

CHARTER COMMUNICATIONS, INC. /MO/  
Form 10-Q  
November 06, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012  
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: 001-33664  
Charter Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware

43-1857213

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification Number)

12405 Powerscourt Drive  
St. Louis, Missouri 63131

(314) 965-0555

(Address of principal executive offices including zip  
code)

(Registrant's telephone number, including area code)

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  No

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

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Number of shares of Class A common stock outstanding as of September 30, 2012: 101,052,864

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CHARTER COMMUNICATIONS, INC.  
 QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2012

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This quarterly report on Form 10-Q is for the three and nine months ended September 30, 2012. 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. In this quarterly report, "we," "us" and "our" refer to Charter Communications, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS:

This quarterly report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding, among other things, our plans, strategies and prospects, both business and financial including, without limitation, the forward-looking statements set forth in the "Results of Operations" and "Liquidity and Capital Resources" sections under Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this quarterly report. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward looking statements are inherently subject to risks, uncertainties and assumptions including, without limitation, the factors described under "Risk Factors" under Part II, Item 1A and the factors described under "Risk Factors" under Part I, Item 1A of our most recent Form 10-K filed with the SEC. Many of the forward-looking statements contained in this quarterly report may be identified by the use of forward looking words such as "believe," "expect," "anticipate," "should," "planned," "will," "may," "intend," "estimated," "target," "opportunity," "tentative," "positioning," "designed," "create" and "potential," among others. Important factors that cause actual results to differ materially from the forward looking statements we make in this quarterly report are set forth in this quarterly report, in our annual report on Form 10-K, and in other reports or documents that we file from time to time with the SEC, and include, but are not limited to:

our ability to sustain and grow revenues and free cash flow by offering video, Internet, telephone, advertising and other services to residential and commercial customers, to adequately meet the customer experience demands in our markets and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition, the need for innovation and the related capital expenditures and the difficult economic conditions in the United States;

the development and deployment of new products and technologies;

the impact of competition from other market participants, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband and telephone providers, digital subscriber line ("DSL") providers, and video provided over the Internet;

general business conditions, economic uncertainty or downturn, high unemployment levels and the level of activity in the housing sector;

our ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);

the effects of governmental regulation on our business;

the availability and access, in general, of funds to meet our debt obligations prior to or when they become due and to fund our operations and necessary capital expenditures, either through (i) cash on hand, (ii) free cash flow, or (iii) access to the capital or credit markets; and

- our ability to comply with all covenants in our indentures and credit facilities any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions.

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



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions, except share data)

|  | September 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| <b>CURRENT ASSETS:</b>   |                                      |                      |
| Cash and cash equivalents  | \$868                                | \$2                  |
| Restricted cash and cash equivalents   | 27                                   | 27                   |
| Accounts receivable, less allowance for doubtful accounts of \$18 and \$16, respectively                                       | 254                                  | 272                  |
| Prepaid expenses and other current assets  | 80                                   | 69                   |
| Total current assets   | 1,229                                | 370                  |
| <b>INVESTMENT IN CABLE PROPERTIES:</b>   |                                      |                      |
| Property, plant and equipment, net of accumulated depreciation of \$3,320 and \$2,364, respectively                            | 7,159                                | 6,897                |
| Franchises   | 5,287                                | 5,288                |
| Customer relationships, net  | 1,492                                | 1,704                |
| Goodwill   | 953                                  | 954                  |
| Total investment in cable properties, net  | 14,891                               | 14,843               |
| <b>OTHER NONCURRENT ASSETS</b>   | 377                                  | 392                  |
| Total assets   | \$16,497                             | \$15,605             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                                      |                      |
| Accounts payable and accrued expenses  | \$1,246                              | \$1,153              |
| Current portion of long-term debt  | 870                                  | —                    |
| Total current liabilities  | 2,116                                | 1,153                |
| <b>LONG-TERM DEBT</b>  | 12,820                               | 12,856               |
| <b>DEFERRED INCOME TAXES</b>   | 1,054                                | 847                  |
| <b>OTHER LONG-TERM LIABILITIES</b>   | 334                                  | 340                  |
| <b>SHAREHOLDERS' EQUITY:</b>   |                                      |                      |
| Class A common stock; \$.001 par value; 900 million shares authorized; 101,068,420 and 100,570,418 shares issued, respectively | —                                    | —                    |
| Class B common stock; \$.001 par value; 25 million shares authorized; no shares issued and outstanding                         | —                                    | —                    |
| Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding              | —                                    | —                    |
| Additional paid-in capital   | 1,605                                | 1,556                |
| Accumulated deficit  | (1,348)                              | (1,082)              |

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|   |           |           |   |
|---|-----------|-----------|---|
| Treasury stock at cost; 15,556 and 0 shares, respectively | (1        | ) —       |   |
| Accumulated other comprehensive loss                      | (83       | ) (65     | ) |
| Total shareholders' equity                                | 173       | 409       |   |
| Total liabilities and shareholders' equity                | \$ 16,497 | \$ 15,605 |   |

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in millions, except per share and share data)

Unaudited

|   | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                  |
|---|----------------------------------|------------------|---------------------------------|------------------|
|   | 2012                             | 2011             | 2012                            | 2011             |
| REVENUES  | \$1,880                          | \$1,809          | \$5,591                         | \$5,370          |
| <b>COSTS AND EXPENSES:</b>                                    |                                  |                  |                                 |                  |
| Operating (excluding depreciation and amortization)           | 858                              | 792              | 2,503                           | 2,344            |
| Selling, general and administrative                           | 384                              | 374              | 1,129                           | 1,062            |
| Depreciation and amortization                                 | 424                              | 405              | 1,247                           | 1,181            |
| Other operating expenses, net                                 | 3                                | 1                | 2                               | 7                |
|   | 1,669                            | 1,572            | 4,881                           | 4,594            |
| Income from operations  | 211                              | 237              | 710                             | 776              |
| <b>OTHER EXPENSES:</b>  |                                  |                  |                                 |                  |
| Interest expense, net   | (229                             | ) (244           | ) (691                          | ) (718           |
| Loss on extinguishment of debt                                | —                                | (4               | ) (74                           | ) (124           |
| Other expense, net  | —                                | (2               | ) (1                            | ) (4             |
|   | (229                             | ) (250           | ) (766                          | ) (846           |
| Loss before income taxes                                      | (18                              | ) (13            | ) (56                           | ) (70            |
| Income tax expense  | (69                              | ) (72            | ) (208                          | ) (232           |
| Net loss  | \$(87                            | ) \$(85          | ) \$(264                        | ) \$(302         |
| <b>LOSS PER COMMON SHARE, BASIC AND DILUTED</b>               | <b>\$(0.87</b>                   | <b>) \$(0.79</b> | <b>) \$(2.65</b>                | <b>) \$(2.74</b> |
| Weighted average common shares outstanding, basic and diluted | 99,694,672                       | 108,420,169      | 99,542,021                      | 110,285,852      |

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(dollars in millions)

Unaudited

|  | Three Months Ended September 30, |         | Nine Months Ended September 30, |          |
|--|----------------------------------|---------|---------------------------------|----------|
|  | 2012                             | 2011    | 2012                            | 2011     |
| Net loss   | \$(87                            | ) \$(85 | ) \$(264                        | ) \$(302 |
| Changes in fair value of interest rate swap agreements, net of tax | (7                               | ) (11   | ) (18                           | ) (20    |



Comprehensive loss                      \$(94                      ) \$(96                      ) \$(282                      ) \$(322                      )

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

Unaudited

|   | Nine Months Ended September 30, |          |
|---|---------------------------------|----------|
|   | 2012                            | 2011     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                 |          |
| Net loss  | \$(264                          | ) \$(302 |
| Adjustments to reconcile net loss to net cash flows from operating activities:                  |                                 | )        |
| Depreciation and amortization   | 1,247                           | 1,181    |
| Noncash interest expense  | 33                              | 27       |
| Loss on extinguishment of debt  | 74                              | 124      |
| Deferred income taxes   | 203                             | 225      |
| Other, net  | 25                              | 26       |
| Changes in operating assets and liabilities, net of effects from acquisitions and dispositions: |                                 |          |
| Accounts receivable   | 18                              | (5       |
| Prepaid expenses and other assets   | (12                             | ) (4     |
| Accounts payable, accrued expenses and other  | 67                              | 40       |
| Net cash flows from operating activities  | 1,391                           | 1,312    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                 |          |
| Purchases of property, plant and equipment  | (1,296                          | ) (984   |
| Change in accrued expenses related to capital expenditures                                      | 16                              | (11      |
| Sales (purchases) of cable systems, net   | 19                              | (89      |
| Other, net  | (18                             | ) (20    |
| Net cash flows from investing activities  | (1,279                          | ) (1,104 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                 |          |
| Borrowings of long-term debt  | 4,353                           | 3,801    |
| Repayments of long-term debt  | (3,554                          | ) (3,645 |
| Payments for debt issuance costs  | (41                             | ) (43    |
| Purchase of treasury stock  | (4                              | ) (323   |
| Other, net  | —                               | 2        |
| Net cash flows from financing activities  | 754                             | (208     |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 866                             | —        |
| CASH AND CASH EQUIVALENTS, beginning of period  | 29                              | 32       |
| CASH AND CASH EQUIVALENTS, end of period  | \$895                           | \$32     |
| CASH PAID FOR INTEREST  | \$647                           | \$649    |

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

1. Organization and Basis of Presentation

Organization

Charter Communications, Inc. (“Charter”) is a holding company whose principal asset is a 100% common equity interest in Charter Communications Holding Company, LLC (“Charter Holdco”). Charter owns cable systems through its subsidiaries, which are collectively, with Charter, referred to herein as the “Company.” All significant intercompany accounts and transactions among consolidated entities have been eliminated.

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures typically included in Charter's Annual Report on Form 10-K have been condensed or omitted for this quarterly report. The accompanying condensed consolidated financial statements are unaudited and are subject to review by regulatory authorities. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

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

Certain prior year amounts have been reclassified to conform with the 2012 presentation.

Restricted cash and cash equivalents on the accompanying condensed consolidated balance sheets consist of amounts held in an escrow account pending final resolution from the Bankruptcy Court. Restricted cash is included in cash and cash equivalents on the accompanying condensed consolidated statements of cash flows. See Note 10.



CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
 (dollars in millions, except per share amounts and where indicated)

2. Franchises, Goodwill and Other Intangible Assets

As of September 30, 2012 and December 31, 2011, indefinite lived and finite-lived intangible assets are presented in the following table:

|                                     | September 30, 2012    |                          |                     | December 31, 2011     |                          |                     |
|-------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                     | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite lived intangible assets: |                       |                          |                     |                       |                          |                     |
| Franchises                          | \$5,287               | \$—                      | \$5,287             | \$5,288               | \$—                      | \$5,288             |
| Goodwill                            | 953                   | —                        | 953                 | 954                   | —                        | 954                 |
| Trademarks                          | 158                   | —                        | 158                 | 158                   | —                        | 158                 |
|                                     | \$6,398               | \$—                      | \$6,398             | \$6,400               | \$—                      | \$6,400             |
| Finite-lived intangible assets:     |                       |                          |                     |                       |                          |                     |
| Customer relationships              | \$2,368               | \$876                    | \$1,492             | \$2,368               | \$664                    | \$1,704             |
| Other intangible assets             | 97                    | 26                       | 71                  | 79                    | 16                       | 63                  |
|                                     | \$2,465               | \$902                    | \$1,563             | \$2,447               | \$680                    | \$1,767             |

Amortization expense related to customer relationships and other intangible assets for the three months ended September 30, 2012 and 2011 was \$74 million and \$79 million, respectively, and for the nine months ended September 30, 2012 and 2011 was \$222 million and \$238 million, respectively. Franchises and goodwill decreased by \$1 million and \$1 million, respectively, as a result of cable system divestitures completed during the nine months ended September 30, 2012.

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

|                                       |         |
|---------------------------------------|---------|
| Three months ending December 31, 2012 | \$72    |
| 2013                                  | 267     |
| 2014                                  | 241     |
| 2015                                  | 215     |
| 2016                                  | 188     |
| Thereafter                            | 580     |
|                                       | \$1,563 |

Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives, impairments and other relevant factors.



CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

3. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of September 30, 2012 and December 31, 2011:

|                              | September 30, 2012 | December 31, 2011 |
|------------------------------|--------------------|-------------------|
| Accounts payable – trade     | \$ 157             | \$ 142            |
| Accrued capital expenditures | 159                | 143               |
| Accrued expenses:            |                    |                   |
| Interest                     | 212                | 191               |
| Programming costs            | 332                | 303               |
| Franchise related fees       | 46                 | 50                |
| Compensation                 | 130                | 123               |
| Other                        | 210                | 201               |
|                              | \$ 1,246           | \$ 1,153          |

4. Long-Term Debt

Long-term debt consists of the following as of September 30, 2012 and December 31, 2011:

|   | September 30, 2012 |                | December 31, 2011 |                |
|---|--------------------|----------------|-------------------|----------------|
|   | Principal Amount   | Accreted Value | Principal Amount  | Accreted Value |
| CCH II, LLC:  |                    |                |                   |                |
| 13.500% senior notes due November 30, 2016              | \$ 1,146           | \$ 1,290       | \$ 1,480          | \$ 1,692       |
| CCO Holdings, LLC:                                      |                    |                |                   |                |
| 7.250% senior notes due October 30, 2017                | 1,000              | 1,000          | 1,000             | 1,000          |
| 7.875% senior notes due April 30, 2018                  | 900                | 900            | 900               | 900            |
| 7.000% senior notes due January 15, 2019                | 1,400              | 1,392          | 1,400             | 1,391          |
| 8.125% senior notes due April 30, 2020                  | 700                | 700            | 700               | 700            |
| 7.375% senior notes due June 1, 2020                    | 750                | 750            | 750               | 750            |
| 6.500% senior notes due April 30, 2021                  | 1,500              | 1,500          | 1,500             | 1,500          |
| 6.625% senior notes due January 31, 2022                | 750                | 746            | —                 | —              |
| 5.250% senior notes due September 30, 2022              | 1,250              | 1,238          | —                 | —              |
| Credit facility due September 6, 2014                   | 350                | 335            | 350               | 326            |
| Charter Communications Operating, LLC:                  |                    |                |                   |                |
| 8.000% senior second-lien notes due April 30, 2012      | —                  | —              | 500               | 502            |
| 10.875% senior second-lien notes due September 15, 2014 | —                  | —              | 312               | 331            |
| Credit facilities                                       | 3,970              | 3,839          | 3,929             | 3,764          |
| Total Debt  | \$ 13,716          | \$ 13,690      | \$ 12,821         | \$ 12,856      |
| Less: Current Portion                                   | 773                | 870            | —                 | —              |
| Long-Term Debt  | \$ 12,943          | \$ 12,820      | \$ 12,821         | \$ 12,856      |





CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

The accreted values presented above represent the fair value of the notes as of the date the Company emerged from Bankruptcy (see Note 10) or the principal amount of the notes less the original issue discount at the time of sale, plus the accretion to the balance sheet date. However, the amount that is currently payable if the debt becomes immediately due is equal to the principal amount of the debt. The Company has availability under its credit facilities of approximately \$1.1 billion as of September 30, 2012.

In January 2011, CCO Holdings, LLC ("CCO Holdings") and CCO Holdings Capital Corp. closed on transactions in which they issued \$1.4 billion aggregate principal amount of 7.000% senior notes due 2019. The net proceeds of the issuances were contributed by CCO Holdings to Charter Communications Operating, LLC ("Charter Operating") as a capital contribution and were used to repay indebtedness under the Charter Operating credit facilities. The Company recorded a loss on extinguishment of debt of approximately \$67 million for the nine months ended September 30, 2011 related to these transactions.

In May 2011, CCO Holdings and CCO Holdings Capital Corp. closed on transactions in which they issued \$1.5 billion aggregate principal amount of 6.500% senior notes due 2021. The net proceeds of the issuances were contributed by CCO Holdings to Charter Operating as a capital contribution and intercompany loan and were used to repay indebtedness under the Charter Operating credit facilities. The Company recorded a loss on extinguishment of debt of approximately \$53 million for the nine months ended September 30, 2011 related to these transactions.

In August 2011, Charter Operating repurchased, in private transactions, a total of \$193 million principal amount of Charter Operating 8.000% senior second-lien notes due 2012 for approximately \$199 million cash. The transactions resulted in a loss on extinguishment of debt of approximately \$4 million for the three and nine months ended September 30, 2011.

In January 2012, CCO Holdings and CCO Holdings Capital Corp. closed on transactions in which they issued \$750 million aggregate principal amount of 6.625% senior notes due 2022. The notes were issued at a price of 99.5% of the aggregate principal amount. The net proceeds of the notes were used, along with a draw on the \$500 million delayed draw portion of the Charter Operating Term Loan A facility, to repurchase \$300 million aggregate principal amount of Charter Operating's outstanding 8.000% senior second-lien notes due 2012, \$294 million aggregate principal amount of Charter Operating's 10.875% senior second-lien notes due 2014 and \$334 million aggregate principal amount of CCH II, LLC's ("CCH II") 13.500% senior notes due 2016, as well as to repay amounts outstanding under the Company's revolving credit facility. The tender offers closed in January and February 2012 and the Company recorded a loss on extinguishment of debt of approximately \$15 million on this transaction for the nine months ended September 30, 2012.

In March 2012, Charter Operating redeemed the remaining \$18 million of 10.875% senior notes due 2014 pursuant to a notice of redemption.

In April 2012, Charter Operating entered into a senior secured term loan D facility pursuant to the terms of the Charter Operating credit agreement providing for \$750 million of term loans with a final maturity date of May 15, 2019. Pricing on the new term loan D was set at LIBOR plus 3% with a LIBOR floor of 1%, and issued at a price of 99.5% of the aggregate principal amount. The proceeds were used to refinance Charter Operating's existing term loan B-1 and term loan B-2, both due 2014, with the remaining amount used to pay down a portion of its existing term loan C due 2016. Charter Operating concurrently amended and restated its existing \$1.3 billion revolving credit facility with

a new \$1.15 billion revolving credit facility due 2017 at the interest rate of LIBOR plus 2.25% and amended and restated its existing credit agreement dated March 31, 2010 (the "Existing Credit Agreement"). The amendments to the Existing Credit Agreement included, among other things, certain allowances under the negative covenants, including an allowance for restricted payments so long as the Consolidated Leverage Ratio as defined in the Charter Operating credit agreement is no greater than 3.5 after giving pro forma effect to such restricted payment, the calculation of certain financial covenants and changes to the related financial definitions, and the thresholds for certain events of default, including a modification of the Change of Control definition. The Change of Control definition was amended to conform to the provision contained in the CCO Holdings' indentures so that a Change of Control would now occur upon both the consummation of a transaction resulting in any person or group having the power to vote more than 50% of the ordinary voting power and a Ratings Event as defined in the Charter Operating credit agreement. The Change of Control definition previously contained the more than 50% threshold without the Ratings Event trigger. The Company recorded a loss on extinguishment of debt of approximately \$59 million during the nine months ended September 30, 2012 related to these transactions.

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In April 2012, CCO Holdings entered into an amendment to its existing credit agreement dated March 6, 2007 which included, among other things, amendments to the Change of Control definition and certain other provisions and definitions related thereto. The Change of Control definition was amended to conform to the provision contained in Charter Operating's credit agreement as described above. Previously, the percentage of voting power necessary for a Change of Control had been 35%, and the definition of Change of Control did not include a Ratings Event.

In August 2012, CCO Holdings and CCO Holdings Capital Corp. closed on transactions in which they issued \$1.25 billion aggregate principal amount of 5.25% senior notes due 2022. The notes were issued at a price of 99.026% of the aggregate principal amount. The proceeds from the notes will be used for general corporate purposes, including repaying amounts outstanding under the Company's revolving credit facility, and to fund the redemption of the CCH II 13.500% senior notes due 2016 on or before November 30, 2012. In October 2012, the Company redeemed \$678 million aggregate principal amount of the CCH II 13.500% senior notes due 2016 at 108.522% of the principal amount. In October 2012, the Company also sent out notices of redemption for the remaining \$468 million aggregate principal amount of CCH II 13.500% senior notes due 2016 at 106.75% of the principal amount. The current portion of long-term debt represents the accreted value of the notes that will be paid with available cash. The remainder is classified as long-term as it will be refinanced from borrowings on the Company's revolving credit facility. The Company expects to record a non-cash gain on the redemptions of approximately \$52 million during the fourth quarter of 2012 related to these transactions.

#### 5. Treasury Stock

On March 22, 2011, the Company purchased, in a private transaction, 4.5 million shares of Charter's Class A common stock from funds advised by Franklin Advisers, Inc. The price paid was \$46.10 per share for a total of \$207 million. The transaction was funded from existing cash on hand and available liquidity. The shares were reflected on the Company's condensed consolidated balance sheets as treasury stock until retired in December 2011.

In January 2012, the Company purchased, in a private transaction with a shareholder, 49,332 shares of its common stock at \$55.18 for a total of \$3 million. These shares were retired in January 2012.

During the three and nine months ended September 30, 2012, the Company withheld 4,632 and 15,556 shares, respectively, of its common stock in payment of \$1 million income tax withholding owed by employees upon vesting of restricted shares. The Company accounts for treasury stock using the cost method and includes treasury stock as a component of total shareholders' equity.

#### 6. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate swap agreements to manage its interest costs and reduce the Company's exposure to increases in floating interest rates. The Company manages its exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2017, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts.

The Company does not hold or issue derivative instruments for speculative trading purposes. The Company has certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such

instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, realized derivative gains and losses offset related results on hedged items in the condensed consolidated statements of operations. The Company formally documents, designates and assesses the effectiveness of transactions that receive hedge accounting.

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The effect of derivative instruments on the Company's condensed consolidated balance sheets is presented in the table below:

|  | September 30, 2012 | December 31, 2011 |
|--|--------------------|-------------------|
| Other long-term liabilities:                                 |                    |                   |
| Fair value of interest rate derivatives designated as hedges | \$72               | \$65              |
| Accrued interest:  |                    |                   |
| Fair value of interest rate derivatives designated as hedges | \$11               | \$—               |
| Accumulated other comprehensive loss:                        |                    |                   |
| Fair value of interest rate derivatives designated as hedges | \$(83              | ) \$(65           |

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

The effects of derivative instruments on the Company's condensed consolidated statements of comprehensive loss and condensed consolidated statements of operations is presented in the table below.

|   | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |
|---|----------------------------------|---------|---------------------------------|---------|
|   | 2012                             | 2011    | 2012                            | 2011    |
| Other comprehensive loss:   |                                  |         |                                 |         |
| Loss on interest rate derivatives designated as hedges (effective portion)                  | \$(7                             | ) \$(11 | ) (18                           | ) (20   |
| Net loss:   |                                  |         |                                 |         |
| Amount of loss reclassified from accumulated other comprehensive loss into interest expense | \$(10                            | ) \$(10 | ) \$(27                         | ) \$(30 |

As of September 30, 2012 and December 31, 2011, the Company had \$3.1 billion and \$2.0 billion in notional amounts of interest rate swap agreements outstanding. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged were determined by reference to the notional amount and the other terms of the contracts.

During the second quarter of 2012, the Company entered into \$1.1 billion in delayed start interest rate swaps that become effective in March 2013 through March 2015. In any future quarter in which a portion of these delayed start hedges first becomes effective, an equal or greater notional amount of the currently effective swaps are scheduled to

mature. Therefore, the \$2.0 billion notional amount of currently effective interest rate swaps will gradually step down over time as current swaps mature and an equal or lesser amount of delayed start swaps become effective.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
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## 7. Fair Value Measurements

### Financial Assets and Liabilities

The Company has estimated the fair value of its financial instruments as of September 30, 2012 and December 31, 2011 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying condensed consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

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

The estimated fair value of the Company's debt at September 30, 2012 and December 31, 2011 are based on quoted market prices and is classified within Level 1 (defined below) of the valuation hierarchy.

A summary of the carrying value and fair value of the Company's debt at September 30, 2012 and December 31, 2011 is as follows:

|                        | September 30, 2012 |            | December 31, 2011 |            |
|------------------------|--------------------|------------|-------------------|------------|
|                        | Carrying Value     | Fair Value | Carrying Value    | Fair Value |
| Debt                   |                    |            |                   |            |
| CCH II debt            | \$1,290            | \$1,247    | \$1,692           | \$1,713    |
| CCO Holdings debt      | \$8,226            | \$8,866    | \$6,241           | \$6,630    |
| Charter Operating debt | \$—                | \$—        | \$833             | \$847      |
| Credit facilities      | \$4,174            | \$4,312    | \$4,090           | \$4,193    |

The interest rate derivatives designated as hedges were valued as \$83 million and \$65 million liabilities as of September 30, 2012 and December 31, 2011, respectively, using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating's or counterparties' credit risk) and were classified within Level 2 (defined below) of the valuation hierarchy. The weighted average pay rate for the Company's currently effective interest rate swaps was 2.25% at both September 30, 2012 and December 31, 2011 (exclusive of applicable spreads).

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

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Nonfinancial Assets and Liabilities

The Company's nonfinancial assets such as franchises, property, plant, and equipment, and other intangible assets are not measured at fair value on a recurring basis; however they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No impairments were recorded in the three and nine months ended September 30, 2012 and 2011.



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8. Other Operating Expenses, Net

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

|                                    | Three Months Ended September 30, |      | Nine Months Ended September 30, |       |
|------------------------------------|----------------------------------|------|---------------------------------|-------|
|                                    | 2012                             | 2011 | 2012                            | 2011  |
| (Gain)/loss on sale of assets, net | \$1                              | \$—  | \$(12                           | ) \$— |
| Special charges, net               | 2                                | 1    | 14                              | 7     |
|                                    | \$3                              | \$1  | \$2                             | \$7   |

(Gain)/loss on sale of assets, net

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

Special charges, net

Special charges, net for the three and nine months ended September 30, 2012 and 2011 primarily includes severance charges and settlements.

9. Income Taxes

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

For the three and nine months ended September 30, 2012, the Company recorded \$69 million and \$208 million of income tax expense, respectively. For the three and nine months ended September 30, 2011, the Company recorded \$72 million and \$232 million of income tax expense, respectively. The income tax expense is recognized primarily through increases in deferred tax liabilities related to our investment in Charter Holdco, as well as through current federal and state income tax expense (net of refunds) and increases in the deferred tax liabilities of certain of our indirect corporate subsidiaries. The tax provision in future periods will vary based on current and future temporary differences, as well as future operating results.

As of September 30, 2012 and December 31, 2011, the Company had net deferred income tax liabilities of approximately \$1.0 billion and \$824 million, respectively. Included in net deferred tax liabilities are net current deferred assets of \$23 million as of September 30, 2012 and December 31, 2011 included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets of the Company. Net deferred tax liabilities included approximately \$224 million and \$221 million at September 30, 2012 and December 31, 2011, respectively, relating to certain indirect subsidiaries of Charter Holdco that file separate federal or state income tax returns. The remainder of the Company's net deferred tax liability arose from Charter's investment in Charter Holdco,

and was largely attributable to the characterization of franchises for financial reporting purposes as indefinite-lived.

No tax years for Charter or Charter Holdco are currently under examination by the Internal Revenue Service. Tax years ending 2009 through 2011 remain subject to examination and assessment. Years prior to 2009 remain open solely for purposes of examination of Charter's loss and credit carryforwards.

## 10. Contingencies

On March 27, 2009, Charter filed a Chapter 11 petition in the United States Bankruptcy Court for the Southern District of New York. On November 17, 2009, the Bankruptcy Court issued its Order and Opinion confirming the Plan over the objections of various objectors. Charter consummated the Plan on November 30, 2009 and reinstated the Charter Operating Credit Agreement and certain other debt of its subsidiaries.

Two appeals are pending relating to confirmation of the Plan, the appeals by (i) Law Debenture Trust Company of New York ("Law Debenture Trust") (as the Trustee with respect to the \$479 million in aggregate principal amount of 6.50% convertible senior notes due 2027 issued by Charter which are no longer outstanding following consummation of the Plan); and (ii) R<sup>2</sup> Investments, LDC ("R<sup>2</sup> Investments") (a former equity interest holder in Charter). The appeals by Law Debenture Trust and R<sup>2</sup> Investments were denied by the District Court for the Southern District of New York in March 2011. On August 31, 2012, the 2nd Circuit unanimously affirmed the district court's decision holding that R<sup>2</sup> and LDT's appeals are equitably moot. Thereafter, R<sup>2</sup> and LDT sought a rehearing en banc with the 2nd Circuit. On October 18, 2012, the 2<sup>nd</sup> Circuit denied that request. The Company cannot predict the ultimate outcome of the appeals nor can it estimate a reasonable range of loss.

The Company is also a defendant or co-defendant in several lawsuits claiming infringement of various patents relating to various aspects of its businesses. Other industry participants are also defendants in certain of these cases. In the event that a court ultimately determines that the Company infringes on any intellectual property rights, the Company may be subject to substantial damages and/or an injunction that could require the Company or its vendors to modify certain products and services the Company offers to its subscribers, as well as negotiate royalty or license agreements with respect to the patents at issue. While the Company believes the lawsuits are without merit and intends to defend the actions vigorously, no assurance can be given that any adverse outcome would not be material to the Company's consolidated financial condition, results of operations, or liquidity. The Company cannot predict the outcome of any such claims nor can it estimate a reasonable range of loss.

The Company is party to lawsuits and claims that arise in the ordinary course of conducting its business, including lawsuits claiming violation of anti-trust laws and violation of wage and hour laws. The ultimate outcome of these other legal matters pending against the Company cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity, such lawsuits could have, in the aggregate, a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity. Whether or not the Company ultimately prevails in any particular lawsuit or claim, litigation can be time consuming and costly and injure the Company's reputation.

## 11. Stock Compensation Plans

Charter's 2009 Stock Incentive Plan provides for grants of nonqualified stock options, incentive stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock, restricted stock units and restricted stock. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing consulting services for the Company, are eligible for grants under the 2009 Stock Incentive Plan.

During the nine months ended September 30, 2012, the Company granted 243,800 shares of restricted stock. During the three and nine months ended September 30, 2011, the Company granted 27,000 and 57,100 shares of restricted stock, respectively. Restricted stock vests annually over a one to four-year period beginning from the date of grant. During the three and nine months ended September 30, 2012, the Company granted 121,500 and 575,200 stock options, respectively. During the three and nine months ended September 30, 2011, the Company granted 201,900 and

2.4 million stock options, respectively. Stock options generally vest annually over four years from either the grant date or delayed vesting commencement dates. A portion of stock options and restricted stock vest based on achievement of stock price hurdles. Stock options generally expire ten years from the grant date. During the three and nine months ended September 30, 2012, the Company granted 31,900 and 94,300 restricted stock units, respectively. During the three and nine months ended September 30, 2011, the Company granted 7,500 and 238,000 restricted stock units, respectively. Restricted stock units have no voting rights and vest ratably over four years from either the grant date or delayed vesting commencement dates. As of September 30, 2012, total unrecognized compensation remaining to be recognized in future periods totaled \$38 million for restricted stock, \$49 million for stock options and \$15 million for restricted stock units and the weighted average period over which they are expected to be recognized is three years.

The Company recorded \$13 million and \$37 million of stock compensation expense for the three and nine months ended September 30, 2012, respectively, and \$10 million and \$26 million of stock compensation expense for the three and nine months ended September 30, 2011, respectively, which is included in selling, general, and administrative expense and other operating expenses, net.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(dollars in millions, except per share amounts and where indicated)

12. Consolidating Schedules

The CCO Holdings notes and the CCO Holdings credit facility are obligations of CCO Holdings. The CCH II notes are obligations of CCH II. However, these notes of CCO Holdings and CCH II are also jointly, severally, fully and unconditionally guaranteed on an unsecured senior basis by Charter.

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered. This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with generally accepted accounting principles.

Condensed consolidating financial statements as of September 30, 2012 and December 31, 2011 and for the nine months ended September 30, 2012 and 2011 follow.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
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(UNAUDITED)  
(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
Condensed Consolidating Balance Sheet  
As of September 30, 2012

|   | Charter  | Intermediate<br>Holding<br>Companies | CCH II   | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|---|----------|--------------------------------------|----------|-----------------|---|--------------|-------------------------|
| <b>ASSETS</b>                             |          |                                      |          |                 |   |              |                         |
| <b>CURRENT ASSETS:</b>                    |          |                                      |          |                 |   |              |                         |
| Cash and cash equivalents                 | \$ 14    | \$ 3                                 | \$—      | \$398           | \$ 453                                      | \$ —         | \$ 868                  |
| Restricted cash and cash equivalents      | —        | —                                    | —        | —               | 27  | —            | 27                      |
| Accounts receivable, net                  | —        | 4                                    | —        | —               | 250   | —            | 254                     |
| Receivables from related party            | 94       | 147                                  | 6        | 7               | —   | (254 )       | —                       |
| Prepaid expenses and other current assets | 21       | 10                                   | —        | —               | 49  | —            | 80                      |
| Total current assets                      | 129      | 164                                  | 6        | 405             | 779   | (254 )       | 1,229                   |
| <b>INVESTMENT IN CABLE PROPERTIES:</b>    |          |                                      |          |                 |   |              |                         |
| Property, plant and equipment, net        | —        | 32                                   | —        | —               | 7,127                                       | —            | 7,159                   |
| Franchises                                | —        | —                                    | —        | —               | 5,287                                       | —            | 5,287                   |
| Customer relationships, net               | —        | —                                    | —        | —               | 1,492                                       | —            | 1,492                   |
| Goodwill                                  | —        | —                                    | —        | —               | 953   | —            | 953                     |
| Total investment in cable properties, net | —        | 32                                   | —        | —               | 14,859                                      | —            | 14,891                  |
| CC VIII PREFERRED INTEREST                | 100      | 235                                  | —        | —               | —   | (335 )       | —                       |
| INVESTMENT IN SUBSIDIARIES                | 1,007    | 475                                  | 1,514    | 9,382           | —   | (12,378 )    | —                       |
| LOANS RECEIVABLE – RELATED PARTY          | —        | 44                                   | 265      | 359             | —   | (668 )       | —                       |
| OTHER NONCURRENT ASSETS                   | —        | 158                                  | —        | 109             | 110   | —            | 377                     |
| Total assets                              | \$ 1,236 | \$ 1,108                             | \$ 1,785 | \$ 10,255       | \$ 15,748                                   | \$ (13,635 ) | \$ 16,497               |

## LIABILITIES AND SHAREHOLDERS'/MEMBER'S EQUITY

## CURRENT LIABILITIES:

|   |         |          |         |          |           |              |           |
|---|---------|----------|---------|----------|-----------|--------------|-----------|
| Accounts payable and accrued expenses               | \$11    | \$ 101   | \$20    | \$180    | \$ 934    | \$ —         | \$ 1,246  |
| Payables to related party                           | —       | —        | —       | —        | 254       | (254 )       | —         |
| Current portion of long-term debt                   | —       | —        | 870     | —        | —         | —            | 870       |
| Total current liabilities                           | 11      | 101      | 890     | 180      | 1,188     | (254 )       | 2,116     |
| LONG-TERM DEBT                                      | —       | —        | 420     | 8,561    | 3,839     | —            | 12,820    |
| LOANS PAYABLE – RELATED PARTY                       | —       | —        | —       | —        | 668       | (668 )       | —         |
| DEFERRED INCOME TAXES                               | 828     | —        | —       | —        | 226       | —            | 1,054     |
| OTHER LONG-TERM LIABILITIES                         | 224     | —        | —       | —        | 110       | —            | 334       |
| Shareholders'/Member's equity                       | 173     | 1,007    | 475     | 1,514    | 9,382     | (12,378 )    | 173       |
| Noncontrolling interest                             | —       | —        | —       | —        | 335       | (335 )       | —         |
| Total shareholders'/member's equity                 | 173     | 1,007    | 475     | 1,514    | 9,717     | (12,713 )    | 173       |
| Total liabilities and shareholders'/member's equity | \$1,236 | \$ 1,108 | \$1,785 | \$10,255 | \$ 15,748 | \$ (13,635 ) | \$ 16,497 |

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
Condensed Consolidating Balance Sheet  
As of December 31, 2011

|   | Charter | Intermediate<br>Holding<br>Companies | CCH II  | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|---|---------|--------------------------------------|---------|-----------------|---|--------------|-------------------------|
| <b>ASSETS</b>                             |         |                                      |         |                 |   |              |                         |
| <b>CURRENT ASSETS:</b>                    |         |                                      |         |                 |   |              |                         |
| Cash and cash equivalents                 | \$—     | \$—                                  | \$—     | \$2             | \$—   | \$—          | \$ 2                    |
| Restricted cash and cash equivalents      | —       | —                                    | —       | —               | 27  | —            | 27                      |
| Accounts receivable, net                  | —       | 4                                    | —       | —               | 268   | —            | 272                     |
| Receivables from related party            | 58      | 176                                  | 8       | 7               | —   | (249 )       | —                       |
| Prepaid expenses and other current assets | 21      | 21                                   | —       | —               | 27  | —            | 69                      |
| Total current assets                      | 79      | 201                                  | 8       | 9               | 322   | (249 )       | 370                     |
| <b>INVESTMENT IN CABLE PROPERTIES:</b>    |         |                                      |         |                 |   |              |                         |
| Property, plant and equipment, net        | —       | 33                                   | —       | —               | 6,864                                       | —            | 6,897                   |
| Franchises                                | —       | —                                    | —       | —               | 5,288                                       | —            | 5,288                   |
| Customer relationships, net               | —       | —                                    | —       | —               | 1,704                                       | —            | 1,704                   |
| Goodwill                                  | —       | —                                    | —       | —               | 954   | —            | 954                     |
| Total investment in cable properties, net | —       | 33                                   | —       | —               | 14,810                                      | —            | 14,843                  |
| CC VIII PREFERRED INTEREST                | 91      | 213                                  | —       | —               | —   | (304 )       | —                       |
| INVESTMENT IN SUBSIDIARIES                | 1,102   | 592                                  | 2,094   | 8,623           | —   | (12,411 )    | —                       |
| LOANS RECEIVABLE – RELATED PARTY          | —       | 43                                   | 256     | 37              | —   | (336 )       | —                       |
| OTHER NONCURRENT ASSETS                   | —       | 158                                  | —       | 90              | 144   | —            | 392                     |
| Total assets                              | \$1,272 | \$ 1,240                             | \$2,358 | \$8,759         | \$ 15,276                                   | \$ (13,300 ) | \$ 15,605               |



## LIABILITIES AND SHAREHOLDERS'/MEMBER'S EQUITY

## CURRENT LIABILITIES:

|   |          |          |          |          |           |              |           |
|---|----------|----------|----------|----------|-----------|--------------|-----------|
| Accounts payable and accrued expenses               | \$ 12    | \$ 134   | \$ 74    | \$ 98    | \$ 835    | \$ —         | \$ 1,153  |
| Payables to related party                           | —        | —        | —        | —        | 249       | (249 )       | —         |
| Total current liabilities                           | 12       | 134      | 74       | 98       | 1,084     | (249 )       | 1,153     |
| LONG-TERM DEBT                                      | —        | —        | 1,692    | 6,567    | 4,597     | —            | 12,856    |
| LOANS PAYABLE – RELATED PARTY                       | —        | —        | —        | —        | 336       | (336 )       | —         |
| DEFERRED INCOME TAXES                               | 624      | —        | —        | —        | 223       | —            | 847       |
| OTHER LONG-TERM LIABILITIES                         | 227      | 4        | —        | —        | 109       | —            | 340       |
| Shareholders'/Member's equity                       | 409      | 1,102    | 592      | 2,094    | 8,623     | (12,411 )    | 409       |
| Noncontrolling interest                             | —        | —        | —        | —        | 304       | (304 )       | —         |
| Total shareholders'/member's equity                 | 409      | 1,102    | 592      | 2,094    | 8,927     | (12,715 )    | 409       |
| Total liabilities and shareholders'/member's equity | \$ 1,272 | \$ 1,240 | \$ 2,358 | \$ 8,759 | \$ 15,276 | \$ (13,300 ) | \$ 15,605 |

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
Condensed Consolidating Statement of Operations  
For the nine months ended September 30, 2012

|  | Charter | Intermediate<br>Holding<br>Companies | CCH II | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|--|---------|--------------------------------------|--------|-----------------|---|--------------|-------------------------|
| REVENUES   | \$ 19   | \$ 113                               | \$—    | \$—             | \$ 5,591                                    | \$ (132 )    | \$ 5,591                |
| COSTS AND EXPENSES:                                    |         |                                      |        |                 |   |              |                         |
| Operating (excluding<br>depreciation and amortization) | —       | —                                    | —      | —               | 2,503                                       | —            | 2,503                   |
| Selling, general and<br>administrative                 | 19      | 113                                  | —      | —               | 1,129                                       | (132 )       | 1,129                   |
| Depreciation and amortization                          | —       | —                                    | —      | —               | 1,247                                       | —            | 1,247                   |
| Other operating expenses, net                          | —       | —                                    | —      | —               | 2   | —            | 2                       |
|  | 19      | 113                                  | —      | —               | 4,881                                       | (132 )       | 4,881                   |
| Income from operations                                 | —       | —                                    | —      | —               | 710   | —            | 710                     |
| OTHER INCOME AND<br>(EXPENSES):                        |         |                                      |        |                 |   |              |                         |
| Interest expense, net                                  | —       | 1                                    | (94 )  | (398 )          | (200 )                                      | —            | (691 )                  |
| Loss on extinguishment of debt                         | —       | —                                    | (6 )   | —               | (68 )                                       | —            | (74 )                   |
| Other expense, net                                     | —       | —                                    | —      | —               | (1 )  | —            | (1 )                    |
| Equity in income (loss) of<br>subsidiaries             | (73 )   | (96 )                                | 4      | 402             | —   | (237 )       | —                       |
|  | (73 )   | (95 )                                | (96 )  | 4               | (269 )                                      | (237 )       | (766 )                  |
| Income (loss) before income<br>taxes                   | (73 )   | (95 )                                | (96 )  | 4               | 441   | (237 )       | (56 )                   |
| INCOME TAX EXPENSE                                     | (200 )  | —                                    | —      | —               | (8 )  | —            | (208 )                  |
| Consolidated net income (loss)                         | (273 )  | (95 )                                | (96 )  | 4               | 433   | (237 )       | (264 )                  |
| Less: Net (income) loss –<br>noncontrolling interest   | 9       | 22                                   | —      | —               | (31 )                                       | —            | —                       |

Net income (loss)                      \$(264 ) \$ (73 ) \$ (96 ) \$4                      \$ 402                      \$ (237 ) \$ (264 )

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
Condensed Consolidating Statement of Operations  
For the nine months ended September 30, 2011

|  | Charter | Intermediate<br>Holding<br>Companies | CCH II | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|--|---------|--------------------------------------|--------|-----------------|---|--------------|-------------------------|
| REVENUES   | \$24    | \$ 92                                | \$—    | \$—             | \$ 5,370                                    | \$ (116 )    | \$ 5,370                |
| COSTS AND EXPENSES:                                    |         |                                      |        |                 |   |              |                         |
| Operating (excluding<br>depreciation and amortization) | —       | —                                    | —      | —               | 2,344                                       | —            | 2,344                   |
| Selling, general and<br>administrative                 | 24      | 92                                   | —      | —               | 1,062                                       | (116 )       | 1,062                   |
| Depreciation and amortization                          | —       | —                                    | —      | —               | 1,181                                       | —            | 1,181                   |
| Other operating expenses, net                          | —       | —                                    | —      | —               | 7   | —            | 7                       |
|  | 24      | 92                                   | —      | —               | 4,594                                       | (116 )       | 4,594                   |
| Income from operations                                 | —       | —                                    | —      | —               | 776   | —            | 776                     |
| OTHER INCOME AND<br>(EXPENSES):                        |         |                                      |        |                 |   |              |                         |
| Interest expense, net                                  | —       | 1                                    | (144 ) | (274 )          | (301 )                                      | —            | (718 )                  |
| Loss on extinguishment of debt                         | —       | —                                    | —      | —               | (124 )                                      | —            | (124 )                  |
| Other expense, net                                     | —       | —                                    | —      | —               | (4 )  | —            | (4 )                    |
| Equity in income (loss) of<br>subsidiaries             | (82 )   | (106 )                               | 38     | 312             | —   | (162 )       | —                       |
|  | (82 )   | (105 )                               | (106 ) | 38              | (429 )                                      | (162 )       | (846 )                  |
| Income (loss) before income<br>taxes                   | (82 )   | (105 )                               | (106 ) | 38              | 347   | (162 )       | (70 )                   |
| INCOME TAX EXPENSE                                     | (229 )  | —                                    | —      | —               | (3 )  | —            | (232 )                  |
| Consolidated net income (loss)                         | (311 )  | (105 )                               | (106 ) | 38              | 344   | (162 )       | (302 )                  |
| Less: Net (income) loss –<br>noncontrolling interest   | 9       | 23                                   | —      | —               | (32 )                                       | —            | —                       |

|                   |           |          |           |       |        |           |           |
|-------------------|-----------|----------|-----------|-------|--------|-----------|-----------|
| Net income (loss) | \$ (302 ) | \$ (82 ) | \$ (106 ) | \$ 38 | \$ 312 | \$ (162 ) | \$ (302 ) |
|-------------------|-----------|----------|-----------|-------|--------|-----------|-----------|

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
 Condensed Consolidating Statement of Comprehensive Income (Loss)  
 For the nine months ended September 30, 2012

|   | Charter  | Intermediate<br>Holding<br>Companies | CCH II  | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|---|----------|--------------------------------------|---------|-----------------|---|--------------|-------------------------|
| Consolidated net income (loss)  | \$(273 ) | \$(95 )                              | \$(96 ) | \$4             | \$ 433                                      | \$(237 )     | \$(264 )                |
| Changes in fair value of interest<br>rate swap agreements, net of tax | —        | —                                    | —       | —               | (18 )                                       | —            | (18 )                   |
| Comprehensive income (loss)   | \$(273 ) | \$(95 )                              | \$(96 ) | \$4             | \$ 415                                      | \$(237 )     | \$(282 )                |

Charter Communications, Inc.  
 Condensed Consolidating Statement of Comprehensive Income (Loss)  
 For the nine months ended September 30, 2011

|   | Charter  | Intermediate<br>Holding<br>Companies | CCH II   | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|---|----------|--------------------------------------|----------|-----------------|---|--------------|-------------------------|
| Consolidated net income (loss)  | \$(311 ) | \$(105 )                             | \$(106 ) | \$38            | \$ 344                                      | \$(162 )     | \$(302 )                |
| Changes in fair value of interest<br>rate swap agreements, net of tax | —        | —                                    | —        | —               | (20 )                                       | —            | (20 )                   |
| Comprehensive income (loss)   | \$(311 ) | \$(105 )                             | \$(106 ) | \$38            | \$ 324                                      | \$(162 )     | \$(322 )                |

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
Condensed Consolidating Statement of Cash Flows  
For the nine months ended September 30, 2012

|   | Charter  | Intermediate<br>Holding<br>Companies | CCH II   | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|---|----------|--------------------------------------|----------|-----------------|---|--------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |          |                                      |          |                 |   |              |                         |
| Consolidated net income (loss)  | \$(273 ) | \$ (95 )                             | \$ (96 ) | \$4             | \$ 433                                      | \$ (237 )    | \$ (264 )               |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities:         |          |                                      |          |                 |   |              |                         |
| Depreciation and amortization   | —        | —                                    | —        | —               | 1,247                                       | —            | 1,247                   |
| Noncash interest expense  | —        | —                                    | (21 )    | 18              | 36  | —            | 33                      |
| Loss on extinguishment of debt  | —        | —                                    | 6        | —               | 68  | —            | 74                      |
| Deferred income taxes   | 200      | —                                    | —        | —               | 3   | —            | 203                     |
| Equity in (income) losses of subsidiaries   | 73       | 96                                   | (4 )     | (402 )          | —   | 237          | —                       |
| Other, net  | —        | (1 )                                 | —        | —               | 26  | —            | 25                      |
| Changes in operating assets and liabilities, net of effects from acquisitions and dispositions: |          |                                      |          |                 |   |              |                         |
| Accounts receivable   | —        | —                                    | —        | —               | 18  | —            | 18                      |
| Prepaid expenses and other assets   | 1        | 11                                   | —        | —               | (24 )                                       | —            | (12 )                   |
| Accounts payable, accrued expenses and other  | —        | (33 )                                | (57 )    | 81              | 76  | —            | 67                      |
| Receivables from and payables to related party  | 1        | 28                                   | (6 )     | (7 )            | (16 )                                       | —            | —                       |
| Net cash flows from operating activities  | 2        | 6                                    | (178 )   | (306 )          | 1,867                                       | —            | 1,391                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |          |                                      |          |                 |   |              |                         |
| Purchases of property, plant and equipment  | —        | —                                    | —        | —               | (1,296 )                                    | —            | (1,296 )                |
| Change in accrued expenses related to capital expenditures                                      | —        | —                                    | —        | —               | 16  | —            | 16                      |
| Sales of cable systems  | —        | —                                    | —        | —               | 19  | —            | 19                      |
| Contribution to subsidiary  | —        | —                                    | —        | (1,244 )        | —   | 1,244        | —                       |

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|   |      |      |       |       |         |         |         |
|---|------|------|-------|-------|---------|---------|---------|
| Distributions from subsidiary                         | 3    | 15   | 567   | 870   | —       | (1,455) | —       |
| Other, net  | —    | —    | —     | —     | (18)    | —       | (18)    |
| Net cash flows from investing activities              | 3    | 15   | 567   | (374) | (1,279) | (211)   | (1,279) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>          |      |      |       |       |         |         |         |
| Borrowings of long-term debt                          | —    | —    | —     | 1,984 | 2,369   | —       | 4,353   |
| Repayments of long-term debt                          | —    | —    | (386) | —     | (3,168) | —       | (3,554) |
| Borrowings (payments) loans payable - related parties | —    | —    | —     | (314) | 314     | —       | —       |
| Payment for debt issuance costs                       | —    | —    | —     | (27)  | (14)    | —       | (41)    |
| Purchase of treasury stock                            | (4)  | —    | —     | —     | —       | —       | (4)     |
| Contributions from parent                             | —    | —    | —     | —     | 1,244   | (1,244) | —       |
| Distributions to parent                               | —    | (15) | (3)   | (567) | (870)   | 1,455   | —       |
| Other, net  | 13   | (3)  | —     | —     | (10)    | —       | —       |
| Net cash flows from financing activities              | 9    | (18) | (389) | 1,076 | (135)   | 211     | 754     |
| NET INCREASE IN CASH AND CASH EQUIVALENTS             | 14   | 3    | —     | 396   | 453     | —       | 866     |
| CASH AND CASH EQUIVALENTS, beginning of period        | —    | —    | —     | 2     | 27      | —       | 29      |
| CASH AND CASH EQUIVALENTS, end of period              | \$14 | \$3  | \$—   | \$398 | \$480   | \$—     | \$895   |



CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc.  
Condensed Consolidating Statement of Cash Flows  
For the nine months ended September 30, 2011

|   | Charter  | Intermediate<br>Holding<br>Companies | CCH II   | CCO<br>Holdings | Charter<br>Operating<br>and<br>Subsidiaries | Eliminations | Charter<br>Consolidated |
|---|----------|--------------------------------------|----------|-----------------|---|--------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |          |                                      |          |                 |   |              |                         |
| Consolidated net income (loss)  | \$(311 ) | \$(105 )                             | \$(106 ) | \$38            | \$ 344                                      | \$(162 )     | \$(302 )                |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities:         |          |                                      |          |                 |   |              |                         |
| Depreciation and amortization   | —        | —                                    | —        | —               | 1,181                                       | —            | 1,181                   |
| Noncash interest expense  | —        | —                                    | (28 )    | 15              | 40  | —            | 27                      |
| Loss on extinguishment of debt  | —        | —                                    | —        | —               | 124   | —            | 124                     |
| Deferred income taxes   | 229      | —                                    | —        | —               | (4 )  | —            | 225                     |
| Equity in (income) losses of subsidiaries   | 82       | 106                                  | (38 )    | (312 )          | —   | 162          | —                       |
| Other, net  | —        | —                                    | —        | —               | 26  | —            | 26                      |
| Changes in operating assets and liabilities, net of effects from acquisitions and dispositions: |          |                                      |          |                 |   |              |                         |
| Accounts receivable   | —        | (2 )                                 | —        | —               | (3 )  | —            | (5 )                    |
| Prepaid expenses and other assets   | —        | 4                                    | —        | —               | (8 )  | —            | (4 )                    |
| Accounts payable, accrued expenses and other  | —        | (16 )                                | (61 )    | 104             | 13  | —            | 40                      |
| Receivables from and payables to related party  | —        | 9                                    | (6 )     | (5 )            | 2   | —            | —                       |
| Net cash flows from operating activities  | —        | (4 )                                 | (239 )   | (160 )          | 1,715                                       | —            | 1,312                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |          |                                      |          |                 |   |              |                         |
| Purchases of property, plant and equipment  | —        | —                                    | —        | —               | (984 )                                      | —            | (984 )                  |
| Change in accrued expenses related to capital expenditures                                      | —        | —                                    | —        | —               | (11 )                                       | —            | (11 )                   |
| Purchases of cable systems  | —        | —                                    | —        | —               | (89 )                                       | —            | (89 )                   |
| Contribution to subsidiary  | —        | —                                    | —        | (2,647 )        | —   | 2,647        | —                       |

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|   |      |          |        |         |          |         |          |
|---|------|----------|--------|---------|----------|---------|----------|
| Distributions from subsidiary                         | 206  | 1,630    | 562    | 493     | —        | (2,891  | ) —      |
| Other, net  | —    | —        | —      | —       | (20      | ) —     | (20      |
| Net cash flows from investing activities              | 206  | 1,630    | 562    | (2,154  | ) (1,104 | ) (244  | ) (1,104 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>          |      |          |        |         |          |         |          |
| Borrowings of long-term debt                          | —    | —        | —      | 2,890   | 911      | —       | 3,801    |
| Repayments of long-term debt                          | —    | —        | —      | —       | (3,645   | ) —     | (3,645   |
| Borrowings (payments) loans payable - related parties | —    | —        | —      | 30      | (30      | ) —     | —        |
| Payment for debt issuance costs                       | —    | —        | —      | (43     | ) —      | —       | (43      |
| Purchase of treasury stock                            | (207 | ) (116   | ) —    | —       | —        | —       | (323     |
| Contributions from parent                             | —    | —        | —      | —       | 2,647    | (2,647  | ) —      |
| Distributions to parent                               | —    | (1,510   | ) (326 | ) (562  | ) (493   | ) 2,891 | —        |
| Other, net  | 4    | —        | —      | —       | (2       | ) —     | 2        |
| Net cash flows from financing activities              | (203 | ) (1,626 | ) (326 | ) 2,315 | (612     | ) 244   | (208     |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | 3    | —        | (3     | ) 1     | (1       | ) —     | —        |
| CASH AND CASH EQUIVALENTS, beginning of period        | —    | —        | 3      | 1       | 28       | —       | 32       |
| CASH AND CASH EQUIVALENTS, end of period              | \$3  | \$ —     | \$ —   | \$2     | \$ 27    | \$ —    | \$ 32    |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Charter Communications, Inc. ("Charter") is a holding company whose principal asset is a 100% common equity interest in Charter Communications Holding Company, LLC ("Charter Holdco"). Charter owns cable systems through its subsidiaries.

We are a cable operator providing services in the United States with approximately 5.3 million residential and commercial customers at September 30, 2012. We offer our customers traditional cable video programming (basic and digital video), Internet services, and telephone services, as well as advanced video services such as Charter OnDemand™ ("OnDemand"), high definition ("HD") television and digital video recorder ("DVR") service. We also sell local advertising on cable networks and provide fiber connectivity to cellular towers.

Overview

Total revenue growth was 4% for both the three and nine months ended September 30, 2012 compared to the corresponding periods in 2011, respectively, as we continued to grow our Internet and commercial businesses and also due to increased advertising revenue. Video revenue for the three months ended September 30, 2012 compared to the corresponding period in 2011 remained flat and declined 1% for the nine months ended September 30, 2012 compared to the corresponding period in 2011. For the three and nine months ended September 30, 2012, adjusted earnings (loss) before interest expense, income taxes, depreciation and amortization ("Adjusted EBITDA") was \$651 million and \$2.0 billion, respectively. For the three and nine months ended September 30, 2011, Adjusted EBITDA was \$653 million and \$2.0 billion, respectively. See "—Use of Adjusted EBITDA and Free Cash Flow" for further information on Adjusted EBITDA and free cash flow. Adjusted EBITDA remained flat for the three and nine months ended September 30, 2012 compared to the corresponding periods in 2011 as a result of higher programming costs, expenses associated with driving higher growth and investments in the customer experience offset by an increase in Internet, commercial and advertising revenues. For the three and nine months ended September 30, 2012, our income from operations was \$211 million and \$710 million, respectively. For the three and nine months ended September 30, 2011, our income from operations was \$237 million and \$776 million, respectively. The decrease in income from operations for the three and nine months ended September 30, 2012 is primarily due to increases in depreciation and amortization.

Our business plans include goals for increasing the number of customers and revenue. To reach our goals, we have been working to further improve the quality of the video product we offer by increasing digital and HD-DVR penetration and no longer actively marketing analog service. As we entered the third quarter, we accelerated these improvements. Our goal was 100 HD channels across substantially all of our footprint by the end of the year and we reached that goal in July 2012. We have simplified our offers and pricing and improved our packaging of products to bring more value to our customers, with particular focus on offers aimed at new customers to increase the penetration of our products in our markets. In addition, we are implementing a number of changes to our organizational structure, selling methods and operating tactics which we believe will position us for better customer service and growth. In the short term, however, we expect that customer connects, revenue and operating expenses may be adversely impacted during this transition. We also expect our capital expenditures to remain elevated as we strive to increase digital and HD-DVR penetration, place higher levels of customer premise equipment per transaction and progressively move to an all-digital platform.

We believe that continued competition and the weakened economic conditions in the United States, including weakness in the housing market and relatively high unemployment levels, have adversely affected consumer demand for our services, particularly basic video. Our video competitors often offer more channels, including more HD

channels, and typically only offer digital services which have a better picture quality compared to our analog product. In the current economic environment, customers have been more willing to consider our competitors' products, partially because of increased marketing highlighting perceived differences between competitive video products, especially when those competitors are often offering significant incentives to switch providers. We also believe some customers have chosen to receive video over the Internet rather than through our OnDemand and premium video services, thereby reducing our video revenues. We believe competition from wireless and economic factors have contributed to an increase in the number of homes that replace their traditional telephone service with wireless service thereby impacting the growth of our telephone business.

If the economic and competitive conditions discussed above do not improve or our efforts to improve our products and the way we market those products are not ultimately successful in increasing our growth, we believe our business and results of operations will be adversely affected, which may contribute to future impairments of our franchises and goodwill.

The following table summarizes our customer statistics for basic video, digital video, Internet and telephone as of September 30, 2012 and 2011 (in thousands).

|                        | Approximate as of<br>September 30, |          |
|------------------------|------------------------------------|----------|
|                        | 2012 (a)                           | 2011 (a) |
| Residential            |                                    |          |
| Video (b)              | 4,025                              | 4,188    |
| Internet (c)           | 3,731                              | 3,424    |
| Phone (d)              | 1,880                              | 1,764    |
| Residential PSUs (e)   | 9,636                              | 9,376    |
| Commercial             |                                    |          |
| Video (b)(f)           | 172                                | 173      |
| Internet (c)           | 186                                | 156      |
| Phone (d)              | 99                                 | 74       |
| Commercial PSUs (e)    | 457                                | 403      |
| Digital Video RGUs (g) | 3,484                              | 3,401    |
| Residential ARPU       |                                    |          |
| Video (h)              | \$74                               | \$72     |
| Internet (h)           | \$42                               | \$43     |
| Phone (h)              | \$37                               | \$41     |

We calculate the aging of customer accounts based on the monthly billing cycle for each account. On that basis, at September 30, 2012 and 2011, customers include approximately 16,900 and 15,500 customers, respectively, whose (a) accounts were over 60 days past due in payment, approximately 3,400 and 1,900 customers, respectively, whose accounts were over 90 days past due in payment, and approximately 1,600 and 1,000 customers, respectively, whose accounts were over 120 days past due in payment.

“Video customers” represent those customers who subscribe to our video cable services. Effective January 1, 2012, Charter revised its reporting of customers whereby customers residing in multi-dwelling residential structures are now included in residential customer relationships and PSUs (see footnote (e)) rather than commercial. Further, (b) residential PSUs and customer relationships are no longer calculated on an EBU (see footnote (f)) basis but are based on separate billing relationships. The impact of these changes increased residential customer relationships and PSUs and reduced commercial customer relationships and PSUs, with an overall net decrease to total customer relationships and PSUs. Prior periods were reclassified to conform to the 2012 presentation.

(c) “Internet customers” represent those customers who subscribe to our Internet service.

(d) “Phone customers” represent those customers who subscribe to our telephone service.

(e) “Primary Service Units” or “PSUs” represent the total of video, Internet and phone customers.

(f) Included within commercial video customers are those in commercial structures, which are calculated on an equivalent bulk unit (“EBU”) basis. We calculate EBUs by dividing the bulk price charged to accounts in an area by the published rate charged to non-bulk residential customers in that market for the comparable tier of service. This

EBU method of estimating basic video customers is consistent with the methodology used in determining costs paid to programmers and is consistent with the methodology used by other multiple system operators (“MSOs”). As we increase our published video rates to residential customers without a corresponding increase in the prices charged to commercial service customers, our EBU count will decline even if there is no real loss in commercial service customers.

(g) "Digital video RGUs" include all video customers who have one or more digital set-top boxes or cable cards in their home or business.

"Average Monthly Revenue Per Customer" or "ARPU" represents quarterly revenue for the service indicated, (h) divided by three, divided by the average number of customers for the service indicated during the respective quarter.

We have a history of net losses. Our net losses are principally attributable to insufficient revenue to cover the combination of operating expenses, interest expenses that we incur because of our debt, depreciation expenses resulting from the capital investments we have made and continue to make in our cable properties, amortization expenses of customer relationships and non-cash tax expense resulting from increases in our deferred tax liabilities.

#### Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and the means by which we develop estimates therefore, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2011 Annual Report on Form 10-K.

## Results of Operations

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

|   | Three Months Ended September 30, |       |             |       | Nine Months Ended September 30, |       |             |       |
|---|----------------------------------|-------|-------------|-------|---------------------------------|-------|-------------|-------|
|   | 2012                             |       | 2011        |       | 2012                            |       | 2011        |       |
| Revenues  | \$1,880                          | 100 % | \$1,809     | 100 % | \$5,591                         | 100 % | \$5,370     | 100 % |
| Costs and Expenses:   |                                  |       |             |       |                                 |       |             |       |
| Operating (excluding depreciation and amortization)           | 858                              | 46 %  | 792         | 44 %  | 2,503                           | 45 %  | 2,344       | 44 %  |
| Selling, general and administrative                           | 384                              | 20 %  | 374         | 21 %  | 1,129                           | 20 %  | 1,062       | 20 %  |
| Depreciation and amortization                                 | 424                              | 23 %  | 405         | 22 %  | 1,247                           | 22 %  | 1,181       | 22 %  |
| Other operating expenses, net                                 | 3                                | — %   | 1           | — %   | 2                               | — %   | 7           | — %   |
|   | 1,669                            | 89 %  | 1,572       | 87 %  | 4,881                           | 87 %  | 4,594       | 86 %  |
| Income from operations  | 211                              | 11 %  | 237         | 13 %  | 710                             | 13 %  | 776         | 14 %  |
| Other Expenses:   |                                  |       |             |       |                                 |       |             |       |
| Interest expense, net   | (229 )                           |       | (244 )      |       | (691 )                          |       | (718 )      |       |
| Loss on extinguishment of debt                                | —                                |       | (4 )        |       | (74 )                           |       | (124 )      |       |
| Other expense, net  | —                                |       | (2 )        |       | (1 )                            |       | (4 )        |       |
|   | (229 )                           |       | (250 )      |       | (766 )                          |       | (846 )      |       |
| Loss before income taxes                                      | (18 )                            |       | (13 )       |       | (56 )                           |       | (70 )       |       |
| Income tax expense  | (69 )                            |       | (72 )       |       | (208 )                          |       | (232 )      |       |
| Net loss  | \$(87 )                          |       | \$(85 )     |       | \$(264 )                        |       | \$(302 )    |       |
| LOSS PER COMMON SHARE, BASIC AND DILUTED:                     |                                  |       |             |       |                                 |       |             |       |
| Weighted average common shares outstanding, basic and diluted | 99,694,672                       |       | 108,420,169 |       | 99,542,021                      |       | 110,285,852 |       |

Revenues. Total revenue grew \$71 million or 4% for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 and increased \$221 million or 4% for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. Revenue growth primarily reflects increases in the number of residential Internet and commercial business customers, incremental video revenues from DVR and HD television services and growth in advertising sales, offset by a decrease in basic video customers. Asset acquisitions



increased revenues during the three and nine months ended September 30, 2012 as compared to the corresponding periods in 2011 by approximately \$4 million and \$20 million, respectively.

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

|                   | Three Months Ended September 30,<br>2012 |                  | 2011      |                  | 2012 over 2011 |          |    |
|-------------------|--|------------------|-----------|------------------|----------------|----------|----|
|                   | Revenues                                 | % of<br>Revenues | Revenues  | % of<br>Revenues | Change         | % Change |    |
| Video             | \$906                                    | 48               | % \$908   | 50               | % \$(2         | ) —      | %  |
| Internet          | 467                                      | 25               | % 433     | 24               | % 34           | 8        | %  |
| Telephone         | 208                                      | 11               | % 216     | 12               | % (8           | ) (4     | )% |
| Commercial        | 168                                      | 9                | % 139     | 8                | % 29           | 21       | %  |
| Advertising sales | 85                                       | 5                | % 73      | 4                | % 12           | 16       | %  |
| Other             | 46                                       | 2                | % 40      | 2                | % 6            | 15       | %  |
|                   | \$1,880                                  | 100              | % \$1,809 | 100              | % \$71         | 4        | %  |
|                   | Nine Months Ended September 30,<br>2012  |                  | 2011      |                  | 2012 over 2011 |          |    |
|                   | Revenues                                 | % of<br>Revenues | Revenues  | % of<br>Revenues | Change         | % Change |    |
| Video             | \$2,712                                  | 49               | % \$2,737 | 51               | % \$(25        | ) (1     | )% |
| Internet          | 1,384                                    | 25               | % 1,266   | 24               | % 118          | 9        | %  |
| Telephone         | 642                                      | 11               | % 641     | 12               | % 1            | —        | %  |
| Commercial        | 481                                      | 9                | % 397     | 7                | % 84           | 21       | %  |
| Advertising sales | 238                                      | 4                | % 211     | 4                | % 27           | 13       | %  |
| Other             | 134                                      | 2                | % 118     | 2                | % 16           | 14       | %  |
|                   | \$5,591                                  | 100              | % \$5,370 | 100              | % \$221        | 4        | %  |

Certain prior year amounts have been reclassified to conform with the 2012 presentation, including the reflection of revenues earned from customers residing in multi-dwelling residential structures from commercial revenues to video and Internet revenues. See page 22 and 23 for definitions of customers and ARPU discussed below.

Video revenues consist primarily of revenues from basic and digital video services provided to our non-commercial customers, as well as franchise fees, equipment rental and video installation revenue. Video ARPU increased from \$72 and \$71 for the three and nine months ended September 30, 2011, respectively, to \$74 and \$73 the three and nine months ended September 30, 2012, respectively, as a result of price increases and incremental revenues from DVR and HD television services. Residential basic video customers decreased by 163,000 from September 30, 2011 to September 30, 2012. Digital video customers increased by 83,000 customers from September 30, 2011 to September 30, 2012. The decrease in video revenues is attributable to the following (dollars in millions):

|  | Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011<br>Increase / (Decrease) | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011<br>Increase / (Decrease) |
|--|--|--|
| Decrease in basic video customers                | \$(21  | ) \$(67  |
| Decrease in premium, OnDemand and pay-per-view   | (10  | ) (30  |
| Incremental video services and price adjustments | 19   | 41   |
| Increase in digital video customers              | 7  | 18   |

|                    |      |         |   |
|--------------------|------|---------|---|
| Asset acquisitions | 3    | 13      |   |
|                    | \$(2 | ) \$(25 | ) |

25

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Internet ARPU decreased from \$43 for the three months ended September 30, 2011 to \$42 for the three months ended September 30, 2012, respectively, and remained relatively constant at \$42 for the nine months ended September 30, 2011 and 2012, respectively. Residential Internet customers grew by 307,000 customers from September 30, 2011 to September 30, 2012. The increase in Internet revenues from our residential customers is attributable to the following (dollars in millions):

|   | Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011<br>Increase / (Decrease) | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011<br>Increase / (Decrease) |
|---|--|--|
| Increase in residential Internet customers  | \$36   | \$100  |
| Service level changes and price adjustments | (3   | ) 13   |
| Asset acquisitions                          | 1  | 5  |
|   | \$34   | \$118  |

Telephone ARPU decreased from \$41 for the three months ended September 30, 2011 to \$37 for the three months ended September 30, 2012, respectively, and from \$41 for the nine months ended September 30, 2011 to \$39 for the nine months ended September 30, 2012. The decrease is due to value-based pricing and revenue allocation in multi-product packages. Residential telephone customers grew by 116,000 customers from September 30, 2011 to September 30, 2012. The change in telephone revenues from our residential customers is attributable to the following (dollars in millions):

|   | Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011<br>Increase / (Decrease) | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011<br>Increase / (Decrease) |
|---|--|--|
| Increase in residential telephone customers | \$10   | \$27   |
| Price adjustments and service level changes | (18  | ) (27  |
| Asset acquisitions                          | —  | 1  |
|   | \$(8   | ) \$1  |

Commercial revenues consist primarily of revenues from services provided to our commercial customers. Increases in commercial revenues were the result of higher sales to small and medium businesses and carrier customers.

Commercial PSUs increased 54,000 from September 30, 2011 to September 30, 2012. The increase in commercial revenues is attributable to the following (dollars in millions):

|   | Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011<br>Increase / (Decrease) | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011<br>Increase / (Decrease) |
|---|--|--|
| Sales to small-to-medium sized business customers | \$22   | \$64   |
| Carrier site customers                            | 5  | 13   |
| Other   | 2  | 6  |
| Asset acquisitions                                | —  | 1  |
|   | \$29   | \$84   |

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales revenues increased for the three and nine months ended September 30, 2012 as a result of an increase in revenue from the political and automotive sectors. For the three months ended September 30, 2012 and 2011, we received \$15 million and \$13 million, respectively, and for the nine months ended September 30, 2012 and 2011, we received \$44 million and \$36 million, respectively, in advertising sales revenues from vendors.

Other revenues consist of home shopping, late payment fees, wire maintenance fees and other miscellaneous revenues. The increase during the three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011 was primarily the result of increases in late payment fees.

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

|   | Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011<br>Increase / (Decrease) | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011<br>Increase / (Decrease) |
|---|--|--|
| Programming costs                                 | \$27   | \$74   |
| Service labor costs                               | 13   | 36   |
| Maintenance costs                                 | 13   | 24   |
| Advertising sales                                 | 4  | 11   |
| Commercial services                               | 3  | 7  |
| Cost of providing Internet and telephone services | 1  | (6)  |
| Other, net  | 2  | 2  |
| Asset acquisitions                                | 3  | 11   |
|   | \$66   | \$159  |

Programming costs were approximately \$497 million and \$468 million, representing 58% and 59% of total operating expenses for the three months ended September 30, 2012 and 2011, respectively and were approximately \$1,484 million and \$1,403 million, representing 59% and 60% of total operating expenses for the nine months ended September 30, 2012 and 2011, respectively. Programming costs consist primarily of costs paid to programmers for basic, digital, premium, OnDemand, and pay-per-view programming. The increases in programming costs are primarily a result of annual contractual rate adjustments, including increases in amounts paid for retransmission consents and for new programming, offset in part by customer losses. Programming costs were

also offset by the amortization of payments received from programmers of \$1 million and \$2 million for the three months ended September 30, 2012 and 2011, respectively, and \$4 million and \$6 million for the nine months ended September 30, 2012 and 2011, respectively. We expect programming expenses to continue to increase due to a variety of factors, including increased demands by owners of some broadcast stations for carriage of other services or payments to those broadcasters for retransmission consent, annual increases imposed by programmers with additional selling power as a result of media consolidation, and additional programming, including new sports services and non-linear programming for on-line and OnDemand programming. We have been unable to fully pass these increases on to our customers nor do we expect to be able to do so in the future without a potential loss of customers.

Service labor increased \$13 million and \$36 million and maintenance costs increased \$13 million and \$24 million for the three and nine months ended September 30, 2012, respectively, due to increased preventive maintenance levels and a higher number of reconnects.

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

|                               | Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011<br>Increase / (Decrease) | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011<br>Increase / (Decrease) |
|-------------------------------|--|--|
| Marketing costs               | \$2  | \$34   |
| Commercial services           | 4  | 15   |
| Stock compensation            | 3  | 12   |
| Customer care costs           | (1   | ) 9  |
| Bad debt and collection costs | (1   | ) (8   |
| Other, net                    | 3  | 1  |
| Asset acquisitions            | —  | 4  |
|                               | \$10   | \$67   |

The increase in marketing costs for the nine months ended September 30, 2012 is the result of increased media investment and commercial marketing as well as a \$7 million favorable adjustment in the second quarter of 2011 related to expenses previously accrued on 2010 marketing campaigns.

Depreciation and amortization. Depreciation and amortization expense increased by \$19 million and \$66 million for the three and nine months ended September 30, 2012 compared to the corresponding periods in 2011, respectively, primarily representing depreciation on recent capital expenditures, offset by certain assets becoming fully depreciated.

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

| Three months ended<br>September 30, 2012<br>compared to<br>three months ended<br>September 30, 2011 | Nine months ended<br>September 30, 2012<br>compared to<br>nine months ended<br>September 30, 2011 |
|---|---|
|---|---|

|  |     |       |   |
|--|-----|-------|---|
| (Increase)/decrease in gain on sales of assets | \$1 | \$(12 | ) |
| Increase in special charges, net               | 1   | 7     |   |
|  | \$2 | \$(5  | ) |

The increase in gain on sales of assets in the nine months ended September 30, 2012 as compared to prior periods is due to a gain recorded on the sale of cable systems in the second quarter of 2012. The increase in special charges in the three and nine months



ended September 30, 2012 as compared to prior periods is a result of an increase in severance charges and settlements. For more information, see Note 8 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Interest expense, net. For the three and nine months ended September 30, 2012 compared to the corresponding periods in 2011, net interest expense decreased by \$15 million and \$27 million, respectively, which was primarily a result of a decrease in our average interest rate from 7.5% and 7.3% for the three and nine months ended September 30, 2011, respectively, to 6.6% for both the three and nine months ended September 30, 2012 offset by an increase in our weighted average debt outstanding from \$12.6 billion and \$12.5 billion for the three and nine months ended September 30, 2011, respectively, to \$13.4 billion and \$13.0 billion for the three and nine months ended September 30, 2012, respectively.

Loss on extinguishment of debt. Loss on extinguishment of debt consists of the following for the periods presented:

|   | Three Months Ended |      | Nine Months Ended |       |
|---|--------------------|------|-------------------|-------|
|   | September 30,      |      | September 30,     |       |
|   | 2012               | 2011 | 2012              | 2011  |
| CCH II and Charter Operating notes repurchase             | \$—                | \$4  | \$15              | \$4   |
| Charter Operating credit facility refinancing/prepayments | —                  | —    | 59                | 120   |
|   | \$—                | \$4  | \$74              | \$124 |

For more information, see Note 4 to the accompanying condensed consolidated financial statements contained in “Item 1. Financial Statements.”

Income tax expense. Income tax expense was recognized for the three and nine months ended September 30, 2012 and 2011 through increases in deferred tax liabilities related to our investment in Charter Holdco and certain of our indirect subsidiaries, in addition to current federal and state income tax expense (net of refunds). Income tax expense for the nine months ended September 30, 2011 included an \$8 million expense for a state tax law change.

Net loss. Net loss increased from \$85 million for the three months ended September 30, 2011 to \$87 million for the three months ended September 30, 2012 and decreased from \$302 million for the nine months ended September 30, 2011 to \$264 million for the nine months ended September 30, 2012 primarily as a result of the factors described above.

Loss per common share. During the three and nine months ended September 30, 2012 compared to the corresponding periods in 2011, net loss per common share increased by \$0.08 and decreased by \$0.09, respectively, as a result of the factors described above offset by a decrease in our weighted average shares outstanding as a result of share repurchases in the last twelve months.

#### Use of Adjusted EBITDA and Free Cash Flow

We use certain measures that are not defined by GAAP to evaluate various aspects of our business. Adjusted EBITDA and free cash flow are non-GAAP financial measures and should be considered in addition to, not as a substitute for, net loss and net cash flows from operating activities reported in accordance with GAAP. These terms, as defined by us, may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA and free cash flow are reconciled to consolidated net loss and net cash flows from operating activities, respectively, below.

Adjusted EBITDA is defined as net loss plus net interest expense, income tax expense, depreciation and amortization, stock compensation expense, loss on extinguishment of debt and other operating expenses, such as special charges and gain (loss) on sale or retirement of assets. As such, it eliminates the significant non-cash depreciation and amortization expense that results from the capital-intensive nature of our businesses as well as other non-cash or special items, and is unaffected by our capital structure or investment activities. Adjusted EBITDA is used by management and Charter's board of directors to evaluate the performance of our business. However, this measure is limited in that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues and our cash cost of financing. Management evaluates these costs through other financial measures.

Free cash flow is defined as net cash flows from operating activities, less capital expenditures and changes in accrued expenses related to capital expenditures.

We believe that Adjusted EBITDA and free cash flow provide information useful to investors in assessing our performance and our ability to service our debt, fund operations and make additional investments with internally generated funds. In addition, Adjusted EBITDA generally correlates to the leverage ratio calculation under our credit facilities or outstanding notes to determine compliance with the covenants contained in the facilities and notes (all such documents have been previously filed with the United States Securities and Exchange Commission). For the purpose of calculating compliance with leverage covenants, we use Adjusted EBITDA, as presented, excluding certain expenses paid by our operating subsidiaries to other Charter entities. Our debt covenants refer to these expenses as management fees, which fees were in the amount of \$44 million and \$40 million for the three months ended September 30, 2012 and 2011, respectively, and \$126 million and \$110 million for the nine months ended September 30, 2012 and 2011, respectively.

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2012                                | 2011    | 2012                               | 2011     |
| Net loss   | \$(87                               | ) \$(85 | ) \$(264                           | ) \$(302 |
| Plus: Interest expense, net                                | 229                                 | 244     | 691                                | 718      |
| Income tax expense   | 69                                  | 72      | 208                                | 232      |
| Depreciation and amortization                              | 424                                 | 405     | 1,247                              | 1,181    |
| Stock compensation expense                                 | 13                                  | 10      | 37                                 | 25       |
| Loss on extinguishment of debt                             | —                                   | 4       | 74                                 | 124      |
| Other, net   | 3                                   | 3       | 3                                  | 11       |
| Adjusted EBITDA  | \$651                               | \$653   | \$1,996                            | \$1,989  |
| Net cash flows from operating activities                   | \$468                               | \$405   | \$1,391                            | \$1,312  |
| Less: Purchases of property, plant and equipment           | (488                                | ) (304  | ) (1,296                           | ) (984   |
| Change in accrued expenses related to capital expenditures | 3                                   | (11     | ) 16                               | (11      |
| Free cash flow   | \$(17                               | ) \$90  | \$111                              | \$317    |

## Liquidity and Capital Resources

### Introduction

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

### Recent Events

In August 2012, CCO Holdings, LLC ("CCO Holdings") and CCO Holdings Capital Corp. closed on transactions in which they issued \$1.25 billion aggregate principal amount of 5.25% senior notes due 2022. The notes were issued at a price of 99.026% of the aggregate principal amount. The proceeds from the notes will be used for general corporate purposes, including repaying amounts outstanding under Charter Communications Operating, LLC's ("Charter Operating") revolving credit facility, and to fund the redemption of CCH II, LLC's ("CCH II") 13.500% senior notes due 2016 on or before November 30, 2012. In October 2012, we redeemed \$678 million aggregate principal amount of the CCH II 13.500% senior notes due 2016 at 108.522% of the principal amount. In October 2012, we also sent out

notices of redemption for the remaining \$468 million aggregate principal amount of CCH II 13.500% senior notes due 2016 at 106.75% of the principal amount. The redemption will be funded by cash on hand and availability under our revolving credit facility.

#### Overview of Our Contractual Obligations and Liquidity

We have significant amounts of debt. The accreted value of our debt as of September 30, 2012 was \$13.7 billion, consisting of \$4.2 billion of credit facility debt and \$9.5 billion of high-yield notes. Our business requires significant cash to fund principal and

interest payments on our debt. As of September 30, 2012, after giving effect to the redemption of the CCH II 13.500% senior notes due 2016 described in Recent Events above, \$8 million of our debt matures in 2012, \$268 million in 2013, \$418 million in 2014, \$106 million in 2015, \$2.3 billion in 2016 and \$9.8 billion thereafter. As of December 31, 2011, as shown in our annual report on Form 10-K, we had other contractual obligations, including interest on our debt, totaling \$6.2 billion. We also currently expect to incur capital expenditures of approximately \$1.6 billion to \$1.7 billion in 2012.

Our projected cash needs and projected sources of liquidity depend upon, among other things, our actual results, and the timing and amount of our expenditures. Negative free cash flow was \$17 million for the three months ended September 30, 2012 and free cash flow was \$111 million for the nine months ended September 30, 2012. We expect to generate positive free cash flow for 2012. As of September 30, 2012, after giving effect to the redemption of the CCH II 13.500% senior notes due 2016 described in Recent Events above, the amount available under our credit facilities was approximately \$715 million. We expect to utilize free cash flow and availability under our credit facilities as well as future refinancing transactions to further extend the maturities of or reduce the principal on our obligations. The timing and terms of any refinancing transactions will be subject to market conditions. Additionally, we may, from time to time, depending on market conditions and other factors, use cash on hand and the proceeds from securities offerings or other borrowings, to retire our debt through open market purchases, privately negotiated purchases, tender offers, or redemption provisions. We believe we have sufficient liquidity from cash on hand, free cash flow and Charter Operating's revolving credit facility as well as access to the capital markets to fund our projected operating cash needs.

We continue to evaluate the deployment of our anticipated future free cash flow including to reduce our leverage, and to invest in our business growth and other strategic opportunities, including mergers and acquisitions as well as stock repurchases and dividends. As possible acquisitions, swaps or dispositions arise in our industry, we actively review them against our objectives including, among other considerations, improving the operational efficiency and clustering of our business and achieving appropriate return targets, and we may participate to the extent we believe these possibilities present attractive opportunities. However, there can be no assurance that we will actually complete any acquisition, disposition or system swap or that any such transactions will be material to our operations or results.

#### Free Cash Flow

Negative free cash flow was \$17 million for the three months ended September 30, 2012 and free cash flow was \$90 million for the three months ended September 30, 2011, and \$111 million and \$317 million for the nine months ended September 30, 2012 and 2011, respectively. The decrease in free cash flow for the three and nine months ended September 30, 2012 compared to the corresponding periods in 2011 is primarily due to an increase of \$184 million and \$312 million, respectively, in capital expenditures. The decrease in free cash flow is offset by a decrease of \$48 million and \$2 million, respectively, in cash paid for interest due to a change in the timing of payments with the completion of refinancings. The decrease in free cash flow is also offset by changes in operating assets and liabilities, excluding the change in accrued interest, that provided \$31 million and \$101 million more cash during the three and nine months ended September 30, 2012, respectively, driven by an increase in accounts payable and accrued expenses.

#### Limitations on Distributions

Distributions by Charter's subsidiaries to a parent company for payment of principal on parent company notes are restricted under indentures and credit facilities governing our indebtedness, unless there is no default under the applicable indenture and credit facilities, and unless each applicable subsidiary's leverage ratio test is met at the time of such distribution. As of September 30, 2012, there was no default under any of these indentures or credit facilities and each subsidiary met its applicable leverage ratio tests based on September 30, 2012 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at the time of the

contemplated distribution. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of the contemplated distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities.

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

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

## Historical Operating, Investing, and Financing Activities

**Cash and Cash Equivalents.** We held \$895 million and \$29 million in cash and cash equivalents as of September 30, 2012 and December 31, 2011, respectively, including \$27 million of restricted cash. The increase in cash was a result of the issuance of \$1.25 billion aggregate principal amount of CCO Holdings 5.25% senior notes due 2022 in August 2012 offset by a portion of the proceeds used to pay off outstanding amounts under our revolving credit facility. In October 2012, we used approximately \$750 million in cash and cash equivalents to fund the redemption of the CCH II 13.500% senior notes due 2016 as described in Recent Events.

**Operating Activities.** Net cash provided by operating activities increased \$79 million from \$1.3 billion for the nine months ended September 30, 2011 to \$1.4 billion for the nine months ended September 30, 2012, primarily due to changes in operating assets and liabilities, excluding the change in accrued interest and in liabilities related to capital expenditures, that provided \$74 million more cash during 2012 driven by collection of receivables and an increase in accounts payable and accrued expenses and higher Adjusted EBITDA.

**Investing Activities.** Net cash used in investing activities for the nine months ended September 30, 2012 and 2011 was \$1.3 billion and \$1.1 billion, respectively. The increase is primarily due to higher capital expenditures.

**Financing Activities.** Net cash provided by financing activities was \$754 million for the nine months ended September 30, 2012 and net cash used in financing activities was \$208 million for the nine months ended September 30, 2011. The increase in cash provided was primarily the result of an increase by which borrowings of long-term debt exceeded repayments and by decreases in purchases of treasury stock.

## Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were \$1.3 billion and \$984 million for the nine months ended September 30, 2012 and 2011, respectively. The increase related to higher actual and anticipated residential and commercial customer growth, scalable Internet infrastructure to accommodate higher penetration and network throughput, and further investments in plant to improve service reliability. See the table below for more details.

During 2012, we currently expect capital expenditures to be between \$1.6 billion and \$1.7 billion. The actual amount of our capital expenditures depends on the level of success of our new operating strategies and residential product offerings, with the increase over prior year reflecting higher expected levels of customer premise equipment placement for both new and existing customers, resulting from increased digitization and DVR penetration, and growth in our commercial business.

Our capital expenditures are funded primarily from free cash flow and borrowings on our credit facility. In addition, our liabilities related to capital expenditures increased by \$16 million for the nine months ended September 30, 2012.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the three and nine months ended September 30, 2012 and 2011. The disclosure is intended to provide more consistency in the reporting of capital expenditures among peer companies in the cable industry. These disclosure guidelines are not required disclosures under GAAP, nor do they impact our accounting for capital expenditures under GAAP (dollars in millions):

| Three Months Ended September 30, |      | Nine Months Ended September 30, |      |
|----------------------------------|------|---------------------------------|------|
| 2012                             | 2011 | 2012                            | 2011 |

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|                                |       |       |         |       |
|--------------------------------|-------|-------|---------|-------|
| Customer premise equipment (a) | \$255 | \$156 | \$641   | \$470 |
| Scalable infrastructure (b)    | 74    | 58    | 320     | 265   |
| Line extensions (c)            | 52    | 29    | 111     | 78    |
| Upgrade/rebuild (d)            | 43    | 30    | 104     | 86    |
| Support capital (e)            | 64    | 31    | 120     | 85    |
| Total capital expenditures (f) | \$488 | \$304 | \$1,296 | \$984 |



- Customer premise equipment includes costs incurred at the customer residence to secure new customers and
- (a) revenue generating units. It also includes customer installation costs and customer premise equipment (e.g., set-top boxes and cable modems).
  - (b) Scalable infrastructure includes costs not related to customer premise equipment, to secure growth of new customers and revenue generating units, or provide service enhancements (e.g., headend equipment).
  - (c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).
  - (d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.
  - (e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).
  - (f) Total capital expenditures includes \$82 million and \$48 million of capital expenditures related to commercial services for the three months ended September 30, 2012 and 2011, respectively, and \$181 million and \$120 million for the nine months ended September 30, 2012 and 2011, respectively.

Certain prior period amounts have been reclassified to conform with the 2012 presentation.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to various market risks, including fluctuations in interest rates. We have used interest rate swap agreements to manage our interest costs and reduce our exposure to increases in floating interest rates. We manage our exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt. Using interest rate swap agreements, we agree to exchange, at specified intervals through 2017, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts.

As of September 30, 2012 and December 31, 2011, the accreted value of our debt was approximately \$13.7 billion and \$12.9 billion, respectively. As of September 30, 2012 and December 31, 2011, the weighted average interest rate on the credit facility debt, including the effects of our interest rate swap agreements, was approximately 4.1% and 4.3%, respectively, and the weighted average interest rate on the high-yield notes was approximately 7.7% and 8.5%, respectively, resulting in a blended weighted average interest rate of 6.6% and 7.1%, respectively. The interest rate on approximately 83% and 82% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate swap agreements, as of September 30, 2012 and December 31, 2011, respectively.

We do not hold or issue derivative instruments for speculative trading purposes. We have interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, realized derivative gains and losses offset related results on hedged items in the consolidated statements of operations. We formally document, designate and assess the effectiveness of transactions that receive hedge accounting. For the three and nine months ended September 30, 2012 and 2011 there was no cash flow hedge ineffectiveness on interest rate swap agreements.

Changes in the fair value of interest rate agreements that are designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, and that meet effectiveness criteria are reported in other comprehensive loss. For the three and nine months ended September 30, 2012, losses of \$7 million and \$18 million, respectively, and for the three and nine months ended September 30, 2011, losses of \$11 million and \$20 million, respectively, related to derivative instruments designated as cash flow hedges, were recorded in other comprehensive loss. The amounts are subsequently reclassified as an increase or decrease to interest expense in the same periods in which the related interest on the floating-rate debt obligations affects earnings (losses).



The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of September 30, 2012 (dollars in millions):

|                                   | 2012    | 2013   | 2014   | 2015   | 2016     | Thereafter | Total    | Fair Value at<br>September 30,<br>2012 |
|-----------------------------------|---------|--------|--------|--------|----------|------------|----------|--|
| <b>Debt:</b>                      |         |        |        |        |          |            |          |  |
| Fixed Rate                        | \$ 678  | \$ —   | \$ —   | \$ —   | \$ 468   | \$ 8,250   | \$ 9,396 | \$ 10,113                              |
| Average Interest Rate             | 13.50 % | —      | —      | —      | 13.50 %  | 6.87 %     | 7.67 %   | %                                      |
| Variable Rate                     | \$ 8    | \$ 268 | \$ 418 | \$ 106 | \$ 2,281 | \$ 1,239   | \$ 4,320 | \$ 4,312                               |
| Average Interest Rate             | 3.76 %  | 2.37 % | 3.01 % | 3.27 % | 4.45 %   | 4.89 %     | 4.28 %   | %                                      |
| <b>Interest Rate Instruments:</b> |         |        |        |        |          |            |          |  |
| Variable to Fixed Rate            | \$ —    | \$ 900 | \$ 800 | \$ 300 | \$ 250   | \$ 850     | \$ 3,100 | \$ 83                                  |
| Average Pay Rate                  | —       | 5.21 % | 5.65 % | 5.99 % | 4.89 %   | 4.84 %     | 5.27 %   | %                                      |
| Average Receive Rate              | —       | 3.61 % | 3.69 % | 3.82 % | 4.69 %   | 5.22 %     | 4.18 %   | %                                      |

Included in 2012 fixed rate debt above is \$678 million principal amount of CCH II 13.500% senior notes called for redemption in September 2012 and redeemed in October 2012. Included in 2016 fixed rate debt above is \$468 million principal amount of CCH II 13.500% senior notes called for redemption in October 2012 and expected to be redeemed in November 2012.

At September 30, 2012, we had \$3.1 billion in notional amounts of interest rate swaps outstanding. This includes \$1.1 billion in delayed start interest rate swaps that become effective in March 2013 through March 2015. In any future quarter in which a portion of these delayed start hedges first becomes effective, an equal or greater notional amount of the currently effective swaps are scheduled to mature. Therefore, the \$2.0 billion notional amount of currently effective interest rate swaps will gradually step down over time as current swaps mature and an equal or lesser amount of delayed start swaps become effective.

The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts. The estimated fair value is determined using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating's or counterparties' credit risk). Interest rates on variable debt are estimated using the average implied forward LIBOR for the year of maturity based on the yield curve in effect at September 30, 2012 including applicable bank spread.

#### Item 4. Controls and Procedures.

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this quarterly report. The evaluation was based in part upon reports and certifications provided by a number of executives. Based upon, and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer

concluded that the disclosure controls and procedures were effective to provide reasonable assurances that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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

There was no change in our internal control over financial reporting during the third quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II

### Item 1. Legal Proceedings.

Our Annual Report on Form 10-K for the year ended December 31, 2011 includes "Legal Proceedings" under Item 3 of Part I. There have been no material changes from the legal proceedings described in our Form 10-K, except as described below.

#### Patent Litigation

**Rembrandt Patent Litigation.** In 2006, Rembrandt Technologies, LP filed two lawsuits against Charter and other parties in the U.S. District Court for the Eastern District of Texas, alleging that each defendant's high-speed data service and systems for receipt and retransmission of Advanced Television Systems Committee digital terrestrial broadcast signals infringe nine patents owned by Rembrandt. On September 7, 2011, the court entered final judgment of non-infringement in favor of Charter and the other defendants on the eight patents stipulated for dismissal and on the remaining patent. On September 28, 2011, Rembrandt appealed to the U.S. Court of Appeals for the Federal Circuit for review of the judgment and in August 2012, the court rejected Rembrandt's appeal.

We are also defendants or co-defendants in several other unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. Other industry participants are also defendants in certain of these cases.

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

#### Bankruptcy Litigation

On March 27, 2009, Charter filed a Chapter 11 petition in the United States Bankruptcy Court for the Southern District of New York. On November 17, 2009, the Bankruptcy Court issued its Order and Opinion confirming the Plan over the objections of various objectors. Charter consummated the Plan on November 30, 2009 and reinstated the Charter Operating Credit Agreement and certain other debt of its subsidiaries.

Two appeals are pending relating to confirmation of the Plan, the appeals by (i) Law Debenture Trust Company of New York ("Law Debenture Trust") (as the Trustee with respect to the \$479 million in aggregate principal amount of 6.50% convertible senior notes due 2027 issued by Charter which are no longer outstanding following consummation of the Plan); and (ii) R<sup>2</sup> Investments, LDC ("R<sup>2</sup> Investments") (a former equity interest holder in Charter). The appeals by Law Debenture Trust and R<sup>2</sup> Investments were denied by the District Court for the Southern District of New York in March 2011. On August 31, 2012, the 2nd Circuit unanimously affirmed the district court's decision holding that R<sup>2</sup> and LDT's appeals are equitably moot. Thereafter, R<sup>2</sup> and LDT sought a rehearing en banc with the 2nd Circuit. On October 18, 2012, the 2<sup>nd</sup> Circuit denied that request. We cannot predict the ultimate outcome of the appeals nor can we estimate a reasonable range of loss.

#### Other Proceedings

We are party to lawsuits and claims that arise in the ordinary course of conducting our business, including lawsuits claiming infringement of various patents relating to various aspects of our businesses and lawsuits claiming violation

of anti-trust laws and violation of wage and hour laws. The ultimate outcome of these other legal matters pending against us or our subsidiaries cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on our consolidated financial condition, results of operations, or liquidity, such lawsuits could have in the aggregate a material adverse effect on our consolidated financial condition, results of operations, or liquidity. Whether or not we ultimately prevail in any particular lawsuit or claim, litigation can be time consuming and costly and injure our reputation.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2011 includes “Risk Factors” under Item 1A of Part I. There have been no material changes from the risk factors described in our Form 10-K.

Item 2. Unregistered Sales of Equity Proceeds and Use of Proceeds.

(C) Purchases of Equity Securities by the Issuer

The following table presents Charter's purchases of equity securities completed during the third quarter of 2012.

| Period                 | (a)<br>Total Number of<br>Shares Purchased | (b)<br>Average Price Paid per<br>Share | (c)<br>Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | (d)<br>Maximum Number of<br>Shares that May Yet<br>Be Purchased Under<br>the Plans or Programs |
|------------------------|--|--|---|--|
| July 1 - 31, 2012      | 428 (1)                                    | \$73.41                                | N/A   | N/A  |
| August 1 - 31, 2012    | 3,122 (1)                                  | \$78.59                                | N/A   | N/A  |
| September 1 - 30, 2012 | 1,082 (1)                                  | \$80.58                                | N/A   | N/A  |

In July, August and September 2012, Charter withheld 428, 3,122 and 1,082 shares of its common stock, (1) respectively, in payment of income tax withholding owed by employees upon vesting of restricted shares and restricted stock units.

Item 6. Exhibits.

The index to the exhibits begins on page E-1 of this quarterly report.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, Charter Communications, Inc. has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHARTER COMMUNICATIONS, INC.,  
Registrant

By: /s/ Kevin D. Howard  
Kevin D. Howard  
Senior Vice President - Finance, Controller and  
Chief Accounting Officer

Date: November 6, 2012

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Exhibit Index

| Exhibit | Description  |
|---------|--|
| 10.1*   | Fourth Supplemental Indenture dated August 22, 2012 relating to the 5.25% Senior Notes due 2022 by and among CCO Holdings, LLC, CCO Holdings Capital Corp. and The Bank of New York Mellon Trust Company, N.A., as trustee.  |
| 10.2*   | Amendment No. 1 to the Registration Rights Agreement dated November 30, 2009, by and among Charter Communications, Inc. and certain Investors listed therein.  |
| 10.3    | Underwriting Agreement dated as of August 8, 2012, by and among Charter Communications, Inc., Citigroup Capital Markets Inc. and the Selling Stockholders named therein (incorporated by reference to Exhibit 99.1 to the current report on Form 8-K filed by Charter Communications, Inc. on August 15, 2012 (File No. 001-33664)).   |
| 10.4*+  | The New York Relocation Agreement and Release entered into by and between Charter Communications, Inc. and Christopher Winfrey dated as of October 23, 2012.   |
| 10.5*+  | Separation Agreement between Steven Apodaca and Charter Communications, Inc. dated August 3, 2012.   |
| 12.1*   | Computation of Ratio of Earnings to Fixed Charges.   |
| 31.1*   | Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.  |
| 31.2*   | Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.  |
| 32.1*   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).  |
| 32.2*   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).  |
| 101     | The following financial statements from Charter Communications, Inc.'s Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2012, filed with the Securities and Exchange Commission on November 6, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Loss (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements. |

\* Filed herewith.

+ Management compensatory plan or arrangement