compensation programs. The loss of the services of such individuals or other key personnel could have a material adverse effect upon the implementation of our business plan, including our restructuring program, and on our ability to successfully reorganize and emerge from bankruptcy.

The prices of our debt and equity securities are volatile and, in connection with our reorganization, holders of our securities may receive no payment, or payment that is less than the face value or purchase price of such securities.

The market price for our common stock has been volatile and it is expected that our common stock will be cancelled for no value under the agreement in principle we have reached with a group of our bondholders. Prices for our debt securities are also volatile and prices for such securities have generally been substantially below par. We can make no assurance that the price of our securities will not fluctuate or decrease substantially in the future. See "—Our shares of Class A common stock will likely be delisted from trading on the NASDAQ Global Select Market following a Chapter 11 bankruptcy filing" for discussion of the risk of a NASDAQ delisting of Charter's securities in connection with a filing.

Accordingly, trading in our securities is highly speculative and poses substantial risks to purchasers of such securities, as holders may not be able to resell such securities or, in connection with our reorganization, may receive no payment, or a payment or other consideration that is less than the par value or the purchase price of such securities.

Our emergence from bankruptcy is not assured, including on what terms we emerge.

While we expect the terms of our emergence from bankruptcy will reflect our agreement in principle, there is no assurance that we will be able to implement the agreement in principle with certain of the Company's bondholders, which is subject to numerous closing conditions. For example, because the Proposed Restructuring is contingent on reinstatement of the credit facilities and certain notes of Charter Operating and CCO Holdings, failure to reinstate such debt would require us to revise the Proposed Restructuring. Moreover, if reinstatement does not occur and current capital market conditions persist, we may not be able to secure adequate new financing and the cost of new financing would likely be materially higher. In addition, as set forth above, a Chapter 11 proceeding is subject to numerous factors which could interfere with our ability to effectuate the agreement in principle.

Risks Related to Significant Indebtedness of Us and Our Subsidiaries

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

We and our subsidiaries have a significant amount of debt and may (subject to applicable restrictions in our debt instruments) incur additional debt in the future. As of December 31, 2008, our total debt was approximately $21.7 billion, our shareholders' deficit was approximately $10.5 billion and the deficiency of earnings to cover fixed charges for the year ended December 31, 2008 was $2.6 billion.

Because of our significant indebtedness and adverse changes in the capital markets, our ability to raise additional capital at reasonable rates, or at all, is uncertain, and the ability of our subsidiaries to make distributions or payments to their parent companies is subject to availability of funds and restrictions under our subsidiaries' applicable debt instruments and under applicable law. As a result of our significant indebtedness, we have entered into restructuring agreements with holders of certain of our subsidiaries' senior notes, pursuant to which we expect to implement the Proposed Restructuring through a Chapter 11 bankruptcy proceeding to be initiated on or before April 1, 2009. As a result of the Proposed Restructuring or other similar recapitalization or other transaction, our shareholders will suffer significant dilution, including potential loss of the entire value of their investment, and certain of our noteholders will not receive principal and interest payments to which they are contractually entitled.

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

- require us to dedicate a significant portion of our cash flow from operating activities to make payments on our debt, reducing our funds available for working capital, capital expenditures, and other general corporate expenses;
- limit our flexibility in planning for, or reacting to, changes in our business, the cable and telecommunications industries, and the economy at large;
- place us at a disadvantage compared to our competitors that have proportionately less debt;
- make us vulnerable to interest rate increases, because net of hedging transactions approximately 20% of our borrowings are,