

Financial Summary:

Statistics

(dollars in millions)	Year Ended Dec. 31, 2002	Growth Over Prior Year	Pro Forma Year Ended Dec. 31, 2001 ^(a)	Pro Forma Growth Over Prior Year
Revenues	\$ 4,566	15.0%	\$ 3,969	13.4%
Adjusted EBITDA	\$ 1,796	16.4%	\$ 1,543	6.1%
Total assets	\$ 22,384		\$ 26,463	
Long-term debt	\$ 18,671		\$ 16,343	
Capital expenditures	\$ 2,222		\$ 3,001	
Common shares outstanding ^(b)	294,620,408		294,536,830	
Employees	18,600		17,900	

Unaudited Reconciliation of Adjusted EBITDA to GAAP Measures

(dollars in millions)	Year Ended Dec. 31, 2002	Year Ended Dec. 31, 2001 ^(a)
Loss from operations	\$ (4,320)	\$ (1,200)
Depreciation and amortization	1,437	2,730
Impairment of franchises	4,638	—
Option compensation expense	5	(5)
Special charge, net	36	18
Adjusted EBITDA	\$ 1,796	\$ 1,543
Interest on cash pay obligations	(1,111)	(1,018)
Special charges, net	(36)	(18)
Changes in operating assets and liabilities	99	39
Net cash flows from operating activities	\$ 748	\$ 546

The above schedule is presented in order to reconcile adjusted EBITDA, a non-GAAP (Generally Accepted Accounting Principles) measure, to the most directly comparable GAAP measure in accordance with Section 401 (b) of the Sarbanes-Oxley Act. The year ended December 31, 2001 reconciliation is on a pro forma basis to reflect the adjustments described below. The Company believes that adjusted EBITDA traditionally has provided additional information useful in analyzing our underlying business results and allows a standardized peer company comparison, while minimizing the differences from depreciation policies, financial leverage and tax strategies. However, adjusted EBITDA is a non-GAAP financial metric and should be considered in addition to, not as a substitute for, net loss, earnings per share or net cash flows from operating activities. Adjusted EBITDA is defined as income from operations before special charges, non-cash depreciation and amortization and option compensation expense.

^(a) The pro forma data provided above reflect the restatements as reported in March 2003. The pro forma data also reflect the systems acquired and sold as part of the AT&T Broadband transaction on June 30, 2001, the issuance of senior notes and senior discount notes in January and May 2001, and the issuance of convertible senior notes in May 2001, as if such transactions had occurred on January 1, 2001. Pro forma revenues, adjusted EBITDA, loss from operations and net cash flows from operating activities exceed actual results by \$162 million, \$48 million, \$0 and \$57 million, respectively.

^(b) Fully diluted shares outstanding, assuming conversion of all exchangeable and convertible securities, were 769,098,211 and 718,921,211 as of December 31, 2002 and 2001, respectively. See the Summary Organizational Chart in the "Organizational Structure" section for additional information related to fully diluted shares outstanding.

Operating Summary:

Statistics

(unaudited)	Approximate as of Dec. 31,	
	2002 ^(a)	2001 ^(a)
Analog Video:		
Estimated homes passed ^(b)	11,925,000	11,502,000
Total analog video customers	6,578,800	6,936,200
Estimated penetration of analog video homes passed	55%	60%
Digital Video:		
Estimated digital homes passed ^(b)	11,547,000	10,638,300
Digital customers	2,682,800	2,144,800
Digital percentage of analog video customers	41%	31%
High-Speed Data:		
Estimated cable modem homes passed ^(b)	9,826,000	7,561,000
Residential cable modem customers	1,138,100	552,900
Estimated penetration of cable modem homes passed	12%	7%
Revenue Generating Units:		
Analog video customers	6,578,800	6,936,200
Digital video customers	2,682,800	2,144,800
Cable modem customers	1,138,100	552,900
Telephony customers	22,800	—
Total revenue generating units	10,422,500	9,633,900
Customer relationships ^(c)	6,634,700	6,953,700

^(a) “Customers” include all persons corporate billing records show as receiving service, regardless of their payment status, except for complimentary accounts (such as our employees). Prior to publicly reporting the number of total analog video customers as of September 30, and December 31, 2001, we deducted 46,000 and 45,000 customers, respectively, from the numbers shown on the billing records as a reserve. Of the total customers reported for December 31, 2002, 93,000 were 60–90 days overdue, 5,000 customers were 90–120 days overdue, and 1,000 customers were more than 120 days overdue. Of the total customers reported for December 31, 2001, 160,000 customers were 60–90 days overdue, 55,000 customers were 90–120 days overdue, and 31,000 customers were more than 120 days overdue. Such delinquent customers represent 1.5% and 3.5% of total customers as of December 31, 2002 and 2001, respectively. For 2002 and 2001, our year-end financial statements reflect a reserve for uncollectible accounts that we deemed sufficient. The adequacy of the 46,000 and 45,000 customer reductions, our disconnect policies, the application of those policies and their effect on the customer totals reported by us during 2001 and prior periods are currently under investigation by the United States Attorney’s Office for the Eastern District of Missouri and the Securities and Exchange Commission. Those investigations are not complete. Upon the completion of such investigations, and depending on their outcome, we may make additional adjustments in the 2001 or prior periods customer numbers if such adjustments are appropriate. When we publicly announced our 2001 results on February 11, 2002, we also announced that we expected the number of customers to decline by 120,000 during the first quarter of 2002. We ultimately reported a loss of 145,000 customers in that quarter. The customer reduction was primarily the result of eliminating non-paying or delinquent customers from the customer totals.

^(b) Homes passed represents the estimated number of living units, such as single family homes, apartments units and condominium units passed by the cable distribution network in a given area to which we offer the service indicated. Homes passed excludes commercial units passed by the cable distribution network.

^(c) Customer relationships include the number of customers that receive at least one level of service encompassing video, cable modem and telephony services, without regard to which service(s) customers purchase. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association (NCTA) that have been adopted by eleven publicly traded cable operators (including Charter Communications, Inc.) as an industry standard.

See the Customer Statistics Chart in the “Our Business” section for additional information related to the above statistics.

To Our Shareholders:

There has not been a more challenging period in our company's evolution than the past year. While our business continued to grow revenues through the successful deployment of advanced broadband services, our analog video customer count declined, and significant organizational challenges arose.

A lengthy internal review together with audits of the years 2001 and 2000 by our new accounting firm, KPMG LLP, resulted in restatements to our financial statements, which reflect the results of our operations for those periods and we believe established financial and operational baselines for an independent evaluation of our business. We made difficult but necessary personnel changes to strengthen our management team, adding individuals with proven track records, whose talents are well-recognized in our industry. We have adopted new financial reporting standards recommended by the National Cable & Telecommunications Association, and we have made an effort to increase transparency in our financial statement disclosure. Finally, we have cooperated with outside inquiries into our business practices in an effort to bring such matters to a conclusion.

The year 2003 will be a year of transition. We are fully engaged in advancing the opportunity that is at the center of our company: harnessing the tremendous possibility of our broadband communications network.

Toward this end, we have excellent news to share. Charter customers continue to welcome advanced services into their homes, and in each of

the key service areas that drive our digital broadband business we are delivering improvements in revenues and cash flow. At the same time, we continue to transition away from our rebuild and upgrade cycle toward a diminishing consumption of capital. As our cash flow from operations grows and our capital expenditures decline, we are approaching the generation of free cash flow — the point at which cash generated from our business exceeds interest expense and capital expenditures. This powerful combination of rising demand and declining infrastructure costs presents the fundamental economic value proposition for Charter.

Charter is operationally more efficient than ever before, with a sharp focus on our customers. We target marketing toward consumers who are more likely to buy our top-performing services with the goal of lowering customer disconnect rates. Exerting cost disciplines across our entire organization, we have consolidated our field operations into five geographic divisions, and are implementing intelligent systems that allow us to deliver excellent service to our customers and communities in which we have the privilege to be a broadband technology provider.

Against this more disciplined backdrop, our business now encompasses a broad array of information, entertainment and communications services flowing from our single broadband network. From extremely rapid file downloads to the PC, to the latest commercial-free Hollywood hits over the television, we are participating in meaningful ways in the daily lives of millions of customers nationwide. Our sources of revenues increased from our expanding product categories, including high-speed Internet access, digital video, analog video and telephony.

Within this growing complement of broadband data products, our high-speed data service stands out not only as the fastest-growing component, but also the most profitable, producing excellent operating margins and requiring comparatively little deployment capital. Demand for our high-speed data service continues as America transforms from a nation of dial-up Internet users to a society equipped with a modern, always-on broadband network. We remain convinced that by providing customers choice in their high-speed data access speeds, and the prices associated with them, we remain competitive and often provide, quite simply, the best deal in town.

Our video revenues continued to increase as a function of service price adjustments and continued sell-in of more profitable digital service packages. We have increased video revenues even while experiencing a loss of customers.

Analog video customer erosion is our single biggest challenge, and the area receiving the most attention from our entire organization. We are working diligently to attempt to reverse this trend of analog video customer losses. In the fourth quarter of 2001, and throughout 2002, we moved away from deep-discounting sales practices employed in prior years as the primary customer acquisition tool. While competition from satellite providers is intense, our focus on price-value messaging in the sale of bundled video and high-speed data services has produced revenue growth and improved our competitive position. When video and high-speed data services are bundled into competitively priced service packages, we believe we have a compelling message to consumers. Add video on demand, interactive services, high definition television, local content and planned PVR capability, and we believe we have a winning combination of products for the marketplace.

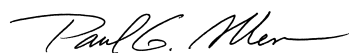
Charter's business has performed well. First quarter 2003 revenues were \$1.18 billion, a 9.7 percent increase from comparable 2002 levels and cash flows from operating activities were \$162 million, a 58.8 percent increase over the year-ago quarter.

Our first quarter results show the positive fruits of Charter's operating strategy: continue to grow the business by increasing the penetration of digital services and high-speed data, reduce customer churn by delivering excellent value through service bundles, decrease operating costs by intelligently consolidating functions, and embrace customer service standards and practices that will improve our market share.

Despite distractions and difficulties encountered in the past 12 months, Charter is making tangible progress financially and operationally. Our business is resilient, our revenues are increasing, and our service array continues to expand. For that, we credit the hard work, dedication and resolve of our employees who continue to make Charter's Wired World™ vision a daily reality for millions of customers nationwide.



Carl E. Vogel
President and Chief Executive Officer



Paul G. Allen
Chairman

June 13, 2003



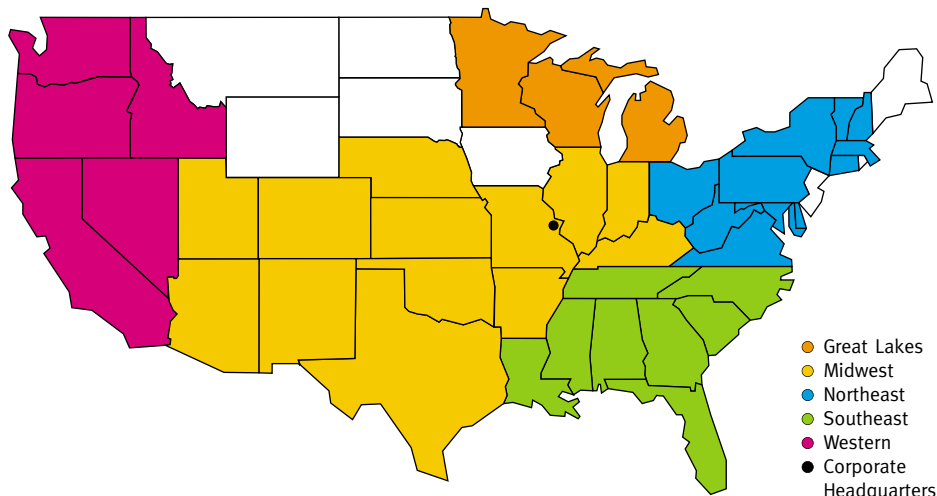
Carl E. Vogel
President and
Chief Executive Officer



Paul G. Allen
Chairman

Charter Operating Structure:

Charter is the third largest operator of cable systems in the United States with approximately 11.9 million homes passed and approximately 6.6 million customer relationships in 40 states. Our operating philosophy emphasizes local management making local decisions that affect customers. Each of our five operating divisions are managed and supported by operational, marketing and engineering personnel, with centralized financial management by our corporate office.



Charter's 25 Largest Markets:

As of Dec. 31, 2002

Rank	Designated Market Area (DMA) ^(a)	Approximate Charter Analog Video Customers
1	St. Louis	522,000
2	Los Angeles	451,500
3	Greenville-Spartanburg-Asheville-Anderson	284,800
4	Atlanta	244,300
5	Madison	231,200
6	Flint-Saginaw-Bay City	189,200
7	Birmingham (Anniston and Tuscaloosa)	182,000
8	Dallas-Ft. Worth	175,600
9	Boston (Manchester)	163,900
10	Grand Rapids-Kalamazoo-Battle Creek	159,500
11	Minneapolis-St. Paul	154,400
12	Traverse City-Cadillac	152,700
13	Reno	148,900
14	Nashville	142,700
15	New Orleans	132,000
16	Tri-Cities, TN-VA	126,600
17	Charleston-Huntington	117,300
18	Charlotte	113,100
19	Knoxville	107,800
20	Green Bay-Appleton	102,500
21	La Crosse-Eau Claire	87,400
22	Johnstown-Altoona	79,400
23	Huntsville-Decatur (Florence)	79,000
24	Montgomery (Selma)	79,000
25	Wausau-Rhineland	74,400
Total of 25 Largest Markets		4,301,200
Total Charter Analog Video Customers		6,578,800

^(a) DMA as designated by A.C.Nielsen, which defines each geographic television market.

CHARTER COMMUNICATIONS, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS:

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, our plans, strategies and prospects, both business and financial, including, without limitation, the forward-looking statements set forth in the “Liquidity and Capital Resources” section within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, without limitation, the factors described under “Certain Trends and Uncertainties” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report. Many of the forward-looking statements contained in this Annual Report may be identified by the use of forward-looking words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “will,” “may,” “intend,” “estimated,” and “potential,” among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this Annual Report are set forth in this Annual Report and in reports or documents that we file from time to time with the United States Securities and Exchange Commission, or the SEC, and include, but are not limited to:

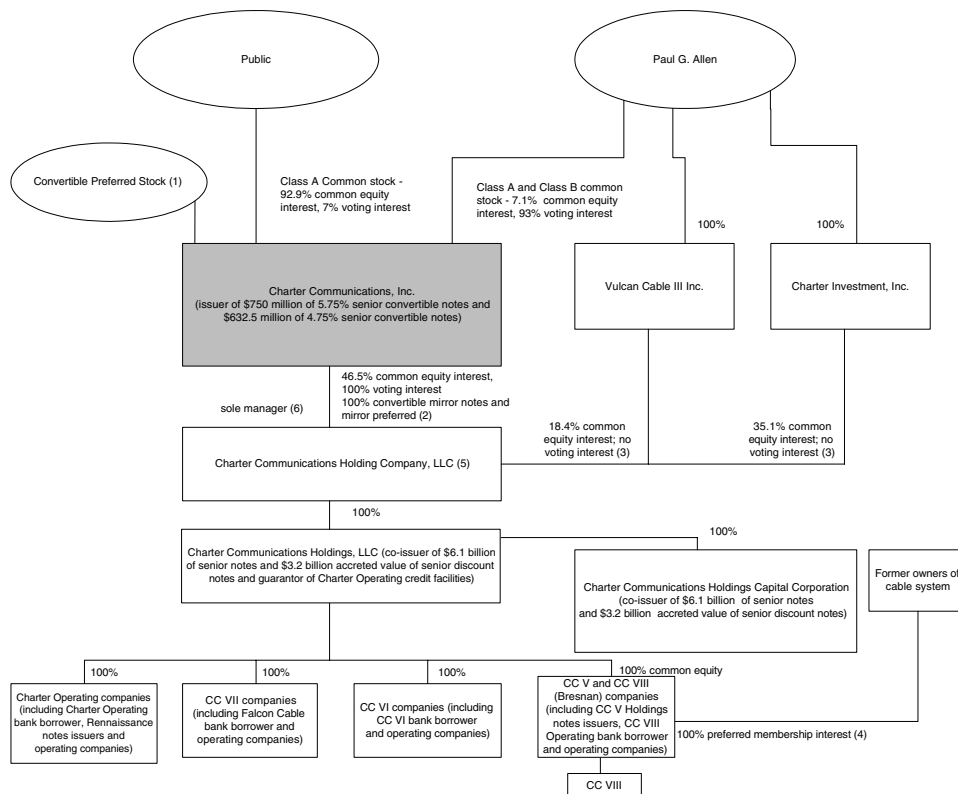
- our ability to sustain and grow revenues and cash from operations by offering video and data services and to maintain a stable customer base, particularly in the face of increasingly aggressive competition from other service providers;
- our ability to comply with all covenants in our credit facilities and indentures, any violation of which would result in a violation of the applicable facility or indenture and could trigger a default of other obligations under cross default provisions;
- availability of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash from operations, further borrowings or other sources;
- any adverse consequences arising out of the restatement of our financial statements described herein;
- the results of the pending grand jury investigation by the United States Attorney’s Office for the Eastern District of Missouri, the pending SEC investigation and the putative class action and derivative shareholders litigation against us;
- the cost and availability of funding to refinance the existing debt that becomes due commencing in 2005;
- our ability to achieve free cash flow;
- our ability to obtain programming at reasonable prices;
- general business conditions, economic uncertainty or slowdown and potential international conflict;
- the impact of any armed conflict, including loss of customers in areas with large numbers of military personnel; and
- the effects of governmental regulation on our business.

All forward-looking statements attributable to us or a person acting on our behalf are expressly qualified in their entirety by this cautionary statement. We are under no obligation to update any of the forward looking statements after the date of this Annual Report to conform these statements to actual results or to changes in our expectations.

ORGANIZATIONAL STRUCTURE

The chart below sets forth our organizational structure and that of our principal direct and indirect subsidiaries. Equity ownership and voting percentages are actual percentages as of March 31, 2003 and do not give effect to any exercise, conversion or exchange of options, preferred stock, convertible notes and other convertible or exchangeable securities.

Summary Organizational Chart



- (1) Represents 545,259 shares of non-voting convertible redeemable preferred stock issued in connection with certain acquisitions to former owners of cable systems, convertible at a rate of 4.0469446 shares of Class A common stock for each share of non-voting convertible redeemable preferred stock, for an aggregate of approximately 2,206,633 shares of Charter Communications, Inc. Class A common stock.
- (2) Represents mirror convertible notes and mirror convertible preferred equity, which are convertible into common membership units of Charter Communications Holding Company. These notes and equity mirror the terms and amounts of the convertible notes and the Series A convertible redeemable preferred stock issued by Charter Communications, Inc.
- (3) These membership units are exchangeable at any time on a one-for-one basis for shares of Charter Communications, Inc. Class B common stock, which are in turn convertible on a one-for-one basis into shares of Charter Communications, Inc. Class A common stock.
- (4) Represents 100% of the preferred membership interests in CC VIII, LLC, a subsidiary of the CC V Holdings 11.875% notes issuers. Cable Systems.” In April 2002, the former owners of the Bresnan cable systems, who are the holders of these interests, exercised their right to put their CC VIII membership interests to Mr. Allen. Though not reflected in the above chart (which provides data as of March 31), we have been informed that this transaction was consummated on June 6, 2003. An issue has arisen

regarding the ultimate ownership of such CC VIII membership interests following the consummation of such put right. See Note 23 to our consolidated financial statements.

- (5) Also an issuer at March 31, 2003 of 3,006,202 Class A preferred membership units, redeemable at \$1.00 per unit, plus accretion thereon at 8% per annum from September 14, 1999. Prior to March 31, these securities were put to Charter Communications Holding Company, LLC for redemption, and this redemption ultimately occurred on April 18, 2003 for an aggregate redemption price of approximately \$3.9 million.
- (6) Charter Communications, Inc. acts as the sole manager of Charter Communications Holding Company and most of its subsidiaries.

OUR BUSINESS

Charter Communications, Inc., operating through its subsidiaries, is the third largest operator of cable systems in the United States with approximately 11.9 million homes passed and approximately 6.6 million customer relationships in 40 states. Through our broadband network of coaxial and fiber optic cable, we offer video, data (high-speed Internet), telephony/voice and other advanced broadband services. Our advanced broadband services include video-on-demand, business network services and high definition television.

Customer Statistics Chart

The following table summarizes our approximate customer statistics for analog and digital video, data and telephony services.

	Approximate as of December 31,	
	<u>2002(a)</u> (unaudited)	<u>2001(a)</u> (unaudited)
Video Services:		
Analog video:		
Estimated homes passed(b)	11,925,000	11,502,000
Residential (non-bulk) analog video customers(c)	6,328,900	6,688,700
Multi-dwelling (bulk) and commercial unit customers(c)	<u>249,900</u>	<u>247,500</u>
Total analog video customers(c)	<u>6,578,800</u>	<u>6,936,200</u>
Estimated penetration of analog video homes passed(b)(c)(d) . .	55%	60%
Digital video:		
Estimated digital homes passed(b)	11,547,000	10,638,300
Digital customers(e)	2,682,800	2,144,800
Estimated penetration of digital homes passed(d)(e)	23%	20%
Digital percentage of analog video customers(c)(e)(f)	41%	31%
Digital set-top terminals deployed	3,772,600	2,951,400
Estimated video-on-demand homes passed(b)	3,195,000	1,995,000
High-Speed Data services:		
Estimated cable modem homes passed(b)	9,826,000	7,561,000
Residential cable modem customers(g)(h)	1,138,100	552,900
Estimated penetration of cable modem homes passed(d)	12%	7%
Dial-up customers	14,200	37,100
Revenue Generating Units(i):		
Analog video customers(c)	6,578,800	6,936,200
Digital customers(e)	2,682,800	2,144,800
Cable modem customers(g)(h)	1,138,100	552,900
Telephony customers(j)	<u>22,800</u>	<u>—</u>
Total revenue generating units(i)	<u>10,422,500</u>	<u>9,633,900</u>
Customer relationships(k)	6,634,700	6,953,700
	For the Year Ended December 31,	
	<u>2002</u>	<u>2001</u>
Average monthly revenue per customer relationship(k)(l)	\$ 57	\$ 47

(a) "Customers" include all persons corporate billing records show as receiving service, regardless of their payment status, except for complimentary accounts (such as our employees). Prior to publicly reporting the number of total analog video customers as of September 30, and December 31, 2001, we deducted

46,000 and 45,000 customers, respectively, from the numbers shown on the billing records as a reserve. Of the total customers reported for December 31, 2002, 93,000 customers were 60-90 days overdue, 5,000 customers were 90-120 days overdue, and 1,000 customers were more than 120 days overdue. Of the total customers reported for December 31, 2001, 160,000 customers were 60-90 days overdue, 55,000 customers were 90-120 days overdue, and 31,000 customers were more than 120 days overdue. Such delinquent customers represent 1.5% and 3.5% of total customers as of December 31, 2002 and 2001, respectively. For 2002 and 2001, our year-end financial statements reflect a reserve for uncollectible accounts that we deemed sufficient. The adequacy of the 46,000 and 45,000 customer reductions, our disconnect policies, the application of those policies and their effect on the customer totals reported by us during 2001 and prior periods are currently under investigation by the United States Attorney's Office for the Eastern District of Missouri and the Securities and Exchange Commission. Those investigations are not complete. Upon the completion of such investigations, and depending on their outcome, we may make additional adjustments in the 2001 or prior periods customer numbers if such adjustments are appropriate. When we publicly announced our 2001 results on February 11, 2002, we also announced that we expected the number of customers to decline by 120,000 during the first quarter of 2002. We ultimately reported a loss of 145,000 customers in that quarter. The customer reduction was primarily the result of eliminating non-paying or delinquent customers from the customer totals.

- (b) Homes passed represents the estimated number of living units, such as single family homes, apartment units and condominium units passed by the cable distribution network in a given area to which we offer the service indicated. Homes passed excludes commercial units passed by the cable distribution network.
- (c) Analog video customers include all customers who purchase video services (including those who also purchase data and telephony services), but excludes approximately 55,900 and 17,500 customer relationships, respectively, who pay for cable modem service only and who are only counted as cable modem customers. This represents a change in our methodology from prior reports through September 30, 2002, in which cable modem only customer relationships were included within our analog video customers. We made this change because we determined that most of these customers were unable to receive our most basic level of analog service because this service was physically secured or blocked, was unavailable in certain areas or the customers were unaware that this service was available to them. Had we previously utilized this new reporting methodology, analog video customers (excluding cable modem only) would have been approximately 6,647,600 as of September 30, 2002. Commercial and multi-dwelling structures are calculated on an equivalent bulk unit ("EBU") basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. The EBU method of estimating analog video customers is consistent with the methodology used in determining costs paid to programmers and has been consistently applied year over year. As we increase our effective analog prices to residential customers without a corresponding increase in the prices charged to commercial service or multi-dwelling customers, our EBU count will decline even if there is no real loss in commercial service or multi-dwelling customers. Our policy is not to count complimentary accounts (such as our employees) as customers.
- (d) Penetration represents customers as a percentage of homes passed.
- (e) Digital video customers include all households that have one or more digital set-top terminals. Included in digital video customers at December 31, 2002 and 2001 are approximately 27,500 and approximately 34,800 customers, respectively, that receive digital video service directly through satellite transmission.
- (f) Represents the number of digital video customers as a percentage of analog video customers.
- (g) As noted above, all of these customers also receive video service and are included in the video statistics above, except that the video statistics do not include approximately 55,900 and 17,500 customers at December 31, 2002 and 2001, respectively, who were cable modem only customers.
- (h) Commercial cable modem or data customers historically were calculated on an Equivalent Modem Unit or EMU basis, which involves converting commercial revenues to residential customer counts. EMU's calculated under the historical method were approximately 98,700 and approximately 54,800 as of December 31, 2002 and 2001, respectively. Commercial EMUs are not included in the above table.

- (i) Revenue generating units represent the sum total of all primary analog video, digital video, high-speed data and telephony customers, not counting additional outlets within one household. For example, a customer who receives two types of services (such as analog video and digital video) would be treated as two revenue generating units, and if that customer added on data service, the customer would be treated as three revenue generating units. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association that have been adopted by eleven publicly traded cable operators (including Charter Communications, Inc.) as an industry standard.
- (j) Telephony customers include all households purchasing telephone service. On January 1, 2002, 16,100 telephony customers were acquired as a result of the AT&T Broadband transaction.
- (k) Customer relationships include the number of customers that receive at least one level of service encompassing video, data and telephony services, without regard to which service(s) such customers purchase. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association that have been adopted by eleven publicly traded cable operators (including Charter Communications, Inc.) as an industry standard.
- (l) Average monthly revenue per customer relationship represents total revenue, divided by twelve, divided by the average number of customer relationships.

SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data for the periods indicated (dollars in millions, except share data):

	Charter Communications, Inc.				Charter Communications Properties Holdings	
	Year Ended December 31,				12/24/1988	01/01/1998
	2002	2001(a)	2000(a)	1999	Through 12/31/1998(b)	Through 12/23/1998(b)
	(restated)	(restated)				
Statement of Operations Data:						
Revenues	\$ 4,566	\$ 3,807	\$ 3,141	\$ 1,428	\$ 14	\$ 50
Costs and Expenses:						
Operating (excluding depreciation and amortization and other items listed below)	1,804	1,480	1,185	460	7	26
Selling, general and administrative	966	832	608	329	1	6
Depreciation and amortization	1,437	2,682	2,398	745	8	17
Impairment of franchises	4,638	—	—	—	—	—
Option compensation expense, net	5	(5)	38	80	1	—
Special charges	36	18	—	—	—	—
	<u>8,886</u>	<u>5,007</u>	<u>4,229</u>	<u>1,614</u>	<u>17</u>	<u>49</u>
Income (loss) from operations	(4,320)	(1,200)	(1,088)	(186)	(3)	1
Interest expense, net	(1,506)	(1,313)	(1,042)	(444)	(2)	(17)
Loss on equity investments	(3)	(54)	(19)	—	—	—
Other, net	(118)	(66)	(1)	(8)	—	(1)
Loss before minority interest and cumulative effect of accounting change	(5,947)	(2,633)	(2,150)	(638)	(5)	(17)
Minority interest	3,179	1,464	1,282	573	5	—
Loss before income taxes and cumulative effect of accounting change	(2,768)	(1,169)	(868)	(65)	—	(17)
Income tax benefit (expense) ..	520	12	10	(1)	—	—
Loss before cumulative effect of accounting change	(2,248)	(1,157)	(858)	(66)	—	(17)
Cumulative effect of accounting change	(266)	(10)	—	—	—	—
Net loss	(2,514)	(1,167)	(858)	(66)	—	(17)
Dividends on preferred stock ..	(3)	(1)	—	—	—	—
Net loss applicable to common stock	<u>\$ (2,517)</u>	<u>(1,168)</u>	<u>(858)</u>	<u>\$ (66)</u>	<u>—</u>	<u>\$ (17)</u>
Loss per common share, basic and diluted	<u>\$ (8.55)</u>	<u>\$ (4.33)</u>	<u>\$ (3.80)</u>	<u>\$ (2.22)</u>	<u>\$ (0.04)</u>	<u>N/A</u>
Weighted-average common shares outstanding	<u>294,440,261</u>	<u>269,594,386</u>	<u>225,697,775</u>	<u>29,811,202</u>	<u>50,000</u>	<u>N/A</u>
Balance Sheet Data (end of period):						
Total assets	\$ 22,384	\$ 26,463	\$ 24,352	\$ 18,967	\$ 4,336	\$282
Long-term debt	18,671	16,343	13,061	8,937	2,002	275
Minority interest	1,025	4,409	4,546	5,381	2,147	—
Redeemable securities	—	—	1,104	751	—	—
Preferred stock — redeemable ..	51	51	—	—	—	—
Shareholders' equity/Members' equity (deficit)	41	2,585	2,767	3,011	1	(8)

Comparability of the above information from year to year is affected by acquisitions and dispositions completed by us. See Note 5 to our consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Acquisitions.”

- (a) Financial data as of and for the years ended December 31, 2001 and 2000 has been restated to reflect adjustments necessary to properly reflect changes discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Restatement of Prior Results.”
- (b) Prior to the acquisition of the Charter companies by Mr. Allen on December 23, 1998, the cable systems operated under the Charter Communications name were operated under three groups of companies which were managed by Charter Investment and in which Charter Investment had an ownership interest. One of these groups, Charter Communications Properties Holdings, LLC (“CCPH”), was wholly-owned by Charter Investment. Subsequent to Mr. Allen’s acquisition, these three groups of companies were contributed to Charter Operating, a wholly-owned subsidiary of Charter Communications Holdings. CCPH is deemed to be our predecessor. The contribution of CCPH was accounted for as a reorganization under common control. Accordingly, our results of operations for 1998 prior to and including December 23, 1998 include the accounts of CCPH. The contributions of the operating companies that formerly comprised the other two groups were accounted for in accordance with purchase accounting. Accordingly, our results of operations for periods after December 23, 1998 include the accounts of CCPH and the other two groups contributed to Charter Operating.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to “Certain Trends and Uncertainties” of this section and “Cautionary Statement Regarding Forward-Looking Statements,” which describe important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, this section should be read in conjunction with the audited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000.

All comparisons and references in this Annual Report for fiscal years 2001 and 2000 are to the restated results. See “Restatement of Prior Results” below and Note 3 to our consolidated financial statements contained herein.

Introduction

We have a history of net losses. Our net losses are principally attributable to the substantial interest costs we incur because of our high level of debt, the significant depreciation expenses that we incur resulting from the extensive capital investments we have made in our cable properties and the amortization and impairment of our franchise intangibles. We expect these expenses will remain substantial, and therefore we expect to continue to report net losses for the foreseeable future. During the years 1999 through 2001, we grew significantly, principally through acquisitions of other cable businesses financed by debt and, to a lesser extent, equity. We do not anticipate that we will engage in significant merger or acquisition activity for the foreseeable future and, as discussed in “— Liquidity and Capital Resources” and “— Certain Trends and Uncertainties” below, we believe our access to the debt or equity markets to obtain additional financing beyond that currently provided by our various credit facilities and the commitment proposal of Vulcan Inc. is seriously constrained. Accordingly, we do not believe that our historical growth rates are accurate indicators of future growth.

Since our inception and currently, our ability to conduct operations is dependent on our continued access to credit pursuant to our subsidiaries’ credit facilities. The occurrence of an event of default under our subsidiaries’ credit facilities could result in capital from these facilities being unavailable to us and could also trigger events of default under our outstanding public notes and would have a material adverse effect on us. In addition, in the fourth quarter of 2003, CC V Holdings, LLC will be required to redeem \$66 million of the CC V Holdings 11.875% senior discount notes due 2008 and in October 2005 \$750 million of Charter Communications, Inc.’s outstanding public notes will mature. We expect that we will not be able to make the

required principal payments on the Charter Communications, Inc. notes in 2005 unless we obtain additional debt or equity financing, and there can be no assurance that we will be able to obtain the requisite financing or that such financing, if available, would not bear terms that are materially disadvantageous to current debt and equity holders.

Restatement of Prior Results

On November 19, 2002, we announced that we had determined that additional franchise costs and deferred income tax liability should have been recorded relating to the differences between the financial statement and tax basis of assets we acquired in connection with certain cable businesses acquired throughout 1999 and 2000. As a result of this restatement, we engaged KPMG LLP to perform audits as of and for the years ended December 31, 2001 and 2000 because our former accountants, Arthur Andersen LLP, were no longer available to provide an opinion as to restated financial statements.

In connection with these audits and discussions with the staff of the Securities and Exchange Commission (SEC) in connection with their review of our periodic filings, we concluded that it was appropriate to make certain adjustments to previously reported results. Among other things, adjustments were made to previous interpretations and applications of generally accepted accounting principles (GAAP) consistently followed by us since 2000 and throughout the restatement period. Although we do not anticipate that additional adjustments will be necessary, until the SEC review process has been completed, it is possible that additional adjustments may be required.

These adjustments reduced our revenue for the first three quarters of 2002 by \$38 million, and for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. Such adjustments represent approximately 1%, 4% and 3% of reported revenues for the respective periods in 2002, 2001 and 2000. Our consolidated net loss increased by \$26 million for the first three quarters of 2002 and decreased by \$11 million for the year ended December 31, 2001. Net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and elements of the rebuild and upgrade activities discussed below. In addition, as a result of certain of these adjustments, our statements of cash flows have been restated. Cash flows from operations for the years ended December 31, 2001 and 2000 were reduced by \$30 million and \$303 million, respectively. The more significant categories of adjustments relate to the following items outlined below.

Launch Incentives from Programmers. Amounts previously recognized as advertising revenue in connection with the launch of new programming channels have been deferred and recorded in other long-term liabilities in the year such launch support was provided, and amortized as a reduction of programming costs based upon the relevant contract term. These adjustments decreased revenue \$30 million for the first three quarters of 2002, and \$118 million and \$76 million for the years ended December 31, 2001 and 2000, respectively. Additionally, for the year ended December 31, 2000, we increased marketing expense by \$24 million for other promotional activities associated with launching new programming services previously deferred and subsequently amortized. The corresponding amortization of such deferred amounts reduced programming expenses by \$36 million for the first three quarters of 2002, and \$27 million and \$5 million for the years ended December 31, 2001 and 2000, respectively.

Customer Incentives and Inducements. Marketing inducements paid to encourage potential customers to switch from satellite providers to Charter branded services and enter into multi-period service agreements were previously deferred and recorded as property, plant and equipment and recognized as depreciation and amortization expense over the life of customer contracts. These amounts have been restated as a reduction of revenue in the period such inducements were paid. Revenue declined \$5 million for the first three quarters of 2002, and \$19 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Capitalized Labor and Overhead Costs. Certain elements of labor costs and related overhead allocations previously capitalized as property, plant and equipment as part of our rebuild activities, customer installation and new service introductions have been expensed in the period incurred. Such adjustments increased

operating expenses by \$73 million for the first three quarters of 2002, and \$93 million and \$52 million for the years ended December 31, 2001 and 2000, respectively.

Customer Acquisition Costs. Certain customer acquisition campaigns were conducted through third-party contractors in 2000, 2001 and portions of 2002. The costs of these campaigns were originally deferred and recorded as other assets and recognized as amortization expense over the average customer contract life. These amounts have been reported as marketing expense in the period incurred and totaled \$32 million for the first three quarters of 2002, and \$59 million and \$4 million and for the years ended December 31, 2001 and 2000, respectively. We discontinued this program in the third quarter of 2002 as contracts for third-party vendors expired. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Rebuild and Upgrade of Cable Systems. In 2000, as we were completing our acquisitions, we initiated a three-year program to replace, upgrade and integrate a substantial portion of our network (the rebuild program). This rebuild/upgrade of the cable network infrastructure was envisioned as providing the platform capacity through which many broadband communication services could be provided to the marketplace for many years to come. Such a rebuild program was unprecedented and is not expected to recur. We began implementation of this three-year rebuild program in January 2000 and adhered to it over the period. It was expanded in July 2001 to encompass cable system assets acquired in June 2001 from AT&T Broadband. There were no other significant modifications to the rebuild program over the three-year period.

As the rebuild program was beginning in early 2000, we were nearing the end of a period in which we were acquired by Paul G. Allen and merged with Marcus Cable and in which we had subsequently completed an initial public offering and acquired 16 cable businesses adding approximately 5 million additional customers. We were faced with integrating these acquisitions, administering the rebuild program and also putting in place processes and new personnel to handle the increased size and complexity of an operation that had grown exponentially in a period of about 18 months. During the first quarter of 2000, management also recognized the need to reassess depreciable lives of the property that was subject to the three-year rebuild program. Based on a review of the rebuild program, \$3 billion of assets were identified as being subject to replacement, and accordingly, management reduced the useful lives of those assets. In connection with the restatement, however, it has been determined that some of these assets were to be retained and not replaced because sections of the network were scheduled to be upgraded and not rebuilt. In a cable system *rebuild* there is outright replacement and retirement of substantially all components of the network, whereas an *upgrade* involves the retention of the original property, particularly the fiber and coaxial cabling.

Presented below is a schedule of the costs of cable distribution system assets subject to the rebuild program, as originally recorded, reconciled to the final determinations in the restatement. The depreciation lives were shortened for this asset pool as discussed previously and supplemented below.

	<u>Total</u> <u>(In millions)</u>
Total asset population subject to rebuild and upgrade, as originally recorded	\$ 2,998
Assets which were never intended to be replaced but rather were upgraded and remain in service	(946)
Cost of assets inadvertently excluded from the asset population	401
Adjustment to record acquired assets at depreciated replacement cost at date of acquisition	<u>(1,225)</u>
Total adjusted asset value subject to replacement and thus shortened depreciation life	<u>\$ 1,228</u>

In connection with the restatement process, we conducted a detailed system-by-system analysis of the rebuild program to identify those assets which were intended to be rebuilt versus upgraded and determined that approximately \$844 million of trunk and distribution cabling, and \$102 million of headend equipment (in aggregate, \$946 million) was enhanced and retained in service. Accordingly, an adjustment was made in the

restatement with effect from January 1, 2000 to properly exclude those assets from the population of assets treated as subject to replacement and thus for which a shortened depreciation life was previously assigned.

The evaluation conducted in connection with the restatement also revealed the inadvertent exclusion of \$401 million of trunk and distribution cabling and electronics, which were acquired in 1999, from the population of assets that were subject to shortened depreciation lives. This group of assets were misclassified within our fixed assets sub-ledger for one acquisition and thus omitted from the analysis performed in connection with the preparation of our historical financial statements. Accordingly, an adjustment was made in the restatement to properly include these assets as well.

Furthermore, an adjustment to reduce the value of assets subject to replacement of approximately \$1.2 billion was determined necessary to record the assets at estimated depreciated replacement cost at the date of acquisition.

As a result of the items identified above, we determined that depreciation expense was overstated by \$413 million for the first three quarters of 2002, and \$330 million and \$119 million in the years ended 2001 and 2000, respectively.

Deferred Tax Liabilities/Franchise Assets. Adjustments were made to record deferred tax liabilities associated with the acquisition of various cable television businesses. These adjustments increased amounts assigned to franchise assets by \$1.4 billion with a corresponding increase in deferred tax liabilities of \$1.2 billion. The balance of the entry was recorded to equity and minority interest. In addition, as described above, a correction was made to reduce amounts assigned in purchase accounting to assets identified for replacement over the three-year period of our rebuild and upgrade of our network. This reduced the amount assigned to the network assets to be retained and increased the amount assigned to franchise assets by approximately \$627 million with a resulting increase in amortization expense for the years restated. Such adjustments increased the impairment of franchises recognized in the first quarter of 2002 by \$199 million (before minority interest) and increased amortization expense by \$130 million and \$121 million for the years ended December 31, 2001 and 2000, respectively.

Other Adjustments. In addition to the items described above, reductions to 2000 revenues include the reversal of certain advertising revenues from equipment vendors. Other adjustments of expenses include expensing certain marketing and customer acquisition costs previously charged against purchase accounting reserves, certain tax reclassifications from tax expense to operating costs, reclassifying management fee revenue from a joint venture to offset losses from investments and adjustments to option compensation expense. The net impact of these adjustments to net loss is an increase of \$38 million and a decrease of \$10 million, respectively, for the years ended December 31, 2001 and 2000.

The tables below set forth our condensed consolidated balance sheets as of December 31, 2001 and December 31, 2000, and condensed consolidated statement of operations and condensed consolidated statement of cash flows information for the years ended December 31, 2001 and 2000. For greater detail see Note 3 to our consolidated financial statements.

Controls. The adjustments for the rebuild and upgrade of cable systems and deferred tax matters/franchise generally relate to non-recurring activities. Since our period of rapid growth in 2000 and early 2001, in which we were rapidly acquiring cable systems, we have integrated the various accounting processes of our acquired cable systems. For more information, see Note 5 to our consolidated financial statements. We have also substantially improved the quantity and, we believe, the quality of our accounting and internal audit staff. In addition, we are developing better interactions between our accounting and internal audit staff and the other elements of our organization. These changes in our staff have been supplemented with changes in accounting and internal controls processes and systems which we believe result in an improved ability of management to understand and analyze underlying business data. The role of our internal audit staff has also been expanded, particularly with respect to capitalization and depreciation. We believe that these changes in staff, responsibilities and processes and systems have improved both our controls over recurring transactions and non-recurring transactions, such as integration of acquired cable systems and the rebuild and upgrade of cable systems.

The following table sets forth selected consolidated balance sheet information, showing previously reported and restated amounts, as of December 31, 2001 (in millions):

	<u>As previously reported</u>	<u>As restated</u>
Property, plant and equipment, net	\$ 7,150	\$ 6,914
Franchises, net	17,139	18,911
Total assets	24,962	26,463
Long-term debt	16,343	16,343
Other long-term liabilities	341	1,682
Minority interest	3,976	4,409
Total shareholders' equity	2,862	2,585

The following table sets forth selected consolidated statement of operations information, showing previously reported and restated amounts, for the year ended December 31, 2001 (in millions, except per share data):

	<u>As previously reported</u>	<u>As restated</u>
Revenues	\$ 3,953	\$ 3,807
Costs and expenses:		
Operating (excluding depreciation and amortization and other items listed below)	1,326	1,480
Selling, general and administrative	841	832
Depreciation and amortization	3,010	2,682
Option compensation income	(46)	(5)
Special charges	18	18
	<u>5,149</u>	<u>5,007</u>
Loss from operations	(1,196)	(1,200)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,633)
Loss before cumulative effect of accounting change	(1,178)	(1,157)
Net loss applicable to common stock	<u>\$ (1,179)</u>	<u>\$ (1,168)</u>
Loss per common share, basic and diluted	<u>\$ (4.37)</u>	<u>\$ (4.33)</u>
Weighted average common shares outstanding, basic and diluted	<u>269,594,386</u>	<u>269,594,386</u>

The following table sets forth selected consolidated balance sheet information, showing previously reported and restated amounts, as of December 31, 2000 (in millions):

	<u>As previously reported</u>	<u>As restated</u>
Property, plant and equipment, net	\$ 5,267	\$ 4,829
Franchises, net	17,069	18,835
Total assets	23,044	24,352
Long-term debt	13,061	13,061
Other long-term liabilities	285	1,517
Minority interest	4,090	4,546
Total shareholders' equity	3,123	2,767

The following table sets forth selected consolidated statement of operations information, showing previously reported and restated amounts, for the year ended December 31, 2000 (in millions, except per share data):

	<u>As previously reported</u>	<u>As restated</u>
Revenues	\$ 3,249	\$ 3,141
Costs and expenses:		
Operating (excluding depreciation and amortization and other items listed below)	1,036	1,185
Selling, general and administrative	711	646
Depreciation and amortization	<u>2,473</u>	<u>2,398</u>
	<u>4,220</u>	<u>4,229</u>
Loss from operations	(971)	(1,088)
Loss before minority interest and income taxes	(2,055)	(2,150)
Net loss	<u>\$ (829)</u>	<u>\$ (858)</u>
Loss per common share, basic and diluted	<u>\$ (3.67)</u>	<u>\$ (3.80)</u>
Weighted average common shares outstanding, basic and diluted	<u>225,697,775</u>	<u>225,697,775</u>

The following table sets forth selected consolidated cash flow information, showing previously reported and restated amounts, for the years ended December 31, 2001 and 2000 (in millions):

	<u>2001</u>		<u>2000</u>	
	<u>As previously reported</u>	<u>As restated</u>	<u>As previously reported</u>	<u>As restated</u>
Net cash from operating activities	\$ 519	\$ 489	\$ 1,131	\$ 828
Net cash from investing activities	(4,809)	(4,774)	(4,054)	(3,751)
Net cash from financing activities	\$ 4,162	\$ 4,156	\$ 2,920	\$ 2,920

Acquisitions

The following table sets forth information regarding our acquisitions in 2000, 2001 and 2002:

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

(a) Comprised of \$385 million in equity in Charter Communications Holding Company and \$629 million of preferred limited liability company membership interests in CC VIII.

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

(c) Comprised of \$1.7 billion, as adjusted, in cash and a cable system located in Florida valued at \$25 million, as adjusted post-closing.

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

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

On February 28, 2002, CC Systems LLC, a subsidiary of Charter Communications Holding Company, purchased from High Speed Access Corp. the contracts and associated assets, and assumed related liabilities, that serve our data services customers, including a customer contact center, a network operations center and provisioning software. At the closing, CC Systems paid \$78 million to High Speed Access and delivered to High Speed Access 37,000 shares of High Speed Access Series D convertible preferred stock and all of the warrants to buy High Speed Access common stock owned by Charter Communications Holding Company, and High Speed Access purchased 38,000 shares of its Series D Preferred Stock from Vulcan Ventures Incorporated, an entity 100% owned by Mr. Allen, for \$8 million. Concurrently with the closing of the transaction, all of the agreements between our subsidiaries and High Speed Access Corp. (other than a license agreement entered into in connection with the asset purchase), namely, the programming content agreement, the services agreement the systems access agreement, the 1998 network services agreement and the May 2000

network services agreement, were terminated. Charter Communications Holding Company obtained a fairness opinion from a qualified investment-banking firm regarding the valuation of the assets purchased by CC Systems pursuant to the asset purchase agreement. Concurrently with the closing of the asset purchase transaction, High Speed Access Corp. purchased all of its common stock held by Vulcan Ventures Incorporated for \$4.4 million. Following the closing of the asset purchase, neither we nor any of our subsidiaries nor Vulcan Ventures Incorporated beneficially owned any equity securities of High Speed Access.

In April 2002, we purchased cable systems in Illinois serving in the aggregate approximately 21,600 customers, for a total cash purchase price of \$48 million. In September 2002, we purchased additional Illinois cable television systems, serving approximately 6,400 customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Communications Holding Company, is a general partner of the limited partnerships that sold these systems to us, but does not exercise control over these partnerships.

We have no current plans to pursue any significant acquisitions and do not believe that we have access to the capital markets to make such acquisitions; however, we will continue to evaluate opportunities to consolidate our operations geographically through the sale of, or exchange of like-kind assets with, other cable operators as such opportunities arise, and on a very limited basis, consider strategic new acquisitions. Our primary criteria in considering these opportunities are the rationalization of our operations into geographic clusters and the potential financial benefits we expect to ultimately realize as a result of the sale, swap, or acquisition. In addition, we may sell certain assets from time to time. For more information regarding our history of acquisitions, see Note 5 to our consolidated financial statements.

Overview of Operations

Approximately 87% of our revenues for the year ended December 31, 2002 are attributable to monthly subscription fees charged to customers for our video and data services, equipment rental and ancillary services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 13% of revenue is derived primarily from installation and reconnection fees charged to customers to commence or reinstate service, pay-per-view and video-on-demand programming where users are charged a fee for individual programs viewed, advertising revenues, commissions related to the sale of merchandise by home shopping services and franchise fee revenues, which are collected by us but then paid to local franchising authorities. We have generated increased revenues during the past three years, primarily through the sale of digital video and high-speed data services to new and existing customers, price increases on video services and customer growth from acquisitions. Going forward, our strategy is to grow revenues and improve margins by seeking to reduce analog customer losses and increase revenues per customer through the sale of data services and digital video services to our existing customer base.

Our expenses primarily consist of operating costs, selling, general and administrative expenses, depreciation and amortization expense and interest expense. Operating costs primarily include programming costs, the cost of our workforce, cable service related expenses, and advertising sales costs, franchise fees and expenses related to customer billings. Our negative operating margins increased from 32% for the year ended December 31, 2001 to 95% for the year ended December 31, 2002, principally due to the recognition of a \$4.6 billion franchise impairment charge in the fourth quarter of 2002 coupled with depreciation associated with our capital expenditures related to the construction and upgrading of our systems offset by a decrease in amortization expense as a result of the adoption of SFAS No. 142, which eliminated the amortization of franchises determined to have an indefinite life. Our negative operating margins decreased from 35% for the year ended December 31, 2000 to 32% for the year ended December 31, 2001 primarily as a result of increased revenue due to increases in the number of digital video and high-speed data customers. For the year ended December 31, 2002, our loss from operations was \$4.3 billion. Excluding franchise impairment charges, we generated income from operations of \$318 million for the year ended December 31, 2002. We do not expect charges for impairment in the future of comparable magnitude to the fourth quarter 2002 impairment charge.

We have had a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. The principal reasons for our prior net losses include our depreciation and amortization expenses,

impairment charges on franchises and interest costs on borrowed money, which increased in the aggregate by \$3.6 billion and \$555 million, respectively for the year ended December 31, 2002 as compared to December 31, 2001 and for the year ended December 31, 2001 as compared to December 31, 2000. Continued net losses could have a material adverse impact on our ability to access necessary capital, including under our existing credit facilities. See “— Liquidity and Capital Resources” for greater detail.

Critical Accounting Policies and Estimates

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

- Capitalization of labor and overhead costs;
- Useful lives of property, plant and equipment;
- Impairment of property, plant, and equipment, franchises, and goodwill;
- Income taxes
- Litigation

In addition, there are other items within our financial statements that require estimates or judgment but are not deemed critical, but changes in judgment, or underestimates in these other items could also have a material impact on our financial statements.

Capitalization of labor and overhead costs. The cable industry is capital intensive, and a large portion of our resources are spent on capital activities associated with extending, rebuilding, and upgrading our cable network. As of December 31, 2002 and 2001, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$7.7 billion (representing 34% of total assets) and \$6.9 billion (representing 26% of total assets). Total capital expenditures for the years ended December 31, 2002, 2001 and 2000 (including capital items that had been received but for which payment had not been made) were approximately \$2.2 billion, \$2.9 billion and \$2.8 billion, respectively.

Costs associated with network construction, initial customer installations, installation refurbishments and the addition of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, direct labor, and certain indirect costs. These indirect costs are associated with the activities of personnel who assist in connecting and activating the new service and consist of compensation and overhead costs associated with these support functions. The costs of disconnecting service at a customer’s dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

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

- Scheduling a “truck roll” to the customer’s dwelling for service connection;
- Verification of serviceability to the customer’s dwelling (i.e., determining whether the customer’s dwelling is capable of receiving service by our cable network and/or receiving advanced or data services);

- Customer premise activities performed by in-house field technicians and third-party contractors in connection with customer installations, installation of network equipment in connection with the installation of expanded services and equipment replacement and betterment; and
- Verifying the integrity of the customer's network connection by initiating test signals downstream from the headend to the customer's digital set-top terminal.

We capitalized internal direct labor costs of \$173 million, \$171 million and \$111 million, for the years ended December 31, 2002, 2001 and 2000, respectively.

Judgment is required to determine the extent to which indirect costs ("overhead") are incurred as a result of specific capital activities, and therefore should be capitalized. We capitalize overhead based upon an allocation of the portion of indirect costs that contribute to capitalizable activities using an overhead rate applied to the amount of direct labor capitalized. We have established the overhead rates based on an analysis of the nature of costs incurred in support of capitalizable activities and a determination of the portion of costs which is directly attributable to capitalizable activities. The primary costs that are included in the determination of the overhead rate are (i) employee benefits and payroll taxes associated with capitalized direct labor, (ii) direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, (iii) the cost of support personnel, such as dispatch that directly assist with capitalizable installation activities, and (iv) indirect costs directly attributable to capitalizable activities.

While we believe our existing capitalization policies are appropriate, a significant change in the nature or extent of our system activities could affect management's judgment about the extent to which we should capitalize direct labor or overhead in the future. We monitor the appropriateness of our capitalization policies, and perform updates to our internal overhead study on a periodic basis to determine whether facts or circumstances warrant a change to our capitalization policies. We capitalized overhead of \$162 million, \$134 million and \$86 million, respectively, for the years ended December 31, 2002, 2001 and 2000.

Useful lives of property, plant and equipment. We evaluate the appropriateness of estimated useful lives assigned to our property, plant and equipment, and revise such lives to the extent warranted by changing facts and circumstances. Beginning in January 2000, we commenced a significant initiative to rebuild and upgrade portions of our cable network. During 2001 and 2000, we reduced the useful lives of \$1.1 billion in 2000 and an additional \$125 million in 2001, of assets expected to be replaced and retired through that process to approximately one to three years, representing management's best estimate of the expected pattern of the retirement from service of such assets. A significant change in assumptions about the extent or timing of future asset usage or retirements could materially affect future depreciation expense.

Depreciation expense related to property, plant and equipment totaled \$1.4 billion, \$1.2 billion and \$1.0 billion, representing approximately 16%, 24% and 25% of costs and expenses, for the years ended December 31, 2002, 2001 and 2000, respectively. Of these amounts, approximately \$183 million, \$352 million and \$674 million, respectively, relates to network assets which were replaced and retired over the three-year period of the rebuild initiative. Depreciation is recorded using the straight-line method over management's estimate of the estimated useful lives of the related assets as follows:

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

Impairment of property, plant and equipment, franchises and goodwill. As discussed above, the net carrying value of our property, plant and equipment is significant. We also have recorded a significant amount of cost related to franchises, pursuant to which we are granted the right to operate our cable distribution network throughout our service areas. The net carrying value of franchises as of December 31, 2002 and 2001 was approximately \$13.7 billion (representing 61% of total assets) and \$18.9 billion (representing 71% of total

assets), respectively. Furthermore, we recorded approximately \$54 million of goodwill as a result of the acquisition of High Speed Access in February 2002.

We adopted SFAS No. 142 “Goodwill and Other Intangible Assets” on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet the indefinite life criteria no longer be amortized against earnings but instead must be tested for impairment annually or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite life, we considered the exclusivity of the franchise, the expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not we are in compliance with any technology upgrading requirements. We have concluded that as of January 1, 2002 and December 31, 2002 more than 99% of our franchises qualify for indefinite life treatment under SFAS No. 142, and that less than one percent of our franchises do not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. Costs of finite-lived franchises, along with costs associated with franchise renewals, will be amortized on a straight-line basis over 10 years, which represents management’s best estimate of the average remaining useful lives of such franchises. Prior to the adoption of SFAS No. 142, our franchises were amortized over an average useful life of 15 years. Franchise amortization expense related to franchises not qualifying for indefinite life treatment totaled \$9 million for the year ended December 31, 2002. Franchise amortization expense was \$1.4 billion and \$1.4 billion, representing approximately 28% and 33% of costs and expenses, for the years ended December 31, 2001 and 2000. Going forward, we expect amortization expense on franchise assets will be approximately \$8 million annually based on our current franchise agreements and anticipated upgrade plans. Our goodwill is also deemed to have an indefinite life under SFAS No. 142.

SFAS No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets,” requires that we evaluate the recoverability of our property, plant and equipment and franchise assets which did not qualify for indefinite life treatment under SFAS No. 142 upon the occurrence of events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or poor operating results. Under SFAS No. 144, a long-lived asset is deemed impaired when the carrying amount of the asset exceeds the projected undiscounted future cash flows associated with the asset. Furthermore, we were required to evaluate the recoverability of our indefinite life franchises, as well as goodwill, as of January 1, 2002 upon adoption of SFAS No. 142, and on an annual basis or more frequently as deemed necessary.

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

During the first quarter of 2002, we had an independent appraiser perform valuations of our franchises as of January 1, 2002. Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clusters of our cable systems which management believes represents the highest and best use of those assets. We determined that our franchises were impaired and as a result recorded the cumulative effect of a change in accounting principle of \$266 million, net of minority interest. This adjustment has been reflected in the year ended December 31, 2002 financial statements. As required by SFAS No. 142, the standard has not been retroactively applied to results for the period prior to adoption.

We performed our annual impairment assessment as of October 1, 2002 using an independent third-party appraiser and following the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002 and requires the consideration of assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset. Revised earnings forecasts and the methodology required by SFAS No. 142, which excludes certain intangibles, led to recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002.

The independent third party appraiser's valuation as of October 1, 2002, yielded an enterprise value of approximately \$25 billion, which included \$3 billion assigned to customer relationships. SFAS No. 142 does not permit the recognition of the customer relationship asset not previously recognized. Accordingly, our impairment analysis could not include approximately \$373 million and \$2.9 billion attributable to customer relationship values as of January 1, 2002 and October 1, 2002, respectively.

This valuation involves numerous assumptions as noted above. While the current economic conditions indicate the combination of assumptions utilized in the appraisal is reasonable, as market conditions change so will the assumptions with a resulting impact on the valuation. A 10% increase in fair value of the enterprise would have decreased the impairment charge by approximately \$1.6 billion while a 10% decrease in the fair value of the enterprise would have increased the impairment charge by approximately \$2.0 billion.

Income Taxes. All operations are held through Charter Communications Holding Company, LLC and its direct and indirect subsidiaries. Charter Communications Holding Company and the majority of its subsidiaries are not subject to income tax. However, certain of these subsidiaries are corporations and are subject to income tax. All of the taxable income, gains, losses, deductions and credits of Charter Communications Holding Company are passed through to its members: Charter Communications, Inc., Charter Investment, Inc., Vulcan Cable III, Inc., and certain former owners of acquired companies. Charter Communications, Inc. is responsible for its share of taxable income or loss of Charter Communications Holding Company allocated to it in accordance with the Charter Communications Holding Company amended and restated limited liability company agreement ("LLC Agreement") and partnership tax rules and regulations.

The LLC Agreement provides for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Pursuant to the LLC Agreement, through the end of 2003, net tax losses of Charter Communications Holding Company that would otherwise have been allocated to Charter Communications, Inc. based generally on its percentage ownership of outstanding common units will be allocated instead to the membership units held by Vulcan Cable and Charter Investment (the "Special Loss Allocations") to the extent of their capital account balances. The LLC Agreement further provides that, beginning at the time Charter Communications Holding Company first generates net tax profits, the net tax profits that would otherwise have been allocated to Charter Communications, Inc. based generally on its percentage ownership of outstanding common membership units will instead be allocated to Vulcan Cable and Charter Investment (the "Special Profit Allocations"). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The LLC Agreement generally provides that any additional net tax profits are to be allocated proportionately among the members of Charter Communications Holding Company based on their ownership of Charter Communications Holding Company membership units. The cumulative amount of the actual income tax losses allocated to Vulcan Cable and Charter Investment as a result of the Special Loss Allocations through the period ended December 31, 2002 is approximately \$3.3 billion.

In certain situations, the Special Loss Allocations and Special Profit Allocations described above could result in Charter Communications, Inc. paying taxes in an amount that is more or less than if Charter Communications Holding Company had allocated net tax profits and net tax losses among its members based generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to the application of section 704(c)

under the Internal Revenue Code, (iii) the amount and timing of alternative minimum taxes paid by Charter Communications, Inc., (iv) the apportionment of the allocated income or loss among the states in which Charter Communications Holding Company does business, and (v) future federal and state tax laws. Further, in the event of new capital contributions to Charter Communications Holding Company, it is possible that the tax effects of the Special Profit Allocations and Special Loss Allocations will change significantly pursuant to the provisions of the income tax regulations. Such change could defer the actual tax benefits to be derived by Charter Communications, Inc. with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter Communications, Inc. with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter Communications, Inc. could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards.

In addition to the aforementioned reasons, under their exchange agreement with Charter Communications, Inc., Vulcan Cable and Charter Investment may exchange some or all of their membership units in Charter Communications Holding Company for Charter Communications, Inc.'s Class B common stock, be merged with Charter Communications, Inc., or be acquired by Charter Communications, Inc. in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable and Charter Investment could elect to cause Charter Communications Holding Company to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment choose not to make such election or to the extent such allocations are not possible, Charter Communications, Inc. would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. Mr. Allen has generally agreed to reimburse Charter Communications, Inc. for any incremental income taxes that Charter Communications, Inc. would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter Communications, Inc.

As of December 31, 2002, we have recorded deferred income tax liabilities of \$499 million. This includes approximately \$232 million of the deferred income tax liabilities recorded in the consolidated financial statements related to certain indirect corporate subsidiaries of Charter Communications Holding Company, which file separate income tax returns.

Additionally, we have deferred tax assets of \$1.4 billion, which primarily relate to the excess of cumulative financial statement losses over cumulative tax losses allocated to us. The deferred tax assets also include \$322 million of tax net operating loss carryforwards of Charter Communications, Inc. and its indirect corporate subsidiaries which are subject to separate return limitations. We are required to record a valuation allowance when it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Given the uncertainty surrounding our ability to utilize our deferred tax assets, these items have been offset with a corresponding valuation allowance of \$1.4 billion.

We are currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on our consolidated financial position or results of operation.

Litigation. We have legal contingencies that have a high degree of uncertainty. As described in Note 24 to our consolidated financial statements, numerous allegations have been made against us. No reserves have been established for those matters because we believe they are either not estimable or not probable. When a contingency becomes probable and estimable a reserve is established. We have established reserves for certain other matters. If any of our litigation matters described in Note 24 to our consolidated financial statements are resolved unfavorably, they could have a material adverse effect on our future results of operations and financial condition.

Results of Operations

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

	Year Ended December 31,					
	2002		2001		2000	
Revenues	\$ 4,566	100%	\$ 3,807	100%	\$ 3,141	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization and other items listed below)	1,804	40%	1,480	39%	1,185	38%
Selling, general and administrative . . .	966	21%	832	22%	608	19%
Depreciation and amortization	1,437	31%	2,682	70%	2,398	76%
Impairment of franchises	4,638	102%	—	—	—	—
Option compensation expense, net	5	—	(5)	—	38	1%
Special charges	36	1%	18	1%	—	—
	<u>8,886</u>	<u>195%</u>	<u>5,007</u>	<u>132%</u>	<u>4,229</u>	<u>134%</u>
Loss from operations	(4,320)	(95)%	(1,200)	(32)%	(1,088)	(34)%
Interest expense, net	(1,506)		(1,313)		(1,042)	
Loss on equity investments	(3)		(54)		(19)	
Other, net	(118)		(66)		(1)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,947)		(2,633)		(2,150)	
Minority interest	<u>3,179</u>		<u>1,464</u>		<u>1,282</u>	
Loss before income taxes and cumulative effect of accounting change	<u>(2,768)</u>		<u>(1,169)</u>		<u>(868)</u>	
Income tax benefit	<u>520</u>		<u>12</u>		<u>10</u>	
Loss before cumulative effect of accounting change	(2,248)		(1,157)		(858)	
Cumulative effect of accounting change	<u>(266)</u>		<u>(10)</u>		<u>—</u>	
Net loss	(2,514)		(1,167)		(858)	
Dividends on preferred stock	<u>(3)</u>		<u>(1)</u>		<u>—</u>	
Net loss applicable to common stock . . .	<u>\$ (2,517)</u>		<u>\$ (1,168)</u>		<u>\$ (858)</u>	
Loss per common share, basic and diluted	<u>\$ (8.55)</u>		<u>\$ (4.33)</u>		<u>\$ (3.80)</u>	
Weighted-average common shares outstanding	<u>294,440,261</u>		<u>269,594,386</u>		<u>225,697,775</u>	

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Revenues increased by \$759 million, or 20%, from \$3.8 billion in 2001 to \$4.6 billion in 2002. This increase is principally the result of increases in the number of digital video and high-speed data customers as well as price increases.

Average monthly revenue per customer increased from \$47 in 2001 to \$57 in 2002. Average monthly revenue per customer represents total annual revenue, divided by twelve, divided by the average number of customer relationships.

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

	Year Ended December 31,					
	2002		2001		2002 over 2001	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video	\$3,083	68%	\$2,768	73%	\$315	11%
Digital video	457	10%	307	8%	150	49%
High-speed data	340	7%	155	4%	185	119%
Advertising sales	302	7%	197	5%	105	53%
Other	384	8%	380	10%	4	1%
	<u>\$4,566</u>	<u>100%</u>	<u>\$3,807</u>	<u>100%</u>	<u>\$759</u>	<u>20%</u>

Analog video revenues consist primarily of revenues from basic and premium services. Analog video revenues increased by \$315 million, or 11%, to \$3.1 billion in 2002 as compared to \$2.8 billion in 2001. Approximately \$130 million of the increase was due to a full year of revenue from the AT&T Broadband systems acquired in June 2001 with the remainder due to general price increases, offset somewhat by the decline in analog video customers. We do not expect an increase in analog video customers; however, our goal is to sustain revenues by reducing analog customer losses and to grow revenues through price increases on certain services and packages as well as the sale of data services and digital video services.

Digital video revenues increased by \$150 million, or 49%, to \$457 million in 2002 as compared to \$307 million in 2001. All of our digital video customers also receive basic analog video service, and digital video revenues consist of the portion of revenues from digital video customers in excess of the amount paid by these customers for analog video service. The majority of the increase resulted from the addition of approximately 538,000 digital customers. Approximately \$31 million of the increase resulted from a full year of revenue from digital video customers acquired in the acquisition of AT&T Broadband systems in June 2001. While we expect the number of our digital customers to increase, we believe the growth rate for these services will slow as compared to prior years.

High-speed data revenues increased \$185 million, or 119%, from \$155 million for the year ended December 31, 2001 to \$340 million for the year ended December 31, 2002. The majority of the increase or \$171 million was primarily due to the addition of 585,200 high-speed data customers. Between 2001 and 2002, we were able to offer this service to more of our customers, as the estimated percentage of homes passed that could receive high-speed data service increased from 66% to 82% as a result of our ongoing system upgrades.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$105 million, or 53%, from \$197 million in 2001 to \$302 million in 2002. The increase was primarily due to an increase of \$53 million, from \$13 million in 2001 to \$66 million in 2002, related to an increase in advertising contracts with programmers, \$40 million related to increased advertising capacity as a result of an increased number of channels carried by our systems and \$14 million related to the acquisition of AT&T Broadband systems in June 2001. For the years ended December 31, 2002 and 2001, we received \$13 million and \$14 million, respectively, in advertising revenue from our two largest suppliers of digital set-top terminals representing 0.3% and 0.4% of total revenues, respectively. We expect that advertising provided to vendors and programmers will decline substantially in the future. Revenues from advertising provided to vendors and programmers are recognized based upon the fair value of advertising. Vendor advertising purchases are made pursuant to written agreements that are generally consistent with other third-party commercial advertising agreements and at prices that we believe approximate fair value. In some cases we purchased equipment from the vendors at the same time.

Other revenues consist primarily of revenues from franchise fees, customer installations, equipment rental, processing fees, wire maintenance fees, home shopping, dial-up Internet service, late payment fees and other miscellaneous revenues. Other revenues increased \$4 million, or 1%, from \$380 million for the year ended December 31, 2001 to \$384 million for the year ended December 31, 2002. The increase was primarily due to an increase in franchise fee revenue directly related to the increase in analog and digital video revenues

and a full year of revenue from the acquisition of AT&T Broadband systems in June 2001, offset by decreases in late payment fees charged to customers and other miscellaneous revenues. Franchise fee revenues are collected from customers and remitted to franchise authorities.

The decrease in accounts receivable of 11% compared to the increase in revenue of 20% is primarily due to the timing of collection of receivables from programmers for fees associated with the launching of their networks. These fees are not recorded in revenue but are included as reductions of programming expense over the life of the contract. Launch receivables decreased \$27 million, or 28%, from \$97 million as of December 31, 2001 to \$70 million as of December 31, 2002.

Operating Expenses. Operating expenses increased \$324 million, or 22%, from \$1.5 billion in 2001 to \$1.8 billion in 2002. Total programming costs paid to programmers were \$1.2 billion and \$951 million, representing 67% and 64% of total operating expenses for the years ended December 31, 2002 and 2001, respectively.

Key expense components as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video programming	\$1,012	22%	\$ 874	23%	\$138	16%
Digital video programming	159	3%	103	3%	56	54%
High-speed data	112	3%	65	2%	47	72%
Advertising sales	87	2%	64	2%	23	36%
Service	434	10%	374	9%	60	16%
	<u>\$1,804</u>	<u>40%</u>	<u>\$1,480</u>	<u>39%</u>	<u>\$324</u>	<u>22%</u>

Analog video programming costs consist primarily of costs paid to programmers for the provision of basic and premium channels as well as pay-per-view programs. The increase in analog video programming costs of \$138 million, or 16%, was primarily due to price increases, particularly in sports programming, and an increased number of analog channels carried on our systems. In addition, approximately \$51 million of the increase results from a full year of costs related to the acquisition of AT&T Broadband systems in June 2001. The costs were offset by the amortization of launch support against analog video programming of \$48 million and \$27 million for the years ended December 31, 2002 and 2001, respectively. Digital video programming costs in 2002 were \$56 million higher than in 2001 due to an increase in digital video customers and increased costs. Data services costs consist of costs related to the provision of high-speed data service, including salaries and benefits. The increase of \$47 million, or 72%, in direct operating costs to provide data services was primarily due to the increase in high-speed data customers.

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases, and they are expected to continue to increase due to a variety of factors, including additional programming being provided to customers as a result of system rebuilds that increase channel capacity, increased costs to produce or purchase cable programming, increased costs from certain previously discounted programming, and inflationary or negotiated annual increases. Our increasing programming costs will result in declining video product margins to the extent we are unable to pass on cost increases to our customers. We expect to partially offset any resulting margin compression through increased incremental high-speed data revenues.

Advertising sales expenses consist of costs related to traditional advertising services, including salaries and benefits. Advertising sales expenses increased \$23 million, or 36%, primarily due to increased sales commissions resulting from the increase in advertising revenues. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, maintenance and pole rent expense. The increase in service costs of \$60 million, or 16%, resulted primarily from our growth in digital video and high-speed data services.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$134 million, or 16%, from \$832 million for the year ended December 31, 2001 to \$966 million for the year ended December 31, 2002. Key components of expense as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2002		2001		2002 over 2001	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
General and administrative	\$813	18%	\$696	18%	\$117	17%
Marketing	153	3%	136	4%	17	13%
	<u>\$966</u>	<u>21%</u>	<u>\$832</u>	<u>22%</u>	<u>\$134</u>	<u>16%</u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$117 million, or 17%, resulted primarily from increases in salaries and benefits of \$66 million, bad debt and collection expense of \$24 million and insurance of \$13 million. These increases were partially offset by a decrease in billing expenses of \$12 million as a result of renegotiated contracts with third-party billing providers.

Marketing expenses increased \$17 million, or 13%, due to increased costs associated with promotions of our service offerings including advertising, telemarketing and direct sales.

Depreciation and Amortization. Depreciation and amortization expense decreased by \$1.2 billion, or 46%, from \$2.7 billion in 2001 to \$1.4 billion in 2002. This decrease was due primarily to the adoption on January 1, 2002 of SFAS No. 142, which requires that franchise intangible assets that meet the indefinite life criteria of SFAS No. 142 no longer be amortized against earnings but instead be tested for impairment on an annual basis. As a result of this change, total amortization of franchise assets decreased from \$1.4 billion in 2001 to \$9 million in 2002. The decrease was partially offset by the increase in depreciation expense related to additional capital expenditures in 2002.

Impairment Charge. We performed our annual impairment assessment on October 1, 2002 using an independent third-party appraiser. This valuation led to recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002. We do not expect to incur impairment charges of comparable magnitude in the future.

Option Compensation Expense. Option compensation expense increased by \$10 million from \$5 million of net benefit in 2001 to \$5 million of expense in 2002. The net benefit in 2001 was primarily the result of the reversal of \$22 million of expense previously recorded in connection with approximately 7 million options for which the rights were waived by our former President and Chief Executive Officer as part of his September 2001 separation agreement. Option compensation expense was recorded in 2002 because exercise prices on certain options issued prior to our initial public offering in 1999 were less than the estimated fair values of our common stock at the time of grant. Compensation expense is being accrued over the vesting period of such options, which ends in April 2004. On January 1, 2003, we adopted SFAS No. 123 using the prospective method "Accounting for Stock-Based Compensation" as the prospective method under which we will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date. For more information see Note 4 to our consolidated financial statements.

Special Charges. In the fourth quarter of 2002, we recorded a special charge of \$35 million, of which \$31 million is associated with our workforce reduction program. The remaining \$4 million is related to legal and other costs associated with our shareholder lawsuits and governmental investigations. Special charges of \$18 million in 2001 represent charges associated with the transition of approximately 145,000 data customers from the Excite@Home Internet service to our Charter Pipeline service, as well as employee severance costs. We expect to continue to record additional special charges in 2003 related to the reorganization of our operations and costs of litigation.

Net Interest Expense. Net interest expense increased by \$193 million, or 15%, from \$1.3 billion in 2001 to \$1.5 billion in 2002. The increase in net interest expense was a result of increased average debt outstanding in 2002 of \$17.8 billion compared to \$15.7 billion in 2001, partially offset by a decrease in our average borrowing rate from 8.40% in 2001 to 8.02% in 2002. The increased debt was used for capital expenditures.

Loss on Equity Investments. Loss on equity investments decreased by \$51 million, from \$54 million in 2001 to \$3 million in 2002. In 2002, the loss on equity investments was primarily due to losses of \$5 million on investments carried under the equity method of accounting offset by realized gains of \$2 million on marketable securities. The loss on equity investments in 2001 included a loss of \$38 million related to our investment in High Speed Access, a related party, which is described more fully in Note 23 to our consolidated financial statements.

Other Expense. Other expense increased by \$52 million from \$66 million in 2001 to \$118 million in 2002. This increase is primarily due to an increase in losses on interest rate agreements which do not qualify for hedge accounting under SFAS No. 133, which increased from \$48 million in 2001 to \$101 million in 2002.

Income Tax Benefit. Income tax benefit of \$520 million and \$12 million were recognized for the years ended December 31, 2002 and 2001, respectively. The income tax benefits are realized through reductions in deferred tax liabilities related to our investment in Charter Communications Holding Company, as well as the change in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

Minority Interest. Minority interest increased by \$1.7 billion, from \$1.5 billion in 2001 to \$3.2 billion in 2002. Minority interest represents the allocation of losses to the minority interest based on ownership of Charter Communications Holding Company and the 2% accretion of the preferred membership interests in CC VIII issued to certain former owners of the Bresnan systems acquired by CC VIII in February 2000. Such preferred membership interests were subsequently sold to Paul G. Allen in June 2003. The increase is a result of an increase in loss before minority interest. See Note 23 to our consolidated financial statements.

Cumulative Effect of Accounting Change. Cumulative effect of accounting change in 2002 represents the impairment charge recorded as a result of adopting SFAS No. 142. Cumulative effect of accounting change in 2001 represents losses incurred upon adoption of SFAS No. 133.

Net Loss. Net loss increased by \$1.3 billion, from \$1.2 billion in 2001 to \$2.5 billion in 2002 as a result of the combination of factors described above, including the impact of the impairment of franchises offset somewhat by the decrease in amortization expense as a result of the adoption of SFAS No. 142.

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

Loss Per Common Share. The loss per common share increased by \$4.22, from \$4.33 per common share for the year ended December 31, 2001 to \$8.55 per common share for the year ended December 31, 2002 as a result of the factors described above.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues. Revenues increased by \$666 million, or 21%, from \$3.1 billion in 2000 to \$3.8 billion in 2001. This increase is principally the result of increases in digital video and high-speed data customers.

Average monthly revenue per customer increased from \$42 in 2000 to \$47 in 2001. Average monthly revenue per customer represents total annual revenue, divided by twelve, divided by the average number of customer relationships.

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

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video	\$2,768	73%	\$2,503	79%	\$265	11%
Digital video	307	8%	89	3%	218	245%
High-speed data	155	4%	55	2%	100	182%
Advertising sales	197	5%	142	5%	55	39%
Other	380	10%	352	11%	28	8%
	<u>\$3,807</u>	<u>100%</u>	<u>\$3,141</u>	<u>100%</u>	<u>\$666</u>	<u>21%</u>

Analog video revenues consist primarily of revenues from basic and premium services. Analog video revenues increased by \$265 million, or 11%, from \$2.5 billion for the year ended December 31, 2000 to \$2.8 billion for the year ended December 31, 2001. Approximately \$121 million of the increase was due to the acquisition of the AT&T Broadband systems on June 30, 2001 while the majority of the remainder of the increase was due to general price increases.

Digital video revenues increased by \$218 million from \$89 million for the year ended December 31, 2000 to \$307 million for the year ended December 31, 2001. Approximately \$16 million of the increase was due to digital video customers acquired through the acquisition of the AT&T Broadband systems while the majority of the remainder of the increase was due to the addition of approximately 967,300 digital customers due to the upgrade and expansion of our systems to provide advanced services to a larger customer base.

High-speed data revenues increased \$100 million from \$55 million for the year ended December 31, 2000 to \$155 million for the year ended December 31, 2001. Approximately \$7 million of the increase was due to high-speed data customers acquired through the acquisition of the AT&T Broadband systems, while the majority of the remaining increase was due to the addition of approximately 378,700 additional high-speed data customer relationships.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$55 million, or 39%, from \$142 million in 2000 to \$197 million in 2001. The increase was primarily due to an increase of \$13 million in advertising contracts with programmers, \$11 million related to the acquisition of the AT&T Broadband systems and \$15 million related to increased advertising capacity as a result of an increased number of channels carried by our systems. For the year ended December 31, 2001 and 2000, we received \$14 million and \$0, respectively, in advertising revenue from our two largest digital set-top terminal suppliers. Revenues from advertising provided to vendors and programmers are recognized based upon the fair value of advertising.

Other revenues consist primarily of revenues from franchise fees, customer installations, equipment rental, processing fees, wire maintenance fees, home shopping, dial-up Internet service, late payment fees and other miscellaneous revenues. Other revenues increased \$28 million, or 8%, from \$352 million for the year ended December 31, 2000 to \$380 million for the year ended December 31, 2001. The increase was primarily due to an increase in franchise fees directly related to the increase in analog and digital video revenues and other miscellaneous revenues and increases as a result of the acquisition of the AT&T Broadband systems, offset by decreases in late fees charged to customers.

The increase in accounts receivable of 40% compared to the increase in revenue of 21% is primarily due to the timing of collection of receivables from programmers which are not recorded as revenue but are included as reductions of programming expense over the life of the contract, increases in the aging of customer receivables and timing of the AT&T Broadband acquisition. Programmer receivables increased \$6 million, or 7%, from \$91 million as of December 31, 2000 to \$97 million as of December 31, 2001.

Operating Expenses. Operating expenses increased \$295 million, or 25%, from \$1.2 billion in 2000 to \$1.5 billion in 2001. Total programming costs paid to programmers were \$951 million and \$763 million,

representing 64% and 64% of total operating expenses for the years ended December 31, 2001 and 2000, respectively.

Key expense components as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video programming	\$ 874	23%	\$ 741	24%	\$133	18%
Digital video programming	103	2%	34	1%	69	203%
High-speed data	65	2%	25	1%	40	160%
Advertising sales	64	2%	57	2%	7	12%
Service	374	10%	328	10%	46	14%
	<u>\$1,480</u>	<u>39%</u>	<u>\$1,185</u>	<u>38%</u>	<u>\$295</u>	<u>25%</u>

The increase in analog video programming costs of \$133 million, or 18%, was primarily due to price increases, particularly in sports programming, and increased number of channels carried on our systems. In addition, approximately \$37 million of the increase relates to the acquisition of the AT&T Broadband systems. The increase of \$69 million in costs to provide digital video services was primarily due to an increase in digital customers. The increase of \$40 million in direct operating costs to provide data services was primarily due to the increase in high-speed data customers.

Advertising sales expense consist of costs related to traditional advertising services. Advertising sales expenses increased \$7 million, or 12%, primarily due to increased sales commissions as a result of increases in advertising revenues. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, maintenance and pole rent expense. The increase in service costs of \$46 million, or 14%, resulted primarily from our acquisition of the AT&T Broadband systems in June 2001 coupled with the addition of digital video and high-speed data customers.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$224 million, or 37%, from \$608 million for the year ended December 31, 2000 to \$832 million for the year ended December 31, 2001. Key components of expense as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
General and administrative	\$696	18%	\$505	16%	\$191	38%
Marketing	136	4%	103	3%	33	32%
	<u>\$832</u>	<u>22%</u>	<u>\$608</u>	<u>19%</u>	<u>\$224</u>	<u>37%</u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, bad debt, expense and property taxes. The increase in general and administrative expenses of \$191 million, or 38%, resulted primarily from our acquisition of the AT&T Broadband systems in June 2001 coupled with increases in salaries and benefits of \$54 million and an increase in bad debt expense and collection of \$47 million. The increase in bad debt expense resulted primarily from more aggressive discounting of our analog video product during late 2000 and most of 2001 in an effort to grow our customer base and counteract price competition from satellite providers. This practice led to an increase in customers during the discounted period who subsequently cancelled their service without paying for services previously provided. We also extended the period during which we extended credit to customers, which created a larger exposure to customers whose accounts were subject to cancellation and resulting bad debt expense.

Based on the aged receivable balance at December 31, 2001, we permanently adjusted our bad debt allowance formula to reserve 100% of the receivables more than 90 days past due and reserved an additional \$6.3 million in the fourth quarter of 2001. We disconnected many of these slower or non paying customers in the first quarter of 2002, as we changed our marketing techniques and tightened our credit and disconnection policies by decreasing the amount of time that we would allow a customer to receive service while payments were past due.

Marketing costs increased \$33 million, or 32%, related to an increased level of promotions of our service offerings and the AT&T Broadband systems acquisition.

Depreciation and Amortization. Depreciation and amortization expense increased by \$284 million, or 12%, from \$2.4 billion in 2000 to \$2.7 billion in 2001. This increase resulted from increased capital expenditures under our rebuild and upgrade program in 2000 and 2001 and amortization of franchises in connection with acquisitions completed in 2000 and 2001.

Option Compensation Expense. Option compensation expense decreased by \$43 million from \$38 million of expense in 2000 to \$5 million of net benefit in 2001. The decrease: is primarily the result of the reversal of \$22 million of expense previously recorded in connection with approximately 7 million options for which the rights were waived by our former President and Chief Executive Officer as part of his September 2001 separation agreement. This was partially offset by expense recorded because exercise prices on certain options issued prior to our initial public offering in 1999 were less than the estimated fair values of our common stock at the time of grant Compensation expense is being accrued over the vesting period of such, options which ends in April 2004.

Special Charges. Special charges in 2001 of \$18 million represent charges associated with the transition of approximately 145,000 data customers from the Excite@Home Internet service to our Charter Pipeline service, as well as employee severance costs.

Net Interest Expense. Net interest expense increased by \$271 million, or 26%, from \$1.0 billion in 2000 to \$1.3 billion in 2001. The increase in interest expense was a result of increased average debt outstanding in 2001 of \$15.7 billion compared to \$12.3 billion in 2000, partially offset by a decrease in our average borrowing rate from 9.02% in 2000 to 8.40% in 2001. The increased debt was used for acquisitions and capital expenditures.

Loss on Equity Investments. Loss on equity investments increased by \$35 million, from \$19 million in 2000 to \$54 million in 2001. In 2001, the loss on equity investments was primarily due to losses of \$42 million on investments carried under the equity method of accounting, realized losses of \$4 million on marketable securities and other than temporary losses of \$8 million on investments carried under the cost method. These losses were primarily the result of weakening market conditions coupled with poor performance of these investments. The loss on equity investments included a loss of \$38 million related to our investment in High Speed Access, a related party, which is described in Note 23 to our consolidated financial statements.

Other Expense. Other expense increased by \$65 million from \$1 million, in 2000 to \$66 million in 2001. This increase resulted primarily from a loss of \$50 million on interest rate agreements as a result of SFAS No. 133.

Income Tax Benefit. Income tax benefit of \$12 million and \$10 million for the years ended December 31, 2001 and 2000, respectively, represents deferred income tax benefits primarily related to the change in the deferred tax assets related to our investment in Charter Communications Holding Company, LLC.

Minority Interest. Minority interest increased by \$182 million, or 14%, from \$1.3 billion in 2000 to \$1.5 billion in 2001. Minority interest represents the allocation of losses to the minority interest based on ownership of Charter Communications Holding Company and the 2% accretion of the preferred membership interests in CC VIII issued to certain former owners of the Bresnan systems acquired by CC VIII in February 2000. The increase is a result of an increase in loss before minority interest offset by a decrease in the minority interest percentage as a result of the issuance of Class A common stock by Charter Communications, Inc. See Note 23 to our consolidated financial statements.

Net Loss. Net loss increased by \$309 million, or 36%, from \$858 million in 2000 to \$1.2 billion in 2001 as a result of the combination of factors described above, including the acquisition of AT&T Broadband and the increase in depreciation expense as a result of our capital expenditures.

Preferred Stock Dividends. Charter Communications, Inc. issued 505,664 shares of Series A Convertible Redeemable Preferred Stock in connection with the Cable USA acquisition in August 2001, on which it pays a quarterly cumulative cash dividends at an annual rate of 5.75% on a liquidation preference of \$100 per share.

Loss Per Common Share. The loss per common share increased by \$0.53, or 14%, from \$3.80 per common share for the year ended December 31, 2000 to \$4.33 per common share for the year ended December 31, 2001 as a result of the factors described above, partially offset by an increase in weighted average shares outstanding due to the issuance of 60,247,350 shares of common stock in May 2001.

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 debt facilities and other financing sources, historical financing activities, cash needs, capital expenditures and outstanding debt. The first part of this section, entitled “Overview” provides an overview of these topics. The second part of this section, entitled “Historical Operating, Financing and Investing Activities” provides information regarding the cash provided from or used in our operating, financing and investing activities during the years 2000 through 2002. The third part of this section, entitled “Capital Expenditures” provides more detailed information regarding our historical capital expenditures and our planned capital expenditures going forward. The fourth part of this section, entitled “Description of Our Outstanding Debt” describes our outstanding debt in greater detail, including a summary of scheduled maturities. The fifth part of this section, entitled “Credit Facility Terms, Restrictions and Covenants”, summarizes the principal terms, covenants and restrictions governing the credit facilities of our subsidiaries. The sixth part of this section, entitled “Indenture Restrictions and Covenants” summarizes certain of the covenants and restrictions governing our outstanding notes. The last part of this section, entitled “Funding Commitment of Vulcan Inc.”, summarizes the terms of a credit commitment made by Vulcan Inc. in favor of certain of our subsidiaries. For further discussion of certain trends with respect to our liquidity and capital resources, see the section below entitled “Certain Trends and Uncertainties.”

Overview

Our business requires significant cash to fund capital expenditures, debt service costs and ongoing operations. We have historically funded liquidity and capital requirements through cash flows from operations, borrowings under the credit facilities of our subsidiaries, issuances of debt securities by us and our subsidiaries and our issuances of equity securities. The mix of funding sources changes from period to period, but for the year ended December 31, 2002, approximately 70% of our funding requirements were from cash flows from operations, 16% was from borrowings under the credit facilities of our subsidiaries and 14% was from issuance of debt by our subsidiaries. We expect that our mix of sources of funds will continue to change in the future based on our overall capital needs relative to our cash flow and on the availability under the credit facilities of our subsidiaries, our access to the bond and equity markets and our ability to generate free cash flows.

We believe that as a result of our significant level of debt, current market conditions and recent downgrades to our debt securities, we have limited access to the debt and equity markets at this time. Accordingly, during 2003, we expect to fund our liquidity and capital requirements principally through cash on hand, cash flow from operations, and through borrowings under the credit facilities of our subsidiaries and the Vulcan Inc. commitment described below in “— Funding Commitment of Vulcan Inc.” As of December 31, 2002, we held \$321 million in cash and cash equivalents and we had total potential unused availability of \$1.4 billion under the credit facilities of our subsidiaries, although the actual availability at that time was only \$944 million because of limits imposed under covenant restrictions. However, continued access to these credit facilities is subject to our remaining in compliance with the applicable covenants of these credit facilities.

Our future cash needs will be significantly affected by our outstanding debt balances. The following table summarizes our payment obligations as of December 31, 2002 under our long-term debt and certain other contractual obligations and commitments (dollars in millions).

<u>Contractual Obligations</u>	<u>Payments by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long-Term Debt(1)	\$19,692	\$236	\$1,403	\$4,638	\$13,415
Capital and Operating Lease Obligations(1)	78	17	25	17	19
Programming Minimum Commitments(2)	<u>714</u>	<u>173</u>	<u>228</u>	<u>34</u>	<u>279</u>
Total	<u>\$20,484</u>	<u>\$426</u>	<u>\$1,656</u>	<u>\$4,689</u>	<u>\$13,713</u>

- (1) The table presents maturities of long-term debt outstanding as of December 31, 2002. Refer to Note 10 and 24 to our consolidated financial statements for a description of our long-term debt and other long-term liabilities.
- (2) We pay programming fees under multi-year contracts ranging from three to six years typically based on increasing flat fees per customer. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively. Certain of our programming contracts provide that the amount payable is the greater of the amount payable based on the per customer fees or a guaranteed minimum payment or commitment set forth in the contract. The table sets forth the aggregate guaranteed minimum commitments under our programming contracts.

As the principal amounts owing under our various debt obligations become due, sustaining our liquidity and access to capital will become more difficult over time. In the fourth quarter of 2003, CC V will be required to repay approximately \$66 million in principal amount of the CC V bonds. In 2005, \$750 million of Charter Communications Inc.'s outstanding convertible notes will mature. In subsequent years, substantial additional amounts will become due under our remaining obligations. In addition, a default under the covenants governing any of our debt instruments could result in the acceleration of our payment obligations under that debt and, under certain circumstances, in cross-defaults under our other debt obligations.

We expect to remain in compliance with the covenants under the credit facilities of our subsidiaries and indentures, and that our cash on hand, cash flow from operations and the amounts available under the credit facilities should be sufficient to satisfy our liquidity needs through the end of 2003. However, it is unclear whether we will have access to sufficient capital to satisfy our principal repayment obligations which are scheduled to come due in 2005 and thereafter. We do not expect that cash flows from operations will be sufficient, on their own, to permit us to satisfy these obligations. Our substantial debt levels and the depressed price of our equity securities limit our access to the debt and equity markets on reasonable terms at this time and for the foreseeable future. In addition, the maximum allowable leverage ratios under our credit facilities will decline over time and the total potential borrowing available under our subsidiaries' current credit facilities (subject to covenant restrictions and limitations) will decrease from approximately \$9.2 billion as of the end of 2002 to \$9.0 billion, \$8.7 billion and \$7.7 billion by the end of 2003, 2004 and 2005, respectively. Although Mr. Allen and his affiliates have purchased equity from us and our subsidiaries in the past, except for the commitment of Vulcan Inc., an affiliate of Mr. Allen, described below under "— Funding Commitment of Vulcan Inc.", there is no obligation for Mr. Allen or his affiliates to purchase equity from or contribute or loan funds to us or to our subsidiaries in the future.

In addition, because of our corporate structure, Charter Communications, Inc. has less access to capital than certain of its operating subsidiaries and therefore Charter Communications, Inc.'s ability to repay its senior notes is subject to additional uncertainties. Charter Communications, Inc. is a holding company and its principal assets are its interest in Charter Communications Holding Company, LLC and the mirror notes payable by Charter Communications Holding Company, LLC to Charter Communications, Inc., which have the same principal amount and terms as those of Charter Communications, Inc.'s convertible senior notes. As a result, Charter Communications, Inc.'s ability to make interest payments, and, in 2005 and 2006, to repay

the outstanding principal of its convertible senior notes as they mature, is dependent on Charter Communications, Inc.'s receipt of payments on the mirror notes owing by Charter Communications Holding Company to Charter Communications, Inc., and distributions from Charter Communications Holding Company.

Charter Communications Holding Company's ability to make any such payments or distributions is in turn dependent on its receipt of distributions from, or payments on intercompany loans owing by, its direct and indirect subsidiaries. Charter Communications Holding Company and Charter Communications, Inc. are separate legal entities from these subsidiaries and these subsidiaries are not required to make payments or distributions to Charter Communications Holding Company or Charter Communications, Inc.

The indenture governing the Charter Communications Holdings notes permits Charter Communications Holdings and its subsidiaries to make payments to the extent of its outstanding unsubordinated intercompany debt to Charter Communications Holding Company, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter Communications, Inc. to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter Communications, Inc. to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity.

Accordingly, Charter Communications, Inc. will not be able to make interest payments beginning in April, 2004, or principal payments at maturity in 2005 and 2006, with respect to its convertible senior notes unless it can obtain additional financing or it receives distributions or other payments from its subsidiaries. The indentures governing the Charter Communications Holdings notes permit Charter Communications Holdings to make distributions to Charter Communications Holding Company only if, at the time of distribution, Charter Communications Holdings can meet a leverage ratio of 8.75 to 1.0, there is no default under the indentures and other specified tests are met. Charter Communications Holdings did not meet that leverage ratio for the quarter ended December 31, 2002.

If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available through existing credit facilities or in traditional debt or equity financings, we would consider:

- requesting waivers or amendments with respect to our credit facilities, the availability and terms of which would be subject to market conditions;
- further reducing our expenses and capital expenditures, which would likely impair our ability to increase revenue;
- selling assets;
- issuing debt securities which may have structural or other priorities over our existing high-yield debt; or
- issuing equity securities that would be dilutive to existing shareholders.

Although there are no current plans to do so, we also may consider transactions to reduce our leverage including seeking to exchange currently outstanding debt for debt with a lower principal amount or, if opportunities arise, acquiring our outstanding debt in the market.

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

As a means of enhancing our liquidity, we are currently attempting to cut costs, reduce capital expenditures and are exploring sales of assets.

See "Cautionary Statement Regarding Forward-Looking Statements" and "— Certain Trends and Uncertainties."

Historical Operating, Financing and Investing Activities

We held \$321 million in cash and cash equivalents as of December 31, 2002 compared to \$2 million as of December 31, 2001. The increase in cash and cash equivalents is primarily a result of our desire to increase our liquid assets.

Operating Activities. Net cash provided by operating activities for the years ended December 31, 2002, 2001 and 2000 was \$748 million, \$489 million and \$828 million, respectively. Operating activities provided \$259 million more cash in 2002 than in 2001 primarily due to increased revenues of \$759 million over 2001 and changes in operating assets and liabilities that provided \$56 million more cash in 2002 than in 2001 offset in part by increases in operating expenses and cash interest expense.

Operating activities provided \$339 million less cash in 2001 than in 2000 primarily due to changes in operating assets and liabilities that provided \$303 million less cash in 2001 than in 2000.

Investing Activities. Net cash used in investing activities for the years ended December 31, 2002, 2001 and 2000 was \$2.4 billion, \$4.8 billion and \$3.8 billion, respectively. Investing activities used \$2.4 billion less cash in 2002 than in 2001 primarily as a result of reductions in capital expenditures and acquisitions. Purchases of property, plant and equipment used \$779 million less cash in 2002 than in 2001 as a result of our efforts to reduce capital expenditures. Payments for acquisitions used \$1.6 billion less cash in 2002 than in 2001.

Investing activities used \$1.0 billion more cash in 2001 than in 2000 primarily as a result of increases in capital expenditures and acquisitions. Purchases of property, plant and equipment used \$465 million more cash in 2001 than in 2000 primarily as a result of our efforts to upgrade, rebuild and expand our cable systems. Payments for acquisitions used \$567 million more cash in 2001 than in 2000 primarily as a result of our acquisition of cable systems from AT&T Broadband in 2001.

Financing Activities. Net cash provided by financing activities for the years ended December 31, 2002, 2001 and 2000 was \$1.9 billion, \$4.2 billion and \$2.9 billion, respectively. Financing activities provided \$2.2 billion less cash in 2002 than in 2001. The decrease in cash provided in 2002 compared to 2001 was primarily due to a decrease in issuances of long-term debt. In addition, in 2001 we received proceeds from the issuance of Class A common stock of \$1.2 billion which did not recur in 2002.

Financing activities provided \$1.2 billion more cash in 2001 than in 2000. The increase in cash provided in 2001 compared to 2000 was primarily due to proceeds from the issuance of Class A common stock of \$1.2 billion.

Capital Expenditures

We have substantial ongoing capital expenditure requirements. We made capital expenditures, excluding acquisitions of cable systems, of \$2.2 billion, \$2.9 billion and \$2.8 billion for the years ended December 31, 2002, 2001 and 2000, respectively. The majority of the capital expenditures in 2002 related to our rebuild and upgrade program and purchases of digital set-top terminals and cable modems. Upgrading our cable systems has enabled us to offer digital television, cable modem high-speed Internet access, video-on-demand, interactive services, additional channels and tiers, and expanded pay-per-view options to a larger customer base. Our capital expenditures in 2002 were funded primarily from cash flows from operations, the issuance of debt and borrowings under credit facilities.

During 2003, we expect to spend approximately \$1.0 billion to \$1.1 billion in the aggregate on capital expenditures. We expect our capital expenditures in 2003 will be lower than 2002 levels because our rebuild and upgrade plans are largely completed.

As first reported in our Form 10-Q for the third quarter of 2002, we adopted capital expenditure disclosure guidance which was recently developed by eleven publicly traded cable system operators, including Charter Communications, Inc., with the support of the National Cable & Telecommunications Association (“NCTA”). The new disclosure is intended to provide more consistency in the reporting of operating statistics in capital expenditures and customer relationships among peer companies in the cable industry. These

disclosure guidelines are not required disclosure under GAAP, nor do they impact our accounting for capital expenditures under GAAP.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the years ended December 31, 2002 and 2001 (dollars in millions):

	For the Years Ended December 31,	
	2002	2001
Customer premise equipment(a)	\$ 748	\$ 926
Scalable infrastructure(b)	261	308
Line extensions(c)	101	161
Upgrade/Rebuild(d)	777	1,014
Support capital(e)	280	504
Total capital expenditures(f)	2,167	2,913

- (a) Customer premise equipment includes costs incurred at the customer residence to secure new customers, revenue units and additional bandwidth revenues. It also includes customer installation costs in accordance with SFAS 51 and customer premise equipment (e.g., set-top terminals and cable modems, etc.).
- (b) Scalable infrastructure includes costs, not related to customer premise equipment or our network, to secure growth of new customers, revenue units and additional bandwidth revenues or provide service enhancements (e.g., headend equipment).
- (c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).
- (d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.
- (e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).
- (f) Represents all capital purchases made in 2002 and 2001, respectively. This amount differs from that shown in our statement of cash flows by the changes in year end balances of related accounts payable.

Description of Our Outstanding Debt

As of December 31, 2002, our total debt was approximately \$18.7 billion, as summarized below (dollars in millions):

	<u>December 31, 2002</u>		<u>Semi-Annual Interest Payment Dates</u>	<u>Start Date for Interest Payment on Discount Notes</u>	<u>Maturity Date(b)</u>
	<u>Face Value</u>	<u>Accreted Value(a)</u>			
Long-Term Debt					
Charter Communications, Inc.:					
October and November 2000					
5.750% convertible senior notes due 2005(c)	\$ 750	\$ 750	4/15&10/15		10/15/05
May 2001					
4.750% convertible senior notes due 2006(c)	633	633	12/1&6/1		6/1/06
Charter Holdings:					
March 1999					
8.250% senior notes due 2007	600	599	4/1&10/1		4/1/07
8.625% senior notes due 2009	1,500	1,497	4/1&10/1		4/1/09
9.920% senior discount notes due 2011	1,475	1,307	4/1&10/1	10/1/04	4/1/11
January 2000					
10.000% senior notes due 2009	675	675	4/1&10/1		4/1/09
10.250% senior notes due 2010	325	325	1/15&7/15		1/15/10
11.750% senior discount notes due 2010	532	421	1/15&7/15	7/15/05	1/15/10
January 2001					
10.750% senior notes due 2009	900	900	4/1&10/1		10/1/09
11.125% senior notes due 2011	500	500	1/15&7/15		1/15/11
13.500% senior discount notes due 2011	675	454	1/15&7/15	7/15/06	1/15/11
May 2001					
9.625% senior notes due 2009	350	350	5/15&11/15		11/15/09
10.000% senior notes due 2011	575	575	5/15&11/15		5/15/11
11.750% senior discount notes due 2011	1,018	693	5/15&11/15	11/15/06	5/15/11
January 2002					
9.625% senior notes due 2009	350	348	5/15&11/15		11/15/09
10.000% senior notes due 2011	300	298	5/15&11/15		5/15/11
12.125% senior discount notes due 2012	450	280	1/15&7/15	7/15/07	4/15/12
Renaissance Media Group LLC:					
10.000% senior discount notes due 2008	114	113	4/15&10/15	10/15/03	4/15/08
CC V Holdings, LLC:					
11.875% senior discount notes due 2008	180	163	6/1&12/1	6/1/04	12/1/08(d)
Other long-term debt	1	1			

	December 31, 2002		Semi-Annual Interest Payment Dates	Start Date for Interest Payment on Discount Notes	Maturity Date(b)
	Face Value	Accreted Value(a)			
Credit Facilities					
Charter Operating	4,542	4,542			
CC VI Operating	926	926			
Falcon Cable	1,155	1,155			
CC VIII Operating	<u>1,166</u>	<u>1,166</u>			
	<u>\$19,692</u>	<u>\$18,671</u>			

- (a) The accreted value presented above represents the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.
- (b) In general, we have the right to redeem all of the notes set forth in this table (other than the March 1999 Charter Holdings 8.250% Senior Notes, the January 2000 Charter Holdings 10.000% Senior Notes, the January 2001 Charter Holdings 10.750% Senior Notes, the May 2001 Charter Holdings 9.625% Senior Notes, and the January 2002 Charter Holdings 9.625% Senior Notes) in whole or part at our option beginning at various times prior to their stated maturity dates, subject to certain conditions, upon the payment of the outstanding principal amount (plus a specified redemption premium) and all accrued and unpaid interest. We currently have no intention of redeeming any of these notes prior to their stated maturity dates. For additional information, see Note 10 to our consolidated financial statements.
- (c) The 5.75% convertible senior notes and the 4.75% convertible senior notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 46.3822 and 38.0952 shares, respectively, per \$1,000 principal amount of notes, which is equivalent to a price of \$21.56 and \$26.25 per share, respectively, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by us when deemed appropriate.
- (d) A \$66 million principal payment is also due on December 1, 2003.

As of December 31, 2002 and 2001, long-term debt totaled approximately \$18.7 billion and \$16.3 billion, respectively. This debt was comprised of approximately \$7.8 billion and \$6.7 billion of debt under our subsidiaries' credit facilities, \$9.5 billion and \$8.2 billion of high yield debt and approximately \$1.4 billion and \$1.4 billion of debt related to our convertible senior notes at December 31, 2002 and 2001, respectively. As of December 31, 2002, we had unused total potential availability of \$1.4 billion under the credit facilities of our subsidiaries, although our financial covenants would have limited our availability to \$944 million at December 31, 2002. Continued access to these credit facilities is subject to our remaining in compliance with the applicable covenants of these credit facilities.

As of December 31, 2002 and 2001, the weighted average interest rate on our bank debt was approximately 5.6% and 6.0%, respectively, the weighted average interest rate on our high yield debt was approximately 10.2% and 10.1%, respectively, and the weighted average rate on the convertible debt was approximately 5.3%, resulting in a blended weighted average interest rate of 7.9% and 7.6%, respectively. Approximately 79% of our debt effectively bore fixed interest rates including the effects of our interest rate hedge agreements as of December 31, 2002 as compared to approximately 82% at December 31, 2001. The fair value of our total fixed-rate debt was \$4.4 billion and \$9.5 billion at December 31, 2002 and 2001, respectively. The fair value of variable-rate debt was \$6.4 billion and \$6.7 billion at December 31, 2002 and 2001, respectively. The fair value of fixed-rate debt and variable rate debt is based on quoted market prices.

Traditionally, we have accessed the high-yield bond market as a source of capital for our growth. Moody's Investor Services downgraded our outstanding debt in October, 2002 and again in January, 2003. Moody's also reduced its liquidity rating of Charter Communications, Inc. to its lowest level. In January, 2003, Standard & Poor's downgraded our outstanding debt. We believe that as a result of our significant level of debt, current

market conditions and these downgrades, we have limited access to the debt market at this time and we expect to fund our cash needs during 2003 from cash on hand, cash from operations and borrowings under the existing credit facilities of our subsidiaries. Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. agreed to lend, or cause an affiliate to lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. See “— Liquidity and Capital Resources — Funding Commitment of Vulcan Inc.” We recognize the interim nature of this facility and continue to evaluate our options and to consider steps to address our leverage. We have hired an independent consulting firm to assist us in evaluating alternatives.

As noted above, our access to capital from the credit facilities of our subsidiaries is contingent on compliance with a number of restrictive covenants, including covenants tied to our operating performance. We may not be able to comply with all of these restrictive covenants. If there is an event of default under our subsidiaries’ credit facilities, such as the failure to maintain the applicable required financial ratios, we would be unable to borrow under these credit facilities, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments. In addition, an event of default under certain of our debt obligations, if not waived, may result in the acceleration of those debt obligations, which could in turn result in the acceleration of other debt obligations, and could result in exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws. See “— Credit Facility Terms, Restrictions and Covenants” below for a more detailed description of these covenant restrictions and cross-default provisions.

Our significant amount of debt and the significant interest charges incurred to service debt may adversely affect our ability to obtain financing in the future and react to changes in our business. We may need additional capital if we do not achieve our projected revenues, or if our operating expenses increase. If we are not able to obtain such capital from increases in our operating cash flow, additional borrowings or other sources, we may not be able to fund customer demand for digital video, data or telephony services, offer certain services in certain of our markets or compete effectively. Consequently, our financial condition and results of operations could suffer materially.

Credit Facility Terms, Restrictions and Covenants

The following table presents information relative to borrowing and covenant compliance under our credit facilities as of December 31, 2002 (dollars in millions):

	<u>Charter Operating</u>	<u>CC VI Operating</u>	<u>Falcon Cable Communications</u>	<u>CC VIII Operating</u>	<u>Total</u>
Credit facilities outstanding	\$ 4,542	\$ 926	\$ 1,155	\$ 1,166	\$ 7,789
Other debt(1)	203	25	1	6	236
Intercompany debt(2)	73	10	49	—	132
Total defined bank debt(3)	<u>\$ 4,818</u>	<u>\$ 961</u>	<u>\$ 1,205</u>	<u>\$ 1,172</u>	<u>\$ 8,157</u>
Adjusted EBITDA(4)	<u>\$ 1,141</u>	<u>\$ 174</u>	<u>\$ 283</u>	<u>\$ 293</u>	<u>N/A</u>
Bank Compliance Leverage Ratio (Total Debt/Adjusted EBITDA)(5)	<u>4.22</u>	<u>5.52</u>	<u>4.26</u>	<u>4.00</u>	<u>N/A</u>
Maximum Allowable Leverage Ratio(6)	<u>4.50</u>	<u>6.25</u>	<u>5.00</u>	<u>5.50</u>	<u>N/A</u>
Total Credit Facilities(7)	<u>\$ 5,175</u>	<u>\$ 1,200</u>	<u>\$ 1,328</u>	<u>\$ 1,492</u>	<u>\$ 9,195</u>
Potential Bank Availability(8)	<u>\$ 318</u>	<u>\$ 127</u>	<u>\$ 173</u>	<u>\$ 326</u>	<u>\$ 944</u>
Customer relationships(9)	<u>4,023,200</u>	<u>586,700</u>	<u>1,077,300</u>	<u>947,500</u>	<u>6,634,700</u>

- (1) Includes other permitted bank level debt, capitalized leases and letters of credit, which are classified as debt by the respective credit facility agreements for the calculation of maximum allowable leverage. For Charter Operating, this includes the Renaissance Media Group LLC senior discount notes with an accreted value of \$113 million as of December 31, 2002.
- (2) Includes permitted intercompany loans between Charter Holdings or Charter Communications Holding Company to the respective bank group entities. These amounts eliminate in consolidation.
- (3) This represents our subsidiaries' total debt as defined for purposes of the covenants in their respective credit agreements.
- (4) Adjusted EBITDA for each borrowing entity is presented as determined pursuant to the related credit facilities agreement. Adjusted EBITDA is a key financial measure by which our covenants are calculated under our debt instruments and is included herein to provide additional information with respect to our subsidiaries' ability to meet their debt service requirements, but should not be construed as an alternative to operating income or cash flows from operating activities, as determined in accordance with generally accepted accounting principles.
- (5) Bank Compliance Leverage Ratio represents total debt as of such date determined as defined in the applicable credit agreement, including intercompany debt, divided by Adjusted EBITDA, annualized.
- (6) Maximum Allowable Leverage Ratio represents the maximum bank compliance leverage ratio permitted under the respective bank agreements. This is the most restrictive of the financial covenants.
- (7) Total Credit Facilities represents the total borrowing capacity of the credit facility.
- (8) Potential Bank Availability represents the Total Credit Facilities capacity less Credit Facilities Outstanding, adjusted for any limitations due to covenant restrictions.
- (9) Represents the estimated number of customer relationships served by the entities subject to each credit agreement. See note (k) on page 11 for a definition of customer relationships.

The maximum allowable leverage ratio declines over the term of each credit facility before becoming fixed until the credit facility matures as follows:

<u>Charter Operating:</u>	<u>CC VI Operating:</u>
4.25 through June 30, 2003	6.25 through June 30, 2003
4.00 thereafter until maturity	5.50 through June 30, 2004
	4.50 through June 30, 2005
	4.00 thereafter until maturity
<u>Falcon Cable Communications:</u>	<u>CC VIII Operating:</u>
5.00 through June 29, 2003	4.75 through September 30, 2003
4.50 through June 29, 2004	4.00 thereafter until maturity
3.50 through June 29, 2005	
3.00 thereafter until maturity	

Based upon outstanding indebtedness as of December 31, 2002, aggregate future principal payments on borrowings under our credit facilities as of December 31, 2002 are presented below (dollars in millions). While current maturities of debt in 2003 are presented in the table below, current maturities are not presented on the balance sheet as we intend to refinance the amounts due in 2003 with availability under the revolving portions of our credit facilities or with cash on hand.

	<u>Charter Operating</u>	<u>CC VI Operating</u>	<u>Falcon Cable Communications</u>	<u>CC VIII Operating</u>	<u>Total</u>
2003	\$ 35	\$ 49	\$ 5	\$ 80	\$ 169
2004	36	72	5	80	193
2005	249	71	35	105	460
2006	688	94	386	190	1,358
2007	942	140	724	241	2,047
Thereafter	<u>2,592</u>	<u>500</u>	—	<u>470</u>	<u>3,562</u>
	<u>\$4,542</u>	<u>\$926</u>	<u>\$1,155</u>	<u>\$1,166</u>	<u>\$7,789</u>

The table below presents the aggregate future principal payments on outstanding borrowings under our credit facilities, assuming that the maximum available borrowings under such facilities were outstanding as of December 31, 2002 (dollars in millions):

	<u>Charter Operating</u>	<u>CC VI Operating</u>	<u>Falcon Cable Communications</u>	<u>CC VIII Operating</u>	<u>Total</u>
2003	\$ 35	\$ 49	\$ 19	\$ 84	\$ 187
2004	43	106	29	85	263
2005	513	124	170	215	1,022
2006	1,050	199	386	398	2,033
2007	942	222	724	240	2,128
Thereafter	<u>2,592</u>	<u>500</u>	—	<u>470</u>	<u>3,562</u>
	<u>\$5,175</u>	<u>\$1,200</u>	<u>\$1,328</u>	<u>\$1,492</u>	<u>\$9,195</u>

Charter Operating Credit Facilities. Obligations under the Charter Operating credit facilities are guaranteed by Charter Operating's parent, Charter Holdings, and by Charter Operating's subsidiaries. The obligations under the Charter Operating credit facilities are secured by pledges of all equity interests owned by Charter Operating and its subsidiaries in other persons, and intercompany obligations owing to Charter Operating and/or its subsidiaries by their affiliates, but are not secured by the other assets of Charter Operating or its subsidiaries. The obligations under the Charter Operating credit facilities are also secured by

pledges by Charter Holdings of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of Charter Holdings.

The Charter Operating credit facilities provide for borrowings of up to \$5.2 billion and provide for four term facilities: two Term A facilities with an aggregate principal amount of \$1.11 billion that mature in September 2007, each with different amortization schedules, one beginning in June 2002 and one beginning in September 2005; and two Term B facilities with an aggregate principal amount of \$2.73 billion, of which \$1.84 billion matures in March 2008 and \$893 million matures in September 2008. The amortization of the principal amount of the Term B term loan facilities is substantially “back-ended,” with more than 90% of the principal balance due in the year of maturity. The Charter Operating credit facilities also provide for two revolving credit facilities, in an aggregate amount of \$1.34 billion, which will reduce annually beginning in March 2004 and September 2005, with a maturity date in September 2007. Supplemental credit facilities in the amount of up to \$100 million may be available from lenders within or outside the lending group that agree to provide it. Amounts under the Charter Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.58% to 3.13% as of December 31, 2002) and 1.75% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving credit facilities.

As of December 31, 2002, outstanding borrowings under the Charter Operating credit facilities were approximately \$4.5 billion and the unused total potential availability was \$633 million, although our financial covenants would have limited our availability to \$318 million as of December 31, 2002. In January 2002, we repaid \$465 million under the revolving portion of the Charter Operating credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

CC VI Operating Credit Facilities. The obligations under the CC VI Operating credit facilities are guaranteed by CC VI Operating’s parent, CC VI Holdings, LLC, and by the subsidiaries of CC VI Operating. The obligations under the CC VI Operating credit facilities are secured by pledges of all equity interests owned by CC VI Operating and its subsidiaries in other persons, and by intercompany obligations owing CC VI Operating and/or its subsidiaries by their affiliates, but are not secured by other assets of CC VI Operating or its subsidiaries. The obligations under the CC VI Operating credit facilities are also secured by pledges by CC VI Holdings of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of CC VI Holdings.

The CC VI Operating credit facilities provide for two term facilities, one with a principal amount of \$450 million that matures May 2008 (Term A), and the other with a principal amount of \$400 million that matures November 2008 (Term B). The CC VI Operating credit facilities also provide for a \$350 million reducing revolving credit facility with a maturity date in May 2008. Supplemental credit facilities in the amount of \$300 million may be available until December 31, 2004 from lenders within or outside the lending group that agree to provide it. Amounts under the CC VI Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 3% for Eurodollar loans (4.31% to 2.62% as of December 31, 2002) and 2.0% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% per annum is payable on the unborrowed balance of the Term A facility and the revolving facility.

As of December 31, 2002, outstanding borrowings under the CC VI Operating credit facilities were \$926 million and unused availability was \$274 million, although our financial covenants would have limited our availability to \$127 million as of December 31, 2002. We repaid \$76 million under the CC VI Operating revolving credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

Falcon Facilities. The obligations under the Falcon credit facilities are guaranteed by the direct parent of Falcon Cable Communications, Charter Communications VII, LLC, and by the subsidiaries of Falcon Cable Communications. The obligations under the Falcon credit facilities are secured by pledges of all of the equity interests of Falcon Cable Communications and its subsidiaries, and by intercompany obligations owing to Falcon Cable Communications and/or its subsidiaries by their subsidiaries, but are not secured by other assets of Falcon Cable Communications or its subsidiaries. The obligations under the Falcon credit facilities are also secured by pledges of intercompany obligations and the equity interests of Charter Communica-

tions VII in Falcon Cable Communications, but are not secured by the other assets of Charter Communications VII.

The Falcon credit facilities provide for two term facilities, one with a principal amount of \$192 million that matures June 2007 (Term B), and the other with the principal amount of \$288 million that matures December 2007 (Term C). The Falcon credit facilities also provide for a reducing revolving facility of up to approximately \$68 million (maturing in December 2006), a reducing supplemental facility of up to \$110 million (maturing in December 2007) and a second reducing revolving facility of up to \$670 million (maturing in June 2007). Supplemental credit facilities in the amount of up to \$486 million may also be available from lenders within or outside the lending group that agree to provide it. Amounts under the Falcon credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.5% for Eurodollar loans (4.07% to 2.68% as of December 31, 2002) and up to 1.5% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving facilities.

As of December 31, 2002, outstanding borrowings were \$1.2 billion and unused availability was \$173 million, all of which would have been available based on our financial covenants as of December 31, 2002. We repaid \$97 million under the Falcon revolving credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

CC VIII Operating Credit Facilities. The obligations under the CC VIII Operating credit facilities are guaranteed by the parent company of CC VIII Operating, CC VIII Holdings, LLC, and by the subsidiaries of CC VIII Operating. The obligations under the CC VIII Operating credit facilities are secured by pledges of all equity interests owned by CC VIII Operating and its subsidiaries in other persons, and by intercompany obligations owing to CC VIII Operating or its subsidiaries by their affiliates, but are not secured by other assets of CC VIII Operating or its subsidiaries. The obligations under the CC VIII Operating credit facilities are also secured by pledges of equity interests owned by CC VIII Holdings in other persons, and by intercompany obligations owing to CC VIII Holdings by its affiliates, but are not secured by the other assets of CC VIII Holdings.

The CC VIII Operating credit facilities provide for borrowings of up to \$1.49 billion as of December 31, 2002. The CC VIII Operating credit facilities provide for three term facilities, two Term A facilities with a reduced current aggregate principal amount of \$450 million, that continues reducing quarterly until they reach maturity in June 2007, and a Term B facility with a principal amount of \$495 million, that continues reducing quarterly until it reaches maturity in February 2008. The amortization of the principal amount of the Term B term loan facilities is substantially “back-ended,” with more than 90% of the principal balance due in the year of maturity. The CC VIII Operating credit facilities also provide for two reducing revolving credit facilities, in the aggregate amount of \$547 million, which reduce quarterly beginning in March 2002 and September 2005, respectively, with maturity dates in June 2007. Supplemental facilities in the amount of \$300 million may be available from lenders within or outside the lending group that agree to provide it. Amounts under the CC VIII Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.54% to 2.89% as of December 31, 2002) and up to 1.75% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% is payable on the unborrowed balance of the revolving credit facilities.

As of December 31, 2002, outstanding borrowings were \$1.2 billion, and unused availability was \$326 million, all of which would have been available based on our financial covenants as of December 31, 2002. We repaid \$107 million under the CC VIII revolving credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

Credit Facilities — Restrictive Covenants. Each of the credit facilities of our subsidiaries contain representations and warranties, affirmative and negative covenants similar to those described below with respect to the indentures governing the public notes of our subsidiaries, information requirements, events of default and financial covenants. The financial covenants, which are generally tested on a quarterly basis, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense. Additionally, the credit facilities contain provisions requiring mandatory

loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not reinvested in assets useful in the business of the borrower within the applicable time requirement. The Charter Operating credit facility also provides that in the event that any existing Charter Holdings notes or other long-term indebtedness of Charter Holdings remain outstanding on the date which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facility will mature and the revolving credit facilities will terminate on such date. See “— Certain Trends and Uncertainties — Restrictive Covenants.”

The Charter Operating, CC VIII Operating, Falcon and CC VI Operating credit facilities generally permit our subsidiaries to make distributions to Charter Holdings to pay interest on the Charter Holdings notes and to Charter Communications, Inc. to pay interest on the convertible senior notes, in each case provided the respective borrower’s interest coverage test (as defined in the relevant credit agreement) for the most recent fiscal quarter preceding the distribution exceeds 1.75 times its cash interest expense for the same period, including the amount of such distribution. Other distributions to Charter Holdings are also permitted if the relevant borrower meets specified financial ratios. In each case, such distributions are not permitted during the existence of a default under the related credit facilities. See “— Certain Trends and Uncertainties — Restrictive Covenants.”

The events of default for these credit facilities include, among other things, (i) the failure to make payments when due or within the applicable grace period, (ii) the failure to comply with specified covenants or (iii) the occurrence of events that cause or permit the acceleration of other indebtedness owing by the guarantor, borrower or the borrower’s restricted subsidiaries in amounts in excess of the amounts specified below.

<u>Guarantor/Borrower</u>	<u>Principal Amount</u>
Charter Holdings/Charter Operating	\$50 Million
CC VI Holdings/CC VI Operating.....	\$25 Million
Charter Communications VII/Falcon Cable Communications	\$10 Million
CC VIII Holdings, CC VIII Operating	\$25 Million

Although there are no direct cross-defaults between our subsidiaries’ separate credit facilities, an event of default resulting in the acceleration of the debt under any of our subsidiaries’ credit facilities would cause an event of default under the indentures governing the Charter Holdings notes, which would in turn trigger the cross-default provision of the Charter Operating credit facilities. See “— Certain Trends and Uncertainties — Acceleration of Indebtedness of Subsidiaries.”

The credit facilities of our subsidiaries contain change of control provisions, making it an event of default, and permitting acceleration of the debt, in the event of certain specified changes of control, including if Mr. Allen, his estate, heirs and related entities, fails to maintain, directly or indirectly, at least 51% voting interest in the related borrower, or ceases to own of record or beneficially, directly or indirectly, at least 25% of the equity interests in the related borrower. See “— Certain Trends and Uncertainties — Long-Term Indebtedness — Change of Control Payments.”

Indenture Restrictions and Covenants

This section summarizes certain of the restrictions and covenants with respect to our outstanding notes.

Convertible Senior Notes and High Yield Indebtedness — Change of Control. In the event of a specified change of control under each of the indentures governing the public notes of our subsidiaries described above, our subsidiaries must offer to repurchase any then outstanding public notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any. See “— Certain Trends and Uncertainties — Long-Term Indebtedness — Change of Control Payments.”

In the event of a specified change of control event in the indentures governing the Charter Communications, Inc. convertible senior notes, Charter Communications, Inc. must offer to repurchase any then outstanding 5.75% convertible senior notes and 4.75% convertible senior notes at 100% of their principal

amount plus accrued interest to the repurchase date. See “— Certain Trends and Uncertainties — Long-Term Indebtedness — Change of Control Payments.”

High Yield Restrictive Covenants; Limitation on Indebtedness. The indentures governing the public notes of our subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, the CC V notes issuers, Renaissance Media Group, and, as described below, their respective restricted subsidiaries to:

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

The particular restrictions applicable to our various high yield notes are discussed in greater detail below.

Summary of Restrictive Covenants under Charter Holdings High Yield Notes. The limitations on incurrence of debt and issuance of preferred stock contained in Charter Holdings’ indentures permit Charter Holdings and its subsidiaries to incur additional debt or issue preferred stock, so long as there is no default under the Charter Holdings indentures. These limitations restrict the incurrence of debt except for:

- additional debt, if, after giving pro forma effect to the incurrence, Charter Holdings could meet a leverage ratio (ratio of consolidated debt to four times EBITDA from the most recent quarter) of 8.75 to 1.0, and, regardless of whether the leverage ratio could be met,
- up to \$3.5 billion of debt under credit facilities,
- up to \$75 million of debt incurred to finance the purchase of new assets,
- up to \$300 million of additional debt,
- an amount equal to 200% of proceeds of new cash equity proceeds received by Charter Holdings and its restricted subsidiaries since March 1999, the date of our first indenture, and not allocated for restricted payments or permitted investments, and
- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

The restricted subsidiaries of Charter Holdings are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The Charter Holdings indentures permit Charter Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. Our subsidiaries’ credit agreements generally impose more restrictive limitations on incurring new debt than Charter Holdings’ indentures, so our subsidiaries that are subject to credit agreements are not permitted to utilize the full debt incurrence that would otherwise be available under the Charter Holdings indenture covenants.

Generally, under Charter Holdings' high yield indentures:

- Charter Holdings and its restricted subsidiaries are generally permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if Charter Holdings can incur \$1.00 of new debt under the leverage ratio test, which requires that Charter Holdings meet an 8.75 to 1.0 leverage ratio after giving pro forma effect to the transaction and that no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments in an aggregate amount of up to 100% of Charter Holding's consolidated EBITDA, minus 1.2 times its consolidated interest expense, plus 100% of new cash and non-cash equity proceeds received by Charter Holdings and not allocated to the debt incurrence covenant or to permitted investments, all cumulatively from March 1999, the date of our first indenture, plus \$100 million. Charter Holdings' restricted subsidiaries include virtually all of its direct and indirect subsidiaries.
- Charter Holdings and its restricted subsidiaries may not make investments except permitted investments if there is a default under the indentures or if Charter Holdings' could incur \$1.00 of new debt under the leverage ratio test described above after giving effect to the transaction. Permitted investments include investments by Charter Holdings in restricted subsidiaries or by restricted subsidiaries in Charter Holdings, investments in productive assets (including through equity) up to \$150 million, investments aggregating up to 100% of new cash equity proceeds received by Charter Holdings since March 1999 and not allocated to the debt incurrence or restricted payments covenant, and other investments up to \$50 million.
- Charter Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries' credit facilities, liens securing the purchase price of new assets, other liens securing indebtedness up to \$50 million and specified liens incurred in the ordinary course of business.
- Charter Holdings and Charter Capital, its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless Charter Holdings and its subsidiaries could incur \$1.00 of new debt under the debt incurrence test described above after giving effect to the transaction.
- Charter Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. Charter Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Holdings notes with any remaining proceeds.
- Charter Holdings and its restricted subsidiaries may not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Holdings could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.
- Charter Holdings' restricted subsidiaries may not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indentures, unless those restrictions are on customary terms that will not materially impair Charter Holdings' ability to repay the high yield notes.
- The restricted subsidiaries of Charter Holdings are generally not permitted to guarantee or pledge assets to secure debt of Charter Holdings, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

- The indentures also restrict the ability of Charter Holdings and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the notes.

Summary of Restrictive Covenants under CC V Notes. The limitations on incurrence of debt contained in the indenture governing the CC V notes permit the CC V issuers and their restricted subsidiaries to incur additional debt or issue shares of preferred stock, so long as we are not in default under the CC V indenture:

- if, after giving pro forma effect to the incurrence, the CC V issuers could meet a leverage ratio (ratio of consolidated debt to four times consolidated cash flow from the most recent quarter) of 6.5 to 1.0, and, regardless of whether the leverage ratio could be met,
- up to approximately \$346 million of debt under a credit facility,
- up to \$10 million of debt incurred to finance the purchase of new assets,
- up to \$15 million of additional debt, and
- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt and interest rate swaps to provide protection against fluctuation in interest rates.

The indenture governing the CC V notes permits the CC V issuers to incur debt under one of the categories above, and reclassify the debt into a different category. The CC VIII credit agreement generally imposes more restrictive limitations on incurring new debt, so CC VIII Operating and its subsidiaries are not permitted to utilize the full debt incurrence capability provided by the indenture covenants provided for the CC V notes.

- Under the indenture governing the CC V notes, the CC V issuers and their restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, make restricted investments, or make other specified restricted payments only if CC V could, after giving pro forma effect thereto, incur \$1.00 of additional debt under the leverage ratio test, which would require that the CC V issuers meet the 6.5 to 1.0 leverage ratio of the indebtedness covenant and no default would exist or result as a consequence thereof.
- If those conditions are met, the CC V issuers and their restricted subsidiaries are permitted to make restricted payments in an aggregate amount not to exceed the result of 100% of the CC V issuers' consolidated cash flow, minus 1.4 times their consolidated interest expense, plus 100% of new equity proceeds received by the CC V issuers, plus returns on certain investments, all cumulatively from January 1, 1999. The CC V issuers and their restricted subsidiaries may make permitted investments up to \$10 million and other specified permitted investments, restricted payments up to \$5 million, and other specified restricted payments without meeting the foregoing test.
- The CC V issuers and their restricted subsidiaries are not permitted to grant liens on their assets other than specified permitted liens. Permitted liens include liens securing debt permitted by the covenant limiting incurrence of debt, liens securing amounts up to the greater of \$15 million or 5% of total assets, certain existing liens and specified liens incurred in the ordinary course of business.
- The CC V issuers are generally not permitted to sell or otherwise dispose of all or substantially all of their assets or merge with or into other companies unless the CC V issuers and their subsidiaries could incur 1.00 of additional debt under the leverage ratio test described above, after giving effect to the transaction.
- The CC V issuers and their subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, with at least 75% of the consideration for such sale consisting of a controlling interest in a permitted business or assets useful in a permitted business or cash, assumption of liabilities or securities promptly converted into cash. The CC V issuers and their

restricted subsidiaries are then required within 360 days after any asset sale either to commit to use the net cash proceeds over a specified threshold either to acquire assets, including controlling assets in permitted businesses, make capital expenditures or use the net cash proceeds to repay debt, or to offer to repurchase the CC V notes with any remaining proceeds.

- The CC V issuers and their restricted subsidiaries may not engage in sale and leaseback transactions unless, at the time of the transaction, the applicable CC V issuer or restricted subsidiary could have incurred indebtedness under the leverage ratio test described above in an amount equal to the present value of the net rental payments to be made under the lease, the gross proceeds of the sale are at least equal to the fair market value of the subject property, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.
- The CC V issuers' restricted subsidiaries may not enter into restrictions on their abilities to make dividends or distributions or transfer assets to the CC V issuers except under documents governing debt, asset sales, leases and like transactions permitted by the indenture.
- The restricted subsidiaries of the CC V issuers are generally not permitted to guarantee or pledge assets to secure debt of the CC V issuers, unless the guarantying subsidiary issues a guarantee of the CC V notes, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.
- The CC V issuers and their restricted subsidiaries are generally not permitted to transfer equity interests in restricted subsidiaries unless the transfer is of all of the equity interests in the restricted subsidiary or the restricted subsidiary remains a restricted subsidiary and net proceeds of the equity sale are applied in accordance with the asset sales covenant. Restricted subsidiaries of the CC V issuers are not permitted to issue equity interests if as a result, the issuing subsidiary would no longer be a restricted subsidiary.
- The indentures also restrict the ability of the CC V issuers and their restricted subsidiaries to enter into certain transactions with affiliates involving over \$2.5 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving consideration in excess of \$10 million with affiliates without receiving an independent opinion as to the fairness of the transaction to the holders of the CC V notes.

Summary of Restrictive Covenants under Renaissance Notes. The limitations on incurrence of debt contained in the indenture governing the Renaissance notes permit Renaissance Media Group and its restricted subsidiaries to incur additional debt, so long as they are not in default under the indenture:

- if, after giving pro forma effect to the incurrence, Renaissance Media Group could meet a leverage ratio (ratio of consolidated debt to four times consolidated EBITDA from the most recent quarter) of 6.75 to 1.0, and, regardless of whether the leverage ratio could be met,
- up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated annualized EBITDA,
- up to an amount equal to 5% of Renaissance Media Group's consolidated total assets to finance the purchase of new assets,
- up to 200% of the net cash proceeds of new equity issuances and capital contributions, and 160% of the fair market value of new assets contributed to capital or received as consideration for new equity issuances, in each case received after the issue date of the Renaissance notes and not allocated to make restricted payments, and
- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt and interest rate swaps to provide protection against fluctuation in interest rates.

The indenture governing the Renaissance notes permits us to incur debt under one of the categories above, and reclassify the debt into a different category.

- Under the indenture governing the Renaissance notes, Renaissance Media Group and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, make restricted investments, or make other specified restricted payments only if Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which requires that Renaissance Media Group meet the 6.75 to 1.0 leverage ratio after giving effect to the transaction of the indebtedness covenant and that no default exists or would occur as a consequence thereof. If those conditions are met, Renaissance Media Group and its restricted subsidiaries are permitted to make restricted payments in an aggregate amount not to exceed the result of 100% of Renaissance Media Group's consolidated EBITDA, minus 130% of its consolidated interest expense, plus 100% of new cash equity proceeds received by Renaissance Media Group and not allocated to the indebtedness covenant, plus returns on certain investments, all cumulatively from June 1998. Renaissance Media Group and its restricted subsidiaries may make permitted investments up to \$2 million in related businesses and other specified permitted investments, restricted payments up to \$10 million, dividends up to 6% each year of the net cash proceeds of public equity offerings, and other specified restricted payments without meeting the foregoing test.
- Renaissance Media Group and its restricted subsidiaries are not permitted to grant liens on their assets other than specified permitted liens, unless corresponding liens are granted to secure the Renaissance notes. Permitted liens include liens securing debt permitted to be incurred under credit facilities, liens securing debt incurred under the incurrence of indebtedness test, in amounts up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated EBITDA, liens as deposits for acquisitions up to 10% of the estimated purchase price, liens securing permitted financings of new assets, liens securing debt permitted to be incurred by restricted subsidiaries, and specified liens incurred in the ordinary course of business.
- Renaissance Media Group and the issuers of the Renaissance notes are generally not permitted to sell or otherwise dispose of all or substantially all of their assets or merge with or into other companies unless their consolidated net worth after any such transaction would be no greater than their consolidated net worth immediately prior to the transaction, or unless Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which would require them to meet a leverage ratio of 6.75 to 1.00 after giving effect to the transaction.
- Renaissance Media Group and its subsidiaries may generally not otherwise sell assets or, in the case of subsidiaries, equity interests, unless they receive consideration at least equal to the fair market value of the assets, consisting of at least 75% cash, temporary cash investments or assumption of debt. Charter Holdings and its restricted subsidiaries are then required within 12 months after any asset sale either to commit to use the net cash proceeds over a specified threshold either to acquire assets used in their own or related businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Renaissance notes with any remaining proceeds.
- Renaissance Media Group and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless the lease term does not exceed three years or the proceeds are applied in accordance with the covenant limiting asset sales.
- Renaissance Media Group's restricted subsidiaries may generally not enter into restrictions on their abilities to make dividends or distributions or transfer assets to Renaissance Media Group except those not more restrictive than is customary in comparable financings.
- The restricted subsidiaries of Renaissance Media Group are not permitted to guarantee or pledge assets to secure debt of the Renaissance Media Group or its restricted subsidiaries, unless the guarantying subsidiary issues a guarantee of the Renaissance notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.
- Renaissance Media Group and its restricted subsidiaries are generally not permitted to issue or sell equity interests in restricted subsidiaries, except sales of common stock of restricted subsidiaries so

long as the proceeds of the sale are applied in accordance with the asset sale covenant, and issuances as a result of which the restricted subsidiary is no longer a restricted subsidiary and any remaining investment in that subsidiary is permitted by the covenant limiting restricted payments.

- The indentures also restrict the ability of Renaissance Media Group and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$2 million without a determination by the disinterested members of the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$4 million with affiliates without receiving an independent opinion as to the fairness of the transaction to Renaissance Media Group.

All of these covenants are subject to additional specified exceptions. In general, the covenants of our subsidiaries' credit agreements are more restrictive than those of our indentures.

Our subsidiaries' indentures include various events of default. A failure by Charter Holdings, Charter Capital or any of their restricted subsidiaries to pay any indebtedness (other than under the Charter Holdings notes) having a principal amount of \$100 million or more (or any other default under any such indebtedness resulting in its acceleration) would result in an event of default under the Charter Holdings indentures. Each of the indentures governing Charter Communications, Inc.'s convertible senior notes includes a substantially similar provision for Charter Communications, Inc., and its significant subsidiaries. As a result, an event of default related to the failure to make a principal payment when due or the acceleration of the indebtedness under the credit facilities of our subsidiaries or the CC V and Renaissance indentures could cause a cross-default under the Charter Holdings indentures and the indentures governing Charter Communications, Inc.'s convertible senior notes. See “— Certain Trends and Uncertainties — Acceleration of Indebtedness of Subsidiaries” and “— Certain Trends and Uncertainties — Restrictive Covenants.”

The Renaissance indenture contains a similar cross-default provision with a \$10 million threshold that applies to the issuers of the Renaissance notes and their restricted subsidiaries. The CC V indenture contains events of default that include a cross-default to acceleration of, or failure to make payments when due or within the applicable grace period, by CC V Holdings, CC V Holdings Finance or any restricted subsidiary, on any indebtedness of \$5 million or more. As a result, an event of default related to the failure to make a payment when due or the acceleration of the indebtedness under the CC VIII Operating credit facility could cause a cross-default under the CC V indenture. See “— Certain Trends and Uncertainties — Acceleration of Indebtedness of Subsidiaries.”

The indentures governing the Charter Holdings notes will not permit Charter Holdings to make distributions to Charter Communications Holding Company or to Charter Communications, Inc. so that Charter Communications, Inc. can pay interest or principal on the convertible senior notes, unless Charter Holdings can meet a leverage ratio of 8.75 to 1.0, and there is no default under the Charter Holdings indentures. Charter Holdings did not meet that leverage ratio for the quarter ended December 31, 2002. The CC V and the Renaissance indentures also impose restrictions on the ability of CC V Holdings and Renaissance, respectively, to make distributions to Charter Holdings to make payments on the Charter Holdings notes. The indentures governing the Charter Holdings notes do permit Charter Holdings and its subsidiaries to make payments to Charter Communications Holding Company to the extent of its outstanding unsubordinated intercompany debt to Charter Communications Holding Company, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter Communications, Inc. to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter Communications, Inc. to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity. See “— Certain Trends and Uncertainties — Restrictive Covenants.”

Funding Commitment of Vulcan Inc.

In February 2003, we received a proposal from Paul Allen, Chairman of our board of directors, offering to provide a backup credit facility of up to \$300 million to certain of our subsidiaries to provide assistance in ensuring that we had sufficient liquidity to meet certain leverage ratio covenants under existing credit facilities.

Our board of directors formed a special committee to evaluate this proposal. This Special Committee retained financial and legal advisors to assist it.

On April 11, 2003, the Special Committee approved the terms of a backup facility and recommended that our board approve the transaction. On April 11, 2003, our board of directors approved the facility. The Special Committee received an opinion as to the fairness of the facility to us from a financial point of view, and we received a separate opinion as to the fairness of the transaction which was provided to the trustees on behalf of the holders of our bonds to the extent required under our bond indentures.

Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. or an affiliate (the “lender”) would lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. The borrower would be able to draw under the facility or have letters of credit issued, in each case within five business days of the end of each quarter ending on or prior to March 31, 2004. The loans and letters of credit could only be used to repay loans, or replace letters of credit, under our operating subsidiaries’ credit facilities to the extent required to comply with the leverage ratios under those credit facilities or to create cushions in excess of the minimum amount necessary to comply with such ratios. The facility would be guaranteed by us and certain of our subsidiaries and would be secured by a lien on our corporate headquarters in St. Louis and certain corporate aircraft. We would be required to use our commercially reasonable efforts to form a new interim holding company (CCH II, LLC) as a subsidiary of Charter Holdings and to cause Charter Holdings to transfer to it the equity interests in Charter Operating, CC VI Holdings, LLC, Charter Communications VII, LLC and CC V Holdings, LLC, which transfer we refer to as the equity contribution. The equity interests to be transferred in the equity contribution have been pledged as security for the loans under the Charter Operating credit facility. We would also be required to use our commercially reasonable efforts to obtain the consent of the lenders under the Charter Operating credit facility to the grant to the lender of a second priority lien on the equity interests transferred to CCH II, LLC. Upon the equity contribution, CCH II, LLC would become the borrower under the facility.

In addition to the liens on our corporate headquarters, on the corporate aircraft and on the equity interests transferred pursuant to the equity contribution, the facility would also be secured on a pari passu basis by liens or security interests granted on any assets or properties (other than assets or properties of CCH II, LLC, which shall secure the facility on a first priority basis, subject to the prior lien in favor of the lenders under Charter Operating credit facility on the equity interests transferred pursuant to the equity contribution) to secure any indebtedness of us or any of our subsidiaries (other than the operating company credit facilities and other ordinary and customary exceptions to be determined).

The interest rate on the loans would be initially 13% per annum, reducing to 12% per annum at such time as CCH II, LLC became the borrower under the facility. If the borrower were unable to receive funds from our operating subsidiaries to pay such interest the borrower would be able to pay interest by delivering additional notes to the lender in the amount of the accrued interest calculated at the rate of 15% per annum, reducing to 14% per annum for any issuance after CCH II, LLC became the borrower under the facility. Such additional notes would bear interest at the same rate as, and otherwise be on the same terms as, the notes issued to represent the original loans under the facility. Upon the occurrence of an event of default, the interest rate would be increased by 2% per annum over the interest rate otherwise applicable.

If letters of credit are issued pursuant to the facility, the borrower would pay a letter of credit fee of 8% per annum of the face amount of the letter of credit.

The borrower would pay the lender a facility fee of 1.5% of the amount of the facility, payable over three years (with 0.5% being earned upon execution of the commitment letter and 1.0% being earned upon execution of the definitive documentation). In addition to the facility fee, the borrower would pay a commitment fee on the undrawn portion of the facility in the amount of 0.5% per annum commencing upon execution of the definitive documentation.

The borrower would have the right to terminate the facility at any time that no loans or letters of credit are outstanding, although any fees earned prior to termination would remain payable. No amortization

payments would be required prior to maturity. The facility would mature on November 12, 2009, provided that at such time as CCH II, LLC became the borrower under the facility the maturity date would become March 1, 2007. The loan may not be prepaid prior to March 31, 2004, but the borrower would have the right to make prepayments at any time after March 31, 2004, without the payment of any premium or penalty. The borrower would be required to offer to purchase outstanding notes evidencing the loans under the facility with the proceeds of certain asset sales and debt issuances.

The definitive documentation would contain customary representations, covenants, events of default and indemnification provisions, including the following:

- A restriction on indebtedness covenant that would (i) prohibit additional indebtedness of Charter Communications VII, LLC, the borrower, CC VI Holdings, LLC and CC VIII, LLC, (ii) restrict indebtedness of our subsidiaries that are subject to the credit facilities, except indebtedness under the credit facilities and other exceptions to be determined (including indebtedness permitted under the current credit facilities) and, in each case, subject to protection of the structural seniority of the facility, and (iii) require that most of our subsidiaries guarantee the facility on a senior basis.
- A restriction on the sale of assets covenant that would restrict sales of assets outside the ordinary course of business by our subsidiaries that hold the real estate and aircraft collateral securing the facility, Charter Operating, CC VI Holdings, LLC, Charter Communications VII, LLC, CC V Holdings, LLC and their respective subsidiaries, except for sales of assets by Charter Operating, CC VI Operating, Falcon and CC VIII Operating (which we refer to as the operating companies) to the current operating company credit facilities and subject to compliance with the offer to purchase requirement described above, except that sales or issuances of equity interests in the operating companies or their subsidiaries to us and our subsidiaries will not be permitted except to other operating companies and their subsidiaries. The restriction on sale of assets covenant would also prohibit sales of assets by CCH II, LLC, except that cash distributions would be permitted to pay interest on certain indebtedness and management fees.
- A restriction on the creation of holding companies covenant that would protect the structural seniority of the facility as to all indebtedness of us and our subsidiaries, except for indebtedness under the operating company credit facilities, the indenture governing the CC V notes and other ordinary and customary exceptions to be determined. The covenant would prohibit the creation of new holding companies by the borrower, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC, Charter Communications VII, LLC and their respective subsidiaries. The covenant would permit the creation of additional holding companies as direct or indirect subsidiaries of Charter Holdings so long as 100% of the equity interests in Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC have been contributed to CCH II, LLC prior to the formation of any such holding companies. The covenant would not restrict the creation of holding companies that are our subsidiaries and parent companies of Charter Holdings (or CCH II, LLC, after the equity contribution), so long as before any equity interests are offered to any person other than a wholly-owned subsidiary of Charter Communications Holding Company, they are first offered to the lender. All new holding company subsidiaries of ours will guarantee the facility on a senior basis. No transfer by Charter Holdings of its equity interests in Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC, and Charter Communications VII, LLC will be permitted except to CCH II, LLC. After the equity contribution, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC, and Charter Communications VII, LLC would be direct wholly-owned subsidiaries of CCH II, LLC, and CCH II, LLC would not be permitted to transfer such equity interests.
- A right of first offer on issuances of equity by us or our subsidiaries covenant that would prohibit the issuance of any equity interests of us or any of our subsidiaries to any person (other than CCH II, LLC) unless the lender is first offered the opportunity to acquire such equity interests on the same (or, in the case of issuances for other than cash, economically equivalent) terms to be provided to any other person or entity, and the lender declines to acquire such interests for 30 days after such offer is made. This will be subject to customary exceptions, including for issuance of options to employees.

- A restriction on liens covenant that would (a) require the granting of liens on the assets of CCH II, LLC and the subsidiaries holding the real estate and aircraft collateral securing the facility and would otherwise prohibit the creation of any other liens on the assets of CCH II, LLC or such subsidiaries; except that the equity interests of Charter Operating and other entities owned by CCH II, LLC may be subject to a first priority lien in favor of the lenders under the Charter Operating credit facility, (b) to the extent not prohibited by the operating company credit facilities, restrict the creation of liens by CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries, and (c) require that we and our subsidiaries (other than CCH II, LLC, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries) secure the facility as provided in the commitment letter and attached term sheet.
- A restriction on investments and acquisitions covenant that would restrict investments and acquisitions by CCH II, LLC, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries but would permit investments by operating companies in other operating companies and other investments, in each case, to the extent permitted by the operating company credit facilities; except that, notwithstanding the foregoing, investments in us and our subsidiaries (other than CCH II, LLC and its subsidiaries) would be prohibited except for guarantees of the facility and investments by Charter Communications VII, LLC in Charter Holdings from the proceeds of any loans to Charter Communications VII, LLC.
- A restriction on significant modifications or restructurings of existing indebtedness covenant that would permit amendments and refinancings of the operating company credit facilities and the CC V notes, so long as such amendments or modifications do not (a) modify the dividend covenants, (b) the change of control defaults or covenants in any manner that increases the threshold for control, (c) the financial covenants (subject to the right of the operating companies to modify existing financial covenant ratios or to give effect to the impact of accounting adjustments on such financial covenants), or (d) the transaction with affiliates covenants (to the extent relating to the facility, the equity contribution or the other transactions contemplated by the commitment letter and term sheet relating to the facility), in each case, (1) in a manner that is materially adverse to the lender and (2) restricts, limits or impairs (x) the ability of the operating companies to distribute funds to CCH II, LLC, CC VI Holdings, LLC, Charter Communications VII, LLC, or CC VIII, LLC, or (y) the operation or effectiveness of covenants and structural protections contained in the facility.
- A restriction on dividends and redemptions covenant that would prohibit dividends, distributions and redemptions by (a) CCH II, LLC, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries prior to the assumption of the loans by CCH II, LLC, (b) CCH II, LLC and its subsidiaries after the assumption of the loans by CCH II, LLC, if 100% of the equity interests of Charter Operating are contributed to CCH II, LLC prior to the assumption of the loans by CCH II, LLC, and (c) CCH II, LLC, Charter Operating and their respective subsidiaries after the assumption of the loans by CCH II, LLC, if 100% of the equity interests of Charter Operating are not contributed to CCH II, LLC prior to the assumption of the loans by CCH II, LLC; except that distributions to pay interest on indebtedness of us, Charter Holdings, Charter Communications Holding Company and, subject to compliance with the restrictions on the creation of holding companies covenant, new holding companies that are parents of CCH II, LLC (without duplication) and management fees will be permitted to the extent permitted under the operating company credit facilities so long as (a) no default or event of default under the facility shall have occurred and be continuing and (b) the total leverage ratio and interest coverage ratio (in each case modeled after the comparable ratios under the credit facilities, with appropriate adjustments) at the time of such distribution is less than (in the case of the total leverage ratio) or greater than (in the case of the interest coverage ratio) an amount to be determined.

The definitive documentation relating to the facility would contain a total leverage covenant and an interest coverage covenant, in each case modeled after the comparable covenants in the operating company credit facilities, with appropriate adjustments to be determined. The total leverage ratio and interest coverage

ratio will be calculated for (x) Charter Communications VII, LLC, CC VI Holdings, LLC and CC V Holdings, LLC prior to the equity contribution and (y) CCH II, LLC subsequent to the equity contribution. When Charter Operating is contributed to CCH II, LLC, appropriate adjustments will be made to the total leverage ratio and interest coverage ratio.

The definitive documentation relating to the facility will contain events of default that are usual and customary for transactions of this nature or reasonably required by the lender for this transaction in particular, including, but not limited to, the following (but subject to customary exceptions, qualifications and grace periods): (i) the failure of the borrower to pay principal, interest or fees on the loans or other amounts under the facility when due; (ii) a default in (x) the payment of principal when due, (y) the payment of interest when due after giving effect to any applicable grace period or (z) a non-payment default which causes, or permits the holders of indebtedness to cause, after giving any required notice, such indebtedness to become due prior to its stated maturity, in each case, under any instrument or instruments governing indebtedness of us or any of our subsidiaries; (iii) final judgments aggregating in excess of a threshold amount to be agreed rendered against us or any of our subsidiaries; (iv) certain events of bankruptcy, insolvency or reorganization with respect to us or any of our subsidiaries; (v) misrepresentations in the definitive documentation relating to the facility; (vi) change of control (to be defined but, in any event, to exclude any change of control caused by lender (or any of its affiliates other than us and our subsidiaries); (vii) defaults under material agreements or material loss of licenses; or (viii) non-compliance with any covenant in the definitive documentation relating to the facility.

We would be required to pay all reasonable out-of-pocket costs of the lender associated with the facility whether or not any funds are drawn under the facility; except that expenses to be reimbursed through the date of execution of the definitive documentation shall not exceed \$1,000,000.

We and our subsidiaries would indemnify the lender and its officers, directors, employees, affiliates and agents collectively and hold them harmless from and against all reasonable costs, expenses (including reasonable fees, disbursements and other charges of counsel) and liabilities of any such indemnified person arising out of or relating to those matters set forth in the definitive documentation relating to the facility, including, without limitation, any claim or any litigation or other proceedings (regardless of whether any such indemnified person is a party thereto) that relate to the facility, the formation of CCH II, LLC or any transactions connected therewith (including, without limitation, the equity contribution), except that no indemnified person will be indemnified for such costs, expenses and liabilities (a) arising from its gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final and nonappealable decision, or (b) to the extent they relate to the duties owed by an indemnified person or any of its affiliates as a director or stockholder of us including any claims that arise out of any claim that the transactions contemplated hereby involve interested director transactions.

The facility is subject to the negotiation and execution of definitive documentation by June 30, 2003. If the parties have not executed the definitive documentation by that date, the facility will terminate. Once the documentation has been executed, the borrower's ability to draw on the facility would be subject to certain conditions, such as the use of other available funds for covenant compliance purposes, evidence of compliance with financial covenants, accuracy of representations and warranties, no material adverse change having occurred, there being no default under other credit facilities and indentures, and receipt of financial statements. Although we believe that we will be able to satisfy those conditions, there can be no assurance that we will be able to do so or that if we fail to do so we will be able to negotiate waivers of such conditions.

Related Party Transactions

See Note 23 to our consolidated financial statements for information regarding related party transactions and transactions with other parties with whom we or our related parties may have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties, on an arm's length basis.

Certain Trends and Uncertainties

The following discussion highlights a number of trends and uncertainties, in addition to those discussed elsewhere in this Annual Report and in other documents that we file with the SEC, that could materially impact our business, results of operations and financial condition.

Liquidity. Our business requires significant cash to fund capital expenditures, debt service costs and ongoing operations. Our ongoing operations will depend on our ability to generate cash and to secure financing in the future. We have historically funded liquidity and capital requirements through cash flows from operations, borrowings under the credit facilities of our subsidiaries, issuances of debt securities by us and our subsidiaries and our issuances of equity securities. We believe, however, that we have limited access to the debt or equity markets at this time in light of general economic conditions, our substantial leverage, the business condition of the cable, telecommunications and technology industry, our current credit rating and recent downgrades of our outstanding debt and liquidity ratings, and pending litigation and investigations. See “— Substantial Leverage” below.

Our ability to conduct operations is dependent on our continued access to credit pursuant to our subsidiaries’ credit facilities. Our total potential borrowing availability under the current credit facilities of our subsidiaries totaled \$1.4 billion as of December 31, 2002, although the actual availability at that time was only \$944 million because of limits imposed by covenant restrictions. Our access to those funds is subject to our satisfaction of the covenants in those credit facilities and the indentures governing our and our subsidiaries’ public debt. We may not be able to comply with all of the financial ratios and restrictive covenants in our subsidiaries’ credit facilities. If there is an event of default under our subsidiaries’ credit facilities, such as the failure to maintain the applicable required financial ratios, we would be unable to borrow under these credit facilities, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments. In addition, an event of default under our credit facilities and indentures, if not waived, could result in the acceleration of those debt obligations, which would in turn result in the acceleration of other debt obligations, and could result in exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws.

In addition, as the principal amounts owing under our various debt obligations become due, sustaining our liquidity and access to capital will become more difficult over time. It is unclear whether we will have access to sufficient capital to satisfy our principal repayment obligations which are scheduled to come due in 2005 and thereafter. We do not expect that cash flows from operations will be sufficient, on their own, to permit us to satisfy these obligations. In addition, because of our corporate structure, Charter Communications, Inc., a holding company, has less access to capital than certain of its operating subsidiaries and therefore Charter Communications, Inc.’s ability to repay its senior notes is subject to additional uncertainties.

If our business does not generate sufficient cash flow from operations, and sufficient future distributions are not available to us from borrowings under our credit facilities or from other sources of financing, we may not be able to repay our debt, grow our business, respond to competitive challenges, or to fund our other liquidity and capital needs. As a means of enhancing our liquidity, we are currently attempting to cut costs, reduce capital expenditures and are exploring sales of assets.

If we need to seek alternative sources of financing, there can be no assurance that we will be able to obtain the requisite financing or that such financing, if available, would not have terms that are materially disadvantageous to our existing debt and equity holders. Although Mr. Allen and his affiliates have purchased equity from us and our subsidiaries in the past, there is no obligation for Mr. Allen or his affiliates to purchase equity or, except as described above under “Funding Commitment of Vulcan Inc.,” with respect to the commitment letter, contribute or lend funds to us or to our subsidiaries in the future. We recognize the interim nature of this facility and continue to evaluate our options and to consider steps to address our leverage. We have hired an independent consulting firm to assist us in evaluating alternatives.

If, at any time, additional capital or capacity is required beyond amounts internally generated or available through existing credit facilities or in traditional debt or equity financings, we would consider:

- requesting waivers or amendments with respect to our credit facilities, which might not be granted on terms favorable to us or at all;
- further reducing our expenses and capital expenditures, which would likely impair our ability to increase revenue;
- selling assets;
- issuing debt securities which may have structural or other priorities over our existing high-yield debt; or
- issuing equity securities that would be dilutive to existing shareholders.

Although there are no current plans to do so, we also may consider transactions to reduce our leverage, including seeking to exchange currently outstanding debt for debt with a lower principal amount or, if opportunities arise, acquiring our outstanding debt in the market.

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

For more information, see the section above entitled “Liquidity and Capital Resources.”

Substantial Leverage. We and our subsidiaries have a significant amount of debt. As of December 31, 2002, our total debt was approximately \$18.7 billion. Our long-term debt begins to mature in the fourth quarter of 2003, when approximately \$66 million of principal is due on the CC V bonds, and subsequently in October 2005 when Charter Communications, Inc.’s \$750 million of 5.75% convertible senior notes will mature. In subsequent years, substantial additional amounts will become due under our remaining obligations. If current debt levels increase, the related risks that we now face will intensify, including a potential further deterioration of our existing credit ratings. Moody’s downgraded our debt once in October 2002, and again in January 2003. Standard & Poor’s also downgraded our debt in January 2003. We believe that as a result of our significant levels of debt, current market conditions and recent downgrades to our debt securities, we have limited access to the debt and equity markets at this time. Our difficulty in accessing these markets will impact our ability to obtain future financing for operations, to fund our planned capital expenditures and to react to changes in our business. If our business does not generate sufficient cash flow from operations, and sufficient future distributions are not available to us from borrowings under our credit facilities or from other sources of financing, we may not be able to repay our debt, grow our business, respond to competitive challenges, or to fund our other liquidity and capital needs. If we need to raise additional capital through the issuance of equity or find it necessary to engage in a recapitalization or other similar transaction, our shareholders could suffer significant dilution and our noteholders might not receive all principal and interest payments to which they are contractually entitled. For more information, see the section above entitled “Liquidity and Capital Resources.”

Restrictive Covenants. The credit facilities of our subsidiaries and the indentures governing the publicly held notes of our subsidiaries contain a number of significant covenants that could adversely impact our business. In particular, the credit facilities and indentures of our subsidiaries restrict our subsidiaries’ ability to:

- pay dividends or make other distributions;
- make certain investments or acquisitions;
- enter into related party transactions unless certain conditions are met;
- dispose of assets or merge;

- incur additional debt;
- issue equity;
- repurchase or redeem equity interests and debt;
- grant liens; and
- pledge assets.

Furthermore, in accordance with our subsidiaries' credit facilities, a number of our subsidiaries are required to maintain specified financial ratios and meet financial tests. These financial ratios decrease over time and will become more difficult to maintain during the latter half of 2003 and thereafter. The ability to comply with these provisions may be affected by events beyond our control. The breach of any of these covenants will result in a default under the applicable debt agreement or instrument and could trigger acceleration of the debt under the applicable agreement, and in certain cases under other agreements governing our long-term indebtedness. Any default under our credit facilities or indentures governing our outstanding debt might adversely affect our growth, our financial condition and our results of operations and the ability to make payments on the publicly held notes of Charter Communications, Inc. and our subsidiaries and the credit facilities of our subsidiaries. For more information, see the section above entitled "Liquidity and Capital Resources."

Acceleration of Indebtedness of Our Subsidiaries. In the event of a default under our subsidiaries' credit facilities or public notes, our subsidiaries' creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, our subsidiaries' credit facilities and indentures will not permit our subsidiaries to distribute funds to Charter Communications Holding Company or Charter Communications, Inc. to pay interest or principal on our public notes. If the amounts outstanding under such credit facilities or public notes are accelerated, all of our subsidiaries' debt and liabilities would be payable from our subsidiaries' assets, prior to any distribution of our subsidiaries' assets to pay the interest and principal amounts on our public notes. In addition, the lenders under our credit facilities could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. In any such case, we might not be able to repay or make any payments on our public notes. Additionally, an acceleration or payment default under our credit facilities would cause a cross-default in the indentures governing the Charter Holdings notes and our convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of our subsidiaries' credit facilities or public notes might adversely affect the holders of our public notes and our growth, financial condition and results of operations and could force us to examine all options, including seeking the protection of the bankruptcy laws.

Charter Communications, Inc.'s Public Notes are Structurally Subordinated to all Liabilities of our Subsidiaries. The borrowers and guarantors under the Charter Operating credit facilities, the CC VI Operating credit facilities, the Falcon credit facilities and the CC VIII Operating credit facilities are our indirect subsidiaries. A number of our subsidiaries are also obligors under other debt instruments, including Charter Holdings, which is a co-issuer of senior notes and senior discount notes issued in March 1999, January 2000, January 2001, May 2001 and January 2002. As of December 31, 2002, our total debt was approximately \$18.7 billion, \$17.3 billion of which would have been structurally senior to the Charter Communications, Inc. public notes. In a liquidation, the lenders under all of our subsidiaries' credit facilities and the holders of the other debt instruments and all other creditors of our subsidiaries will have the right to be paid before us from any of our subsidiaries' assets.

If we caused a subsidiary to make a distribution to enable us to make payments in respect of our public notes, and such transfer were deemed a fraudulent transfer or an unlawful distribution, the holders of our public notes could be required to return the payment to (or for the benefit of) the creditors of our subsidiaries. In the event of the bankruptcy, liquidation or dissolution of a subsidiary, following payment by such subsidiary of its liabilities, such subsidiary may not have sufficient assets remaining to make any payments to us as an equity holder or otherwise and may be restricted by bankruptcy and insolvency laws from making any such payments. This adversely affects our ability to make payments to the holders of our public notes.

Securities Litigation and Government Investigations. As previously reported, a number of Federal Class Actions were filed against us and certain of our former and present officers and directors alleging violations of securities laws. In addition, a number of other lawsuits have been filed against us in other jurisdictions. A shareholders derivative suit was filed in the United States District Court for the Eastern District of Missouri, and several class action lawsuits were filed in Delaware state court against us and certain of our directors and officers. Finally, two derivative suits were filed in Missouri state court against us, our current directors and our former independent auditor; these actions were consolidated during the fourth quarter of 2002. The federal derivative suit, the Delaware class actions and the consolidated derivative suit each allege that the defendants breached their fiduciary duties.

In August of 2002, we became aware of a grand jury investigation being conducted by the United States Attorney's Office for the Eastern District of Missouri into certain of our accounting and reporting practices focusing on how we reported customer numbers, refunds that we sought from programmers and our reporting of amounts received from digital set-top terminal manufacturers for advertising. We have been advised by the U.S. Attorney's Office that no member of the Board of Directors, including our Chief Executive Officer, is a target of the investigation. We are fully cooperating with the investigation. In November 2002, we received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission concerning our prior reporting of our customers and policies and procedures relating to our disconnection of customers. The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas. See Note 24 to our consolidated financial statements.

Due to the inherent uncertainties of litigation and investigations, we cannot predict the ultimate outcome of these proceedings. In addition, our restatement may lead to additional allegations in the pending securities class and derivative actions against us, or to additional claims being filed or to investigations being expanded or commenced. These proceedings, and our actions in response to these proceedings, could result in substantial costs, substantial potential liabilities and the diversion of management's attention, all of which could affect adversely the market price of our Class A common stock and our publicly-traded notes, as well as our ability to meet future operating and financial estimates and to execute our business and financial strategies.

Competition. The industry in which we operate is highly competitive. In some instances, we compete against companies with fewer regulatory burdens, easier access to financing, greater personnel resources, greater brand name recognition and long-standing relationships with regulatory authorities and customers. Increasing consolidation in the cable industry and the repeal of certain ownership rules may provide additional benefits to certain of our competitors, either through access to financing, resources or efficiencies of scale.

In particular, we face competition within the subscription television industry, which includes providers of paid television service employing technologies other than cable, such as direct broadcast satellite, also known as DBS. Competition from DBS, including intensive marketing efforts and aggressive pricing, has had an adverse impact on our ability to retain customers. Local telephone companies and electric utilities can compete in this area, and they increasingly may do so in the future. The subscription television industry also faces competition from broadcast companies distributing television broadcast signals without assessing a subscription fee and from other communications and entertainment media, including conventional radio broadcasting services, newspapers, movie theaters, the Internet, live sports events and home video products. With respect to our Internet access services, we face competition, including intensive marketing efforts and aggressive pricing, from telephone companies and other providers of "dial-up" and digital subscriber line technology, also known as DSL. Further loss of customers to DBS or other alternative video and data services could have a material negative impact on our business.

Variable Interest Rates. At December 31, 2002, excluding the effects of hedging, approximately 42% of our debt bears interest at variable rates that are linked to short-term interest rates. In addition, a significant portion of our existing debt, assumed debt or debt we might arrange in the future will bear interest at variable rates. If interest rates rise, our costs relative to those obligations will also rise. As of December 31, 2002 and December 31, 2001, the weighted average rate on the bank debt was approximately 5.6% and 6.0%, respectively, the weighted average rate on the high-yield debt was approximately 10.2% and 10.1%, respectively, and the weighted average rate on the convertible debt was approximately 5.3%, resulting in a

blended weighted average rate of 7.9% and 7.6%, respectively. Approximately 79% of our debt was effectively fixed including the effects of our interest rate hedge agreements as of December 31, 2002 as compared to approximately 82% at December 31, 2001.

Integration of Operations. In the past, we experienced rapid growth from acquisitions of a number of smaller cable operators and the rapid rebuild and rollout of advanced services. This activity has placed and is expected to continue to place a significant strain on our management, operations and other resources. Our future success will depend in part on our ability to successfully integrate the operations acquired. The failure to implement management, operating or financial systems necessary to successfully integrate acquired operations, including headend and call center consolidation, completion of planned upgrades and standardization of operating procedures, could have a material adverse effect on our business, results of operations and financial condition. In addition, our ability to properly manage our operations will be impacted by our ability to attract, retain and incentivize experienced, qualified, professional management.

Services. We expect that a substantial portion of our near term growth will be achieved through revenues from high-speed data services, digital video, bundled service packages, and to a lesser extent other services that take advantage of cable's broadband capacity. The technology involved in our product and service offerings generally requires that we have permission to use intellectual property and that such property not infringe on rights claimed by others. We may not be able to offer these advanced services successfully to our customers or provide adequate customer service and these advanced services may not generate adequate revenues. Also, if the vendors we use for these services are not financially viable over time, we may experience disruption of service and incur costs to find alternative vendors. In addition, if it is determined that the product being utilized infringes on the rights of others, we may be sued or be precluded from using the technology.

Increasing Programming Costs. Programming has been, and is expected to continue to be, our largest operating expense item. In recent years, the cable industry has experienced a rapid escalation in the cost of programming, particularly sports programming. This escalation may continue, and we may not be able to pass programming cost increases on to our customers. The inability to pass these programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins.

Class A Common Stock and Public Notes Price Volatility. The market price of our Class A common stock and the publicly-traded notes issued by us and our subsidiaries has been and is likely to continue to be highly volatile. We expect that the price of our securities may fluctuate in response to various factors, including the factors described throughout this section and various other factors which may be beyond our control. These factors beyond our control could include: financial forecasts by securities analysts; new conditions or trends in the cable or telecommunications industry; general economic and market conditions and specifically, conditions related to the cable or telecommunications industry; any further downgrade of our debt ratings; announcement of the development of improved or competitive technologies; the use of new products or promotions by us or our competitors; changes in accounting rules; new regulatory legislation adopted in the United States; and any action taken or requirements imposed by Nasdaq if our Class A common stock trades below \$1.00 per share for over 30 consecutive trading days.

In addition, the securities market in general, and the Nasdaq National Market and the market for cable television securities in particular, have experienced significant price fluctuations. Volatility in the market price for companies may often be unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our Class A common stock and our subsidiaries' public notes, regardless of our operating performance. In the past, securities litigation has often commenced following periods of volatility in the market price of a company's securities, and recently such purported class action lawsuits were filed against us. See Note 24 to our consolidated financial statements.

Economic Slowdown; Global Conflict. It is difficult to assess the impact that the general economic slowdown and global conflict will have on future operations. However, the economic slowdown has resulted and the slowdown and the war could continue to result in reduced spending by customers and advertisers, which could reduce our revenues and operating cash flow, and also could affect our ability to collect accounts receivable and maintain customers. In addition, any prolonged military conflict would materially and adversely

affect our revenues from our systems providing services to military installations. If we experience reduced operating revenues, it could negatively affect our ability to make expected capital expenditures and could also result in our inability to meet our obligations under our financing agreements. These developments could also have a negative impact on our financing and variable interest rate agreements through disruptions in the market or negative market conditions.

Long-Term Indebtedness — Change of Control Payments. We may not have the ability to raise the funds necessary to fulfill our obligations under the Charter Communications, Inc. convertible senior notes or the public notes and credit facilities of our subsidiaries following a change of control. Under the indentures governing the Charter Communications, Inc. convertible senior notes, upon the occurrence of specified change of control events, including certain specified dispositions of our stock by Mr. Allen, we are required to offer to repurchase all of the outstanding Charter Communications, Inc. convertible senior notes. However, we may not have sufficient funds at the time of the change of control event to make the required repurchase of the Charter Communications, Inc. convertible senior notes and our subsidiaries are limited in their ability to make distributions or other payments to us to fund any required repurchase. In addition, a change of control under our subsidiaries' credit facilities and indentures governing their public notes would require the repayment of borrowings under those credit facilities and indentures. Because such credit facilities and public notes are obligations of our subsidiaries, the credit facilities and the public notes would have to be repaid by our subsidiaries before their assets could be available to us to repurchase the Charter Communications, Inc. convertible senior notes. Our failure to make or complete a change of control offer would place us in default under the Charter Communications, Inc. convertible senior notes. The failure of our subsidiaries to make a change of control offer or repay the amounts outstanding under their credit facilities would place them in default of these agreements and could result in a default under the indentures governing the Charter Communications, Inc. convertible senior notes.

Regulation and Legislation. Cable systems are extensively regulated at the federal, state, and local level, including rate regulation of basic service and equipment and municipal approval of franchise agreements and their terms, such as franchise requirements to upgrade cable plant and meet specified customer service standards. Cable operators also face significant regulation of their channel carriage. They currently can be required to devote substantial capacity to the carriage of programming that they would not carry voluntarily, including certain local broadcast signals, local public, educational and government access programming, and unaffiliated commercial leased access programming. This carriage burden could increase in the future, particularly if the Federal Communications Commission were to require cable systems to carry both the analog and digital versions of local broadcast signals or multiple channels added by digital broadcasters. The Federal Communications Commission is currently conducting a proceeding in which it is considering this channel usage possibility, although it recently issued a tentative decision against such dual carriage. In addition, the carriage of new high-definition broadcast and satellite programming services over the next few years may consume significant amounts of system capacity without contributing to proportionate increases in system revenue.

There is also uncertainty whether local franchising authorities, state regulators, the Federal Communications Commission, or the U.S. Congress will impose obligations on cable operators to provide unaffiliated Internet service providers with regulated access to cable plant. If they were to do so, and the obligations were found to be lawful, it could complicate our operations in general, and our Internet operations in particular, from a technical and marketing standpoint. These access obligations could adversely impact our profitability and discourage system upgrades and the introduction of new products and services. Multiple federal courts have now struck down open-access requirements imposed by several different franchising authorities as unlawful. In March 2002, the Federal Communications Commission officially classified cable's provision of high-speed Internet service in a manner that makes open access requirements unlikely. At the same time, the Federal Communications Commission initiated a rulemaking proceeding that leaves open the possibility that the Commission may assert regulatory control in the future. As we offer other advanced services over our cable system, we are likely to face additional calls for regulation of our capacity and operation. These regulations, if adopted, could adversely affect our operations.

The Federal Communications Commission's March 2002 ruling also held that Internet access service provided by cable operators was not subject to franchise fees assessed by local franchising authorities. A number of local franchise authorities and Internet service providers appealed this decision. The matter was argued before the Ninth Circuit Court of Appeals in May 2003, and a decision is awaited. As a result of the FCC's initial ruling, we have stopped collecting franchise fees for cable modem service.

Interest Rate Risk

We use interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of our subsidiaries. Our policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit our exposure to, and to derive benefits from, interest rate fluctuations on variable rate debt to within a certain range of rates.

At December 31, 2002 and 2001, we had outstanding \$3.4 billion and \$3.3 billion and \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. See "Quantitative and Qualitative Disclosures About Market Risk" for further information regarding the fair values and contract terms of our interest rate agreements.

Recently Issued Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We will adopt SFAS No. 143 on January 1, 2003. We do not expect the adoption of SFAS No. 143 to have a material impact on our financial condition or results of operations.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. We will adopt SFAS No. 145 beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which will be adopted for transactions occurring subsequent to May 15, 2002. We do not expect the adoption of SFAS No. 145 to have a material impact on our consolidated financial statements.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by us for exit or disposal activities that are initiated after December 31, 2002. Adoption of SFAS No. 146 will not have a material impact on our consolidated financial statements.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used

on reported results. SFAS No. 148 was adopted by us beginning January 1, 2003. On January 1, 2003, we also adopted SFAS 123, "Accounting for Stock-Based Compensation" on the prospective method under which we will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to various market risks, including fluctuations in interest rates. We use interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of our subsidiaries. Our policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit our exposure to, and to derive benefits from, interest rate fluctuations on variable rate debt to within a certain range of rates. Interest rate risk management agreements are not held or issued for speculative or trading purposes.

As of December 31, 2002 and 2001, long-term debt totaled approximately \$18.7 billion and \$16.3 billion, respectively. This debt was comprised of approximately \$7.8 billion and \$6.7 billion of debt under our subsidiaries' credit facilities, \$9.5 billion and \$8.2 billion of high-yield debt and approximately \$1.4 billion and \$1.4 billion of debt related to our convertible senior notes at December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, the weighted average rate on the bank debt was approximately 5.6% and 6.0%, respectively, the weighted average rate on the high-yield was approximately 10.2% and 10.1%, respectively, while the weighted average rate on the convertible debt was approximately 5.3%, resulting in a blended weighted average rate of 7.9% and 7.6%, respectively. Approximately 79% of our debt was effectively fixed including the effects of our interest rate hedge agreements as of December 31, 2002 as compared to approximately 82% at December 31, 2001. The fair value of our total fixed-rate debt was \$4.4 billion and \$9.5 billion at December 31, 2002 and 2001, respectively. The fair value of variable-rate debt approximated the carrying value of \$6.4 billion and \$6.7 billion at December 31, 2002 and 2001, respectively. The fair value of fixed-rate debt and variable rate debt is based on quoted market prices.

We have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments are those which effectively convert variable interest payments on debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the year ended December 31, 2002, other expense includes \$14 million of losses, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations are reported in accumulated other comprehensive loss. For the years ended December 31, 2002 and 2001, a loss of \$65 million and \$39 million, respectively, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, we believe such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value with the impact recorded as other income or expense. For the years ended December 31, 2002 and 2001, we recorded other expense of \$101 million and \$48 million for interest rate derivative instruments not designated as hedges.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of December 31, 2002 (dollars in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value at December 31, 2002</u>
Debt								
Fixed Rate	\$ 67	\$ 1	\$750	\$ 632	\$ 600	\$9,853	\$11,903	\$4,374
Average Interest Rate	11.84%	7.50%	5.75%	4.75%	8.25%	10.51%	9.80%	
Variable Rate	\$ 169	\$ 192	\$460	\$1,358	\$2,048	\$3,562	\$ 7,789	\$6,367
Average Interest Rate	3.55%	4.46%	5.60%	6.22%	6.75%	7.75%	6.92%	
Interest Rate Instruments								
Variable to Fixed Swaps	\$ 435	\$ 715	\$990	\$ 873	\$ 400	\$ —	\$ 3,413	\$ (258)
Average Pay Rate	8.12%	7.45%	7.15%	7.33%	7.33%	—	7.40%	
Average Receive Rate	4.12%	4.70%	5.87%	6.53%	6.86%	—	5.69%	

The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts. The estimated fair value approximates the costs (proceeds) to settle the outstanding contracts. Interest rates on variable debt are estimated using the average implied forward London Interbank Offering Rate (LIBOR) rates for the year of maturity based on the yield curve in effect at December 31, 2002.

At December 31, 2002 and 2001, we had outstanding \$3.4 billion and \$3.3 billion and \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The collar agreements are structured so that if LIBOR falls below 5.3%, we pay 6.7%. If the LIBOR rate is between 5.3% and 8.0%, we pay LIBOR. If LIBOR falls between 8.0% and 9.9%, the LIBOR rate is capped at 8.0%. If rates go above 9.9%, the cap is removed. The fair value of the collar agreements is a liability of \$34 million at December 31, 2002.

We do not hold collateral for these instruments and are therefore subject to credit loss in the event of nonperformance by the counter party to the interest rate exchange agreement. However the counterparties are banks and we do not anticipate nonperformance by any of them on the interest rate exchange agreement.

CHANGE IN PRINCIPAL ACCOUNTING FIRM

In April 2002, the Board of Directors dismissed Arthur Andersen LLP and appointed KPMG LLP as the Company's independent public accountants for the year ended 2002 in accordance with the recommendation of the Audit Committee. Arthur Andersen LLP served as the Company's independent public accountants for the year ended December 31, 2001.

Arthur Andersen's report on the Company's financial statements for the Company's two fiscal years ended December 31, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's two fiscal years ended December 31, 2001 and 2000 and the subsequent interim period through April 22, 2002, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen LLP's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with the audit reports on the Company's consolidated financial statements for such years, and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

The Company provided Arthur Andersen LLP with a copy of the foregoing disclosures and Arthur Andersen LLP agreed with such statements in a letter dated April 26, 2002 that was filed with the SEC. In 2003, KPMG re-audited the Company's 2000 and 2001 financial statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Restatement of Prior Results" and Note 3 to our consolidated financial statements.

In the years ended December 31, 2001 and 2000 and through April 22, 2002, the Company did not consult KPMG LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Charter Communications, Inc:

We have audited the accompanying consolidated balance sheets of Charter Communications, Inc. and subsidiaries as of December 31, 2002, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charter Communications, Inc. and subsidiaries as of December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company has restated the consolidated balance sheets as of December 31, 2001 and 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, which consolidated financial statements were previously audited by other independent auditors who have ceased operations.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ KPMG LLP

St. Louis, Missouri
April 14, 2003

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	December 31,		
	2002	2001	2000
	(restated)		
	(dollars in millions)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 321	\$ 2	\$ 131
Accounts receivable, less allowance for doubtful accounts of \$19, \$33 and \$12, respectively	259	292	209
Receivables from related party	8	5	—
Prepaid expenses and other current assets	45	70	87
Total current assets	633	369	427
INVESTMENT IN CABLE PROPERTIES:			
Property, plant and equipment, net of accumulated depreciation of \$2,634, \$1,928 and \$1,150, respectively	7,679	6,914	4,829
Franchises, net of accumulated amortization of \$3,452, \$3,443 and \$2,006, respectively	13,727	18,911	18,835
Total investment in cable properties, net	21,406	25,825	23,664
OTHER ASSETS	345	269	261
Total assets	\$22,384	\$26,463	\$24,352
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$ 1,405	\$ 1,379	\$ 1,343
Total current liabilities	1,405	1,379	1,343
LONG-TERM DEBT	18,671	16,343	13,061
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14	14
OTHER LONG-TERM LIABILITIES	1,177	1,682	1,517
MINORITY INTEREST	1,025	4,409	4,546
REDEEMABLE SECURITIES	—	—	1,104
PREFERRED STOCK — REDEEMABLE; \$.001 par value; 1 million shares authorized; 505,664 shares issued and outstanding	51	51	—
SHAREHOLDERS' EQUITY:			
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 294,620,408, 294,536,830 and 233,702,135 shares issued and outstanding, respectively	—	—	—
Class B Common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding	—	—	—
Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding	—	—	—
Additional paid-in capital	4,697	4,694	3,691
Accumulated deficit	(4,609)	(2,092)	(924)
Accumulated other comprehensive loss	(47)	(17)	—
Total shareholders' equity	41	2,585	2,767
Total liabilities and shareholders' equity	\$22,384	\$26,463	\$24,352

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002	2001	2000
	(Restated)		(Restated)
	(Dollars in millions, except per share data)		
REVENUES	\$ 4,566	\$ 3,807	\$ 3,141
COSTS AND EXPENSES:			
Operating (excluding depreciation and amortization and other items listed below)	1,804	1,480	1,185
Selling, general and administrative	966	832	608
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Special charges	36	18	—
	8,886	5,007	4,229
Loss from operations	(4,320)	(1,200)	(1,088)
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,506)	(1,313)	(1,042)
Loss on equity investments	(3)	(54)	(19)
Other, net	(118)	(66)	(1)
	(1,627)	(1,433)	(1,062)
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,947)	(2,633)	(2,150)
MINORITY INTEREST	3,179	1,464	1,282
Loss before income taxes and cumulative effect of accounting change	(2,768)	(1,169)	(868)
INCOME TAX BENEFIT	520	12	10
Loss before cumulative effect of accounting change	(2,248)	(1,157)	(858)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE			
	(266)	(10)	—
Net loss	(2,514)	(1,167)	(858)
Dividends on preferred stock — redeemable	(3)	(1)	—
Net loss applicable to common stock	\$ (2,517)	\$ (1,168)	\$ (858)
LOSS PER COMMON SHARE, basic and diluted ...	\$ (8.55)	\$ (4.33)	\$ (3.80)
Weighted average common shares outstanding, basic and diluted	294,440,261	269,594,386	225,697,775

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(Dollars in millions)					
BALANCE, December 31, 1999	\$—	\$—	\$3,075	\$ (66)	\$ 2	\$ 3,011
Issuance of common stock related to acquisitions	—	—	178	—	—	178
Redeemable securities reclassified as equity	—	—	693	—	—	693
Unrealized loss on marketable securities available for sale	—	—	—	—	(2)	(2)
Option compensation expense, net (restated)	—	—	16	—	—	16
Loss on issuance of equity by subsidiary (restated)	—	—	(272)	—	—	(272)
Stock options exercised	—	—	1	—	—	1
Net loss (restated)	—	—	—	(858)	—	(858)
BALANCE, December 31, 2000 (restated)	—	—	3,691	(924)	—	2,767
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Net proceeds from issuance of common stock	—	—	1,218	—	—	1,218
Redeemable securities reclassified as equity	—	—	9	—	—	9
Contributions from Charter Investment, Inc. (restated)	—	—	25	—	—	25
Changes in fair value of interest rate agreements	—	—	—	—	(17)	(17)
Option compensation expense, net (restated)	—	—	(3)	—	—	(3)
Loss on issuance of equity by subsidiary (restated)	—	—	(253)	—	—	(253)
Stock options exercised	—	—	5	—	—	5
Dividends on preferred stock — redeemable	—	—	—	(1)	—	(1)
Net loss (restated)	—	—	—	(1,167)	—	(1,167)
BALANCE, December 31, 2001 (restated)	—	—	4,694	(2,092)	(17)	2,585
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Changes in fair value of interest rate agreements	—	—	—	—	(30)	(30)
Option compensation expense, net (restated)	—	—	2	—	—	2
Loss on issuance of equity by subsidiary	—	—	(1)	—	—	(1)
Dividends on preferred stock — redeemable	—	—	—	(3)	—	(3)
Net loss	—	—	—	(2,514)	—	(2,514)
BALANCE, December 31, 2002	<u>\$—</u>	<u>\$—</u>	<u>\$4,697</u>	<u>\$(4,609)</u>	<u>\$(47)</u>	<u>\$ 41</u>

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

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

	Year Ended December 31,		
	2002	2001	2000
	(restated)		(restated)
	(dollars in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(2,514)	\$(1,167)	\$ (858)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(3,179)	(1,464)	(1,282)
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Noncash interest expense	395	295	174
Loss on equity investments	3	54	19
Loss on derivative instruments and hedging activities, net	115	50	—
Deferred income taxes	(520)	(12)	(10)
Cumulative effect of accounting change	266	10	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	27	(73)	(130)
Prepaid expenses and other current assets	26	(11)	(2)
Accounts payable and accrued expenses	52	125	523
Receivables from and payables to related party, including deferred management fees	(3)	—	(35)
Other operating activities	—	5	(7)
Net cash flows from operating activities	<u>748</u>	<u>489</u>	<u>828</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchases of property, plant and equipment	(2,222)	(3,001)	(2,536)
Payments for acquisitions, net of cash acquired	(139)	(1,755)	(1,188)
Purchases of investments	(12)	(3)	(59)
Other investing activities	10	(15)	32
Net cash flows from investing activities	<u>(2,363)</u>	<u>(4,774)</u>	<u>(3,751)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	2	1,223	—
Borrowings of long-term debt	4,106	7,310	7,505
Repayments of long-term debt	(2,134)	(4,290)	(4,500)
Payments for debt issuance costs	(40)	(87)	(85)
Net cash flows from financing activities	<u>1,934</u>	<u>4,156</u>	<u>2,920</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ...	319	(129)	(3)
CASH AND CASH EQUIVALENTS, beginning of period	<u>2</u>	<u>131</u>	<u>134</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 321</u>	<u>\$ 2</u>	<u>\$ 131</u>
CASH PAID FOR INTEREST	<u>\$ 1,103</u>	<u>\$ 994</u>	<u>\$ 772</u>
NONCASH TRANSACTIONS:			
Reclassification of redeemable securities to equity and minority interest	\$ —	\$ 1,105	\$ 742
Exchange of cable system for acquisition	—	25	—
Issuances of preferred stock — redeemable, as payment for acquisitions	—	51	—
Issuances of equity as partial payments for acquisitions	—	2	1,192

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001 and 2000
(dollars in millions, except where indicated)

1. Organization

Charter Communications, Inc. (Charter) is a holding company whose primary asset at December 31, 2002 is a 47% controlling common equity interest in Charter Communications Holding Company, LLC (Charter Holdco), which, in turn, is the sole owner of Charter Communications Holdings, LLC (Charter Holdings). Charter, Charter Holdco and its subsidiaries are collectively referred to herein as the "Company." The Company owns and operates cable systems that provide a full range of traditional analog television services to the home, along with advanced broadband services, including television on an advanced digital programming platform and high-speed Internet access. The Company also provides commercial high-speed data, video, telephony and Internet services as well as advertising sales and production services.

2. Liquidity and Capital Resources

The Company has incurred losses from operations of \$4.3 billion, \$1.2 billion and \$1.1 billion in 2002, 2001 and 2000, respectively. The Company's net cash flows from operating activities were \$748 million, \$489 million and \$828 million for the years ending December 31, 2002, 2001 and 2000, respectively. In addition, the Company has required significant cash to fund capital expenditures, debt service costs and ongoing operations. Historically the Company has funded liquidity and capital requirements through cash flows from operations, borrowing under the credit facilities of the Company's subsidiaries, and by issuances of debt and equity securities. The mix of funding sources changes from period to period, but for the year ended December 31, 2002, approximately 70% of the Company's funding requirements were from cash flows from operations, 16% was from borrowings under the credit facilities of the Company's subsidiaries and 14% was for the issuance of debt by the Company's subsidiaries.

The Company expects that cash on hand, cash flows from operations and the funds available under the bank facilities and borrowings under the Vulcan Inc. commitment described in Note 10 will be adequate to meet its 2003 cash needs. However, the bank facilities are subject to certain restrictive covenants, portions of which are subject to the operating results of the Company's subsidiaries. The Company's 2003 operating plan maintains compliance with these covenants. If the Company's actual operating results do not maintain compliance with these covenants, or if other events of noncompliance occur, funding under the bank facilities may not be available and defaults on some or potentially all debt obligations could occur. In addition, no assurances can be given that the Company may not experience liquidity problems because of adverse market conditions or other unfavorable events or if the Company does not obtain sufficient additional financing on a timely basis. The Company has arranged additional availability as described in Note 10.

The indenture governing the Charter Holdco notes permits Charter Holdings and its subsidiaries to make payments to the extent of its outstanding unsubordinated intercompany debt to Charter Holdco, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity.

Accordingly, Charter will not be able to make interest payments beginning in April, 2004, or principal payments at maturity in 2005 and 2006, with respect to its convertible senior notes unless it can obtain additional financing or it receives distributions or other payments from its subsidiaries. The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco only if, at the time of distribution, Charter Holdings can meet a leverage ratio of 8.75 to 1.0, there is no default under the indentures and other specified tests are met.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The Company's long-term financing structure as of December 31, 2002 includes \$7.8 billion of credit facility debt, \$9.5 billion of high-yield debt and \$1.4 billion of convertible subordinated debentures. Approximately \$236 million of this financing matures during 2003. Note 10 discusses the Company's current availability and long-term obligations, interest obligations and provides a schedule of maturity.

3. Restatements of Consolidated Financial Results

The Company has identified a series of adjustments that have resulted in the restatement of the previously issued financial statements for the years ended December 31, 2001 and 2000. These adjustments also resulted in the restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000, as more fully described in Note 28. In summary, the adjustments are grouped into the following categories: (i) launch incentives from programmers; (ii) customer incentives and inducements; (iii) capitalized labor and overhead costs; (iv) customer acquisition costs; (v) rebuild and upgrade of cable systems; (vi) deferred tax liabilities/franchise assets; and (vii) other adjustments. These adjustments reduced revenue for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. The Company's consolidated net loss decreased by \$11 million for the year ended December 31, 2001. Net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and for elements of the rebuild and upgrade activities. In addition, as a result of certain of these adjustments, the Company's statements of cash flows have been restated. Cash flows from operations for the years ended December 31, 2001 and 2000 were reduced by \$30 million and \$303 million, respectively. The more significant categories of adjustment relate to the following as outlined below.

Launch Incentives from Programmers. Amounts previously recognized as advertising revenue in connection with the launch of new programming channels have been deferred and recorded in other long-term liabilities in the year such launch support was provided, and amortized as a reduction of programming costs based upon the relevant contract term. These adjustments decreased revenue by \$118 million and \$76 million for the years ended December 31, 2001 and 2000, respectively. Additionally, for the year ended December 31, 2000, the Company increased marketing expense by \$24 million for other promotional activities associated with launching new programming services previously deferred and subsequently amortized. The corresponding amortization of such deferred amounts reduced programming expenses by \$27 million and \$5 million for the years ended December 31, 2001 and 2000, respectively.

Customer Incentives and Inducements. Marketing inducements paid to encourage potential customers to switch from satellite providers to Charter branded services and enter into multi-period service agreements were previously deferred and recorded as property, plant and equipment and recognized as depreciation and amortization expense over the life of customer contracts. These amounts have been restated as a reduction of revenues in the period such inducements were paid. Revenue declined \$19 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Capitalized Labor and Overhead Costs. Certain elements of labor costs and related overhead allocations previously capitalized as property, plant and equipment as part of the Company's rebuild activities, customer installations and new service introductions have been expensed in the period incurred. Such adjustments increased operating expenses by \$93 million and \$52 million for the years ended December 31, 2001 and 2000, respectively.

Customer Acquisition Costs. Certain customer acquisition campaigns were conducted through third-party contractors in 2000, 2001 and portions of 2002. The costs of these campaigns were originally deferred and recorded as other assets and recognized as amortization expense over the average customer contract life.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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These amounts have been reported as marketing expense in the period incurred and totaled \$59 million and \$4 million and for the years ended December 31, 2001 and 2000, respectively. The Company discontinued this program in the third quarter of 2002 as contracts for third-party vendors expired. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Rebuild and Upgrade of Cable Systems. In 2000, the Company initiated a three-year program to replace and upgrade a substantial portion of its network. In connection with this plan, the Company assessed the carrying value of, and the associated depreciable lives of, various assets to be replaced. It was determined that \$1 billion of cable distribution system assets, originally treated as subject to replacement, were not part of the original replacement plan but were to be upgraded and have remained in service. The Company also determined that certain assets subject to replacement during the upgrade program were misstated in the allocation of the purchase price of the acquisition. This adjustment is a reduction to property, plant and equipment and increased franchise costs of approximately \$627 million as a result of this finding. In addition, the depreciation period for the replacement assets was adjusted to more closely align with the intended service period of these assets rather than the three-year straight-line life originally assigned. As a result, adjustments were recorded to reduce depreciation expense \$330 million and \$119 million in the years ending 2001 and 2000, respectively.

Deferred Tax Liabilities/Franchise Assets. Adjustments were made to record deferred tax liabilities associated with the acquisition of various cable television businesses. These adjustments increased amounts assigned to franchise assets by \$1.4 billion with a corresponding increase in deferred tax liabilities of \$1.2 billion. The balance of the entry was recorded to equity and minority interest. In addition, as described above, a correction was made to reduce amounts assigned in purchase accounting to assets identified for replacement over the three-year period of the Company's rebuild and upgrade of its network. This reduced the amount assigned to the network assets to be retained and increased the amount assigned to franchise assets by approximately \$627 million with a resulting increase in amortization expense for the years restated. Such adjustments increased amortization expense by \$130 million and \$121 million, respectively, for the years ended December 31, 2001 and 2000.

Other Adjustments. In addition to the items described above, reductions to 2000 revenues include the reversal of certain advertising revenues from equipment vendors. Other adjustments of expenses include expensing certain marketing and customer acquisition costs previously charged against purchase accounting reserves, certain tax reclassifications from tax expense to operating costs, reclassifying management fee revenue from a joint venture to offset losses from investments and adjustments to option compensation expense. The net impact of these adjustments to net loss is an increase of \$38 million and a decrease of \$10 million, respectively, for the years ended December 31, 2001 and 2000.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2001 (in millions):

	As Previously Reported	As Restated
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2	\$ 2
Accounts receivable, net	290	292
Receivables from related parties	5	5
Prepaid expenses and other current assets	70	70
Total current assets	367	369
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net	7,150	6,914
Franchises, net	17,139	18,911
Total investment in cable properties, net	24,289	25,825
OTHER ASSETS	306	269
Total assets	\$24,962	\$26,463
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,375	\$ 1,379
Total current liabilities	1,375	1,379
LONG-TERM DEBT	16,343	16,343
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	341	1,682
MINORITY INTEREST	3,976	4,409
PREFERRED STOCK — REDEEMABLE	51	51
SHAREHOLDERS' EQUITY:		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,953	4,694
Accumulated deficit	(2,073)	(2,092)
Accumulated other comprehensive loss	(18)	(17)
Total shareholders' equity	2,862	2,585
Total liabilities and shareholders' equity	\$24,962	\$26,463

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001 and 2000
(dollars in millions, except where indicated)

The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2001 (in millions, except share data):

	As Previously Reported	As Restated
REVENUES	\$ 3,953	\$ 3,807
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,326	1,480
Selling, general and administrative	841	832
Depreciation and amortization	3,010	2,682
Option compensation expense, net	(46)	(5)
Special charges	18	18
	5,149	5,007
Loss from operations	(1,196)	(1,200)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,312)	(1,313)
Loss on equity investments	(54)	(54)
Other, net	(94)	(66)
	(1,460)	(1,433)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,633)
MINORITY INTEREST	1,478	1,464
Loss before income taxes and cumulative effect of accounting change	(1,178)	(1,169)
INCOME TAX BENEFIT	—	12
Loss before cumulative effect of accounting change	(1,178)	(1,157)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE ...	—	(10)
Net loss	(1,178)	(1,167)
Dividends on preferred stock — redeemable	(1)	(1)
Net loss applicable to common stock	\$ (1,179)	\$ (1,168)
LOSS PER COMMON SHARE, basic and diluted	\$ (4.37)	\$ (4.33)
Weighted average common shares outstanding, basic and diluted	269,594,386	269,594,386

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002, 2001 and 2000
(dollars in millions, except where indicated)

The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2000 (in millions):

	As Previously Reported	As Restated
CURRENT ASSETS:		
Cash and cash equivalents	\$ 131	\$ 131
Accounts receivable, net	218	209
Receivables from related parties	6	—
Prepaid expenses and other current assets	78	87
Total current assets	433	427
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net	5,267	4,829
Franchises, net	17,069	18,835
Total investment in cable properties, net	22,336	23,664
OTHER ASSETS	275	261
Total assets	\$23,044	\$24,352
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,367	\$ 1,343
Total current liabilities	1,367	1,343
LONG-TERM DEBT	13,061	13,061
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	285	1,517
MINORITY INTEREST	4,090	4,546
REDEEMABLE SECURITIES	1,104	1,104
SHAREHOLDERS' EQUITY:		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,018	3,691
Accumulated deficit	(895)	(924)
Total shareholders' equity	3,123	2,767
Total liabilities and shareholders' equity	\$23,044	\$24,352

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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(dollars in millions, except where indicated)

The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2000 (in millions, except share data):

	<u>As Previously Reported</u>	<u>As Restated</u>
REVENUES	\$ 3,249	\$ 3,141
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,036	1,185
Selling, general and administrative	670	608
Depreciation and amortization	2,473	2,398
Option compensation expense, net	41	38
	<u>4,220</u>	<u>4,229</u>
Loss from operations	(971)	(1,088)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,052)	(1,042)
Loss on equity investments	(19)	(19)
Other, net	(13)	(1)
	<u>(1,084)</u>	<u>(1,062)</u>
Loss before minority interest and income taxes	(2,055)	(2,150)
MINORITY INTEREST	<u>1,226</u>	<u>1,282</u>
Loss before income taxes	(829)	(868)
INCOME TAX BENEFIT	—	10
Net loss	<u>\$ (829)</u>	<u>\$ (858)</u>
LOSS PER COMMON SHARE, basic and diluted	<u>\$ (3.67)</u>	<u>\$ (3.80)</u>
Weighted average common shares outstanding, basic and diluted	<u>225,697,775</u>	<u>225,697,775</u>

The following table sets forth selected consolidated statements of cash flows information for the Company, showing previously reported and restated amounts, for the years ended December 31, 2001 and 2000 (in millions):

	<u>2001</u>		<u>2000</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>	<u>As Previously Reported</u>	<u>As Restated</u>
Net cash from operating activities	\$ 519	\$ 489	\$ 1,131	\$ 828
Net cash from investing activities	(4,809)	(4,774)	(4,054)	(3,751)
Net cash from financing activities	\$ 4,162	\$ 4,156	\$ 2,920	\$ 2,920

4. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The consolidated financial statements of the Company include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly-owned subsidiaries and those subsidiaries over which Charter

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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exercises voting control. Currently, Charter Holdco is the only subsidiary in which the Company consolidates on the basis of voting control. All significant intercompany accounts and transactions among consolidated entities have been eliminated. All amounts presented for 2000 and 2001 in the financial statements and accompanying notes have been adjusted to reflect the restated results in Note 3.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant judgments and estimates include capitalization of labor and overhead costs, depreciation and amortization costs, impairments of property, plant and equipment, franchises and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including all material labor and certain indirect costs associated with the construction of cable transmission and distribution facilities. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor, and certain indirect costs. These indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service and consist of compensation and overhead costs associated with these support functions. Overhead costs primarily include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

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

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

Franchises

Franchise rights acquired through the purchase of cable systems represent management's estimate of fair value at the date of acquisition and generally are reviewed to determine if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards (SFAS) No. 142. On January 1,

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2002, the Company adopted SFAS No. 142, which eliminates the amortization of goodwill and indefinite lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually as of October 1, or more frequently as warranted by events or changes in circumstances (See Note 8). Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs are amortized on a straight-line basis over 10 years. Costs incurred in renewing cable franchises are deferred and amortized over 10 years.

Prior to the adoption of SFAS No. 142, costs incurred in obtaining and renewing cable franchises were deferred and amortized using the straight-line method over a period of 15 years. Franchise rights acquired through the purchase of cable systems were generally amortized using the straight-line method over a period of 15 years. The period of 15 years was management's best estimate of the useful lives of the franchises and assumed that substantially all of those franchises that expired during the period would be renewed but not indefinitely. The Company evaluated the recoverability of franchises for impairment when events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Because substantially all of the Company's franchise rights have been acquired in the past several years, at the time of acquisition management believed the Company did not have sufficient experience with the local franchise authorities to conclude that renewals of franchises could be accomplished indefinitely.

The Company believes that facts and circumstances have changed to enable it to conclude that substantially all of its franchises will be renewed indefinitely, with those franchises where technological or operational factors limit their lives continuing to be amortized. The Company has sufficiently upgraded the technological state of its cable systems and now has sufficient experience with the local franchise authorities where it acquired franchises to conclude substantially all franchises will be renewed indefinitely.

Other Assets

Other assets primarily include goodwill, deferred financing costs and investments in equity securities. Costs related to borrowings are deferred and amortized to interest expense using the effective interest method over the terms of the related borrowings. As of December 31, 2002, 2001 and 2000, other assets include \$231 million, \$230 million and \$171 million of deferred financing costs, net of accumulated amortization of \$106 million, \$67 million and \$35 million, respectively.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Charter recognizes losses for any decline in value considered to be other than temporary. Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income or loss.

The following summarizes investment information as of and for the years ended December 31, 2002, 2001 and 2000 (in millions):

	<u>Carrying Value at</u> <u>December 31,</u>			<u>Gain (Loss) for the Year</u> <u>Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Equity investments, under the cost method . . .	\$17	\$13	\$14	\$—	\$ (8)	\$(12)
Equity investments, under the equity method . .	16	12	49	(5)	(42)	(8)
Marketable securities, at market value	<u>—</u>	<u>4</u>	<u>4</u>	<u>2</u>	<u>(4)</u>	<u>1</u>
	<u>\$33</u>	<u>\$29</u>	<u>\$67</u>	<u>\$ (3)</u>	<u>\$ (54)</u>	<u>\$ (19)</u>

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Valuation of Property, Plant and Equipment

The Company evaluates the recoverability of property, plant and equipment, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or poor operating results. If a review indicates that the carrying value of such asset is not recoverable from estimated undiscounted cash flows, the carrying value of such asset is reduced to its estimated fair value. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its evaluations of asset recoverability. No impairment of property, plant and equipment occurred in 2002, 2001 and 2000.

Derivative Financial Instruments

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements, interest rate cap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of the Company's subsidiaries. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate cap agreements are used to lock in a maximum interest rate should variable rates rise, but enable the Company to otherwise pay lower market rates. Interest rate collar agreements are used to limit exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates. The Company does not hold or issue any derivative financial instruments for trading purposes.

Revenue Recognition

Revenues from analog, digital and high-speed data services are recognized when the related services are provided. Advertising sales are recognized in the period that the advertisements are broadcast. Local governmental authorities impose franchise fees on the Company ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreement. Such fees are collected on a monthly basis from the Company's customers and are periodically remitted to local franchise authorities. Franchise fees collected and paid are reported as revenues and expenses, respectively.

Programming Costs

The Company has various contracts to obtain analog, digital and premium programming from program suppliers whose compensation is typically based on a flat fee per customer. The cost of the right to exhibit network programming under such arrangements is recorded in operating expenses in the month the programming is available for exhibition. Programming costs are paid each month based on calculations performed by the Company and are subject to adjustment based on periodic audits performed by the programmers. Additionally, certain programming contracts contain launch incentives to be paid by the programmers. The Company receives these upfront payments related to the promotion and activation of the programmer's cable television channel and defers recognition of the launch incentives over the life of the programming agreement as an offset to programming expense. This offset to programming expense was \$57 million, \$35 million and \$4 million for the years ended December 31, 2002, 2001 and 2000, respectively. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, 2001 and 2000, the deferred

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amount of launch incentives, included in other long-term liabilities, totaled \$210 million, \$215 million and \$126 million, respectively.

Advertising Costs

Advertising costs, including advertising associated with the launch of cable channels, are generally expensed as costs are incurred. Advertising expense was \$74 million, \$52 million and \$60 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Stock-Based Compensation

The Company has historically accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in Financial Accounting Standards Board Interpretation No. 28 (FIN 28), *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions will result in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, the fair value method will be applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted by the Company. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been approximately \$20 million.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net loss and loss per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS 123 for the years presented:

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net loss applicable to common stock (in millions)	\$(2,517)	\$(1,168)	\$(858)
Pro forma	(2,571)	(1,226)	(878)
Loss per common shares, basic and diluted	(8.55)	(4.33)	(3.80)
Pro forma	(8.73)	(4.55)	(3.89)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the years ended December 31, 2002, 2001 and 2000, respectively: risk-free interest rates of 3.6%, 4.7%, and 6.5%; expected volatility of 64.2%, 56.2% and 43.8%; and expected lives of 3.3 years, 3.7 years and 3.5 years, respectively. The valuations assume no dividends are paid.

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Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss carryforwards. The impact on deferred taxes of changes in tax rates and tax law, if any, applied to the years during which temporary differences are expected to be settled, are reflected in the consolidated financial statements in the period of enactment (see Note 22).

Minority Interest

Minority interest represents total members' equity of Charter Holdco not owned by Charter, plus preferred membership interests in an indirect subsidiary of Charter held by certain sellers of the Bresnan systems, less redeemable securities. Minority interest totaled \$1.0 billion, \$4.4 billion and \$4.5 billion as of December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated balance sheets. Gains or losses arising from issuances by Charter Holdco of its membership units are recorded as capital transactions thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the consolidated balance sheets. These gains (losses) totaled (\$1) million, (\$253) million and (\$272) million for the years ended December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated statements of changes in shareholders' equity. Operating losses are allocated to the minority owners based on their ownership percentage, thereby reducing the Company's net loss.

Loss per Common Share

Basic loss per common share is computed by dividing the net loss applicable to common stock by 294,440,261 shares, 269,594,386 shares and 225,697,775 shares for the years ended December 31, 2002, 2001 and 2000, representing the weighted-average common shares outstanding during the respective periods. Diluted loss per common share equals basic loss per common share for the periods presented, as the effect of stock options is antidilutive because the Company incurred net losses. All membership units of Charter Holdco are exchangeable on a one-for-one basis into common stock of Charter at the option of the holders. Should the holders exchange units for shares, the effect would not be dilutive.

Segments

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in annual financial statements and in interim financial reports issued to shareholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company's operations are managed on the basis of distinct geographic regional and divisional operating segments. The Company has evaluated the criteria for aggregation of the geographic operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of the respective criteria set forth. The Company delivers similar products and services within each of its geographic divisional operations. Each geographic and divisional service area utilizes similar means for delivering the programming of the Company's services; have similarity in the type or class of customer receiving the products and services; distributes the Company's services over a unified network; and operates within a consistent regulatory environment. In addition, each of the geographic regional and divisional operating segments has similar economic characteristics. Accordingly, management has determined that the Company has one reportable segment, broadband services.

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5. Acquisitions

On February 28, 2002, CC Systems, LLC, a subsidiary of the Company, and High Speed Access Corp. (HSA) closed the Company's acquisition from HSA of the contracts and associated assets, and assumed related liabilities, that served certain of the Company's high-speed data customers. At closing, the Company paid \$78 million in cash and delivered 37,000 shares of HSA's Series D convertible preferred stock and all the warrants to buy HSA common stock owned by the Company. An additional \$2 million of purchase price was retained to secure indemnity claims. The purchase price has been allocated to assets acquired and liabilities assumed based on fair values as determined in the fourth quarter of 2002 by a third-party valuation expert, including \$8 million assigned to intangible assets and amortized over an average useful life of three years and \$54 million assigned to goodwill. The finalization of the purchase price did not have a material effect on amortization expense previously reported. During the period from 1997 to 2000, certain subsidiaries of the Company entered into Internet-access related service agreements with HSA, and both Vulcan Ventures and certain of the Company's subsidiaries made equity investments in HSA. (See Note 23 for additional information).

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of Charter Holdings, completed the purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash purchase price of \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including \$41 million assigned to franchises and \$4 million assigned to customer relationships amortized over a useful life of three years.

During the second and third quarters in 2001, the Company acquired cable systems in two separate transactions. In connection with the acquisitions, the Company paid aggregate cash consideration of \$1.8 billion, transferred a cable system valued at \$25 million, issued 505,664 shares of Charter Series A Convertible Redeemable Preferred Stock valued at \$51 million, and in the first quarter of 2003 issued 39,595 additional shares of Series A Convertible Redeemable Preferred Stock to certain sellers subject to certain holdback provisions of the acquisition agreement valued at \$4 million. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values, including amounts assigned to franchises of \$1.5 billion.

During 2000, the Company acquired cable systems in five separate transactions for an aggregate purchase price of \$1.2 billion, net of cash acquired, excluding debt assumed of \$963 million. In connection with the acquisitions, Charter issued shares of Class A common stock valued at approximately \$178 million, and Charter Holdco and an indirect subsidiary of Charter Holdco issued equity interests totaling \$385 million and \$629 million, respectively. The purchase prices were allocated to assets and liabilities assumed based on relative fair values, including amounts assigned to franchises of \$3.3 billion.

The transactions described above were accounted for using the purchase method of accounting, and, accordingly, the results of operations of the acquired assets and assumed liabilities have been included in the consolidated financial statements from their respective dates of acquisition. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values.

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The summarized operating results of the Company that follow are presented on a pro forma basis as if the following had occurred on January 1, 2000: all acquisitions and dispositions completed during 2000 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in January 2002 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in May 2001; and the issuance of and sale by Charter of convertible senior notes and Class A common stock in May 2001. Adjustments have been made to give effect to amortization of franchises acquired prior to July 1, 2001, interest expense, minority interest, and certain other adjustments. Pro forma results for the year ended December 31, 2002 would not differ significantly from historical results.

	Year Ended December 31,	
	2001	2000
	(in millions, except per share data)	
Revenues	\$ 3,969	\$ 3,501
Loss from operations	(1,200)	(1,121)
Loss before minority interest	(2,727)	(2,426)
Net loss	(1,251)	(1,134)
Loss per common share, basic and diluted	(4.64)	(5.02)

The unaudited pro forma financial information has been presented for comparative purposes and does not purport to be indicative of the consolidated results of operations had these transactions been completed as of the assumed date or which may be obtained in the future.

6. Allowance for Doubtful Accounts

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

	Year Ended December 31,		
	2002	2001	2000
Balance, beginning of year	\$ 33	\$ 12	\$ 11
Acquisitions of cable systems	—	1	1
Charged to expense	108	95	46
Uncollected balances written off, net of recoveries	(122)	(75)	(46)
Balance, end of year	\$ 19	\$ 33	\$ 12

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7. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cable distribution systems	\$ 8,950	\$ 7,877	\$ 5,289
Land, buildings and leasehold improvements	580	506	282
Vehicles and equipment	<u>783</u>	<u>459</u>	<u>408</u>
	10,313	8,842	5,979
Less: accumulated depreciation	<u>(2,634)</u>	<u>(1,928)</u>	<u>(1,150)</u>
	<u>\$ 7,679</u>	<u>\$ 6,914</u>	<u>\$ 4,829</u>

The Company periodically evaluates the estimated useful lives used to depreciate its assets and the estimated amount of assets that will be abandoned or have minimal use in the future. A significant change in assumptions about the extent or timing of future asset retirements, or in the Company's upgrade program, could materially affect future depreciation expense.

For the years ended December 31, 2002, 2001 and 2000, depreciation expense was \$1.4 billion, \$1.2 billion, and \$1.0 billion, respectively.

8. Franchises and Goodwill

On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of indefinite lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead will be tested for impairment annually, or more frequently as warranted by events or changes in circumstances. During the first quarter of 2002, the Company had an independent appraiser perform valuations of its franchises as of January 1, 2002. Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clusters of the Company's cable systems, which management believes represents the highest and best use of those assets. Fair value was determined based on estimated discounted future cash flows using reasonable and appropriate assumptions that are consistent with internal forecasts. As a result, the Company determined that franchises were impaired and recorded the cumulative effect of a change in accounting principle of \$266 million (approximately \$572 million before minority interest effects). The effect of adoption was to increase net loss and loss per share by \$266 million and \$0.90, respectively. As required by SFAS 142, the standard has not been retroactively applied to the results for the period prior to adoption.

The Company performed its annual impairment assessment on October 1, 2002 using an independent third-party appraiser and following the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002 and requires the consideration of assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset. Revised earnings forecasts and the methodology required by SFAS No. 142 which excludes certain intangibles led to recognition of a \$4.6 billion impairment in the fourth quarter of 2002.

The independent third-party appraiser's valuation as of October 1, 2002 yielded an enterprise value of approximately \$25 billion, which included \$3 billion assigned to customer relationships. SFAS No. 142 does

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not permit the recognition of the customer relationship asset not previously recognized. Accordingly, the analysis of the impairment could not include approximately \$373 million and \$2.9 billion attributable to customer relationship values as of January 1, 2002 and October 1, 2002, respectively.

In determining whether its franchises have an indefinite life, the Company considered the exclusivity of the franchise, its expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not the Company is in compliance with any technology upgrading requirements. Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs will be amortized on a straight-line basis over 10 years.

The effect of the adoption of SFAS No. 142 as of December 31, 2002 and 2001 is presented in the following table (in millions):

	December 31,								
	2002			2001			2000		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Indefinite-lived intangible assets:									
Franchises with indefinite lives	\$17,076	\$3,428	\$13,648	\$22,255	\$3,428	\$18,827	\$20,742	\$2,000	\$18,742
Goodwill	54	—	54	—	—	—	—	—	—
	<u>\$17,130</u>	<u>\$3,428</u>	<u>\$13,702</u>	<u>\$22,255</u>	<u>\$3,428</u>	<u>\$18,827</u>	<u>\$20,742</u>	<u>\$2,000</u>	<u>\$18,742</u>
Finite-lived intangible assets:									
Franchises with finite lives ..	<u>\$ 103</u>	<u>\$ 24</u>	<u>\$ 79</u>	<u>\$ 99</u>	<u>\$ 15</u>	<u>\$ 84</u>	<u>\$ 99</u>	<u>\$ 6</u>	<u>\$ 93</u>

Franchise amortization expense for the year ended December 31, 2002 was \$9 million, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. For each of the next five years, amortization expense relating to these franchises is expected to be approximately \$8 million. Franchise amortization expense for the years ended December 31, 2001 and 2000 was \$1.4 billion and \$1.4 billion, respectively.

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As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. A reconciliation of net loss for the year ended December 31, 2002, 2001 and 2000, as if SFAS No. 142 had been adopted as of January 1, 2000, is presented below (in millions):

	<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
NET LOSS:			
Reported net loss applicable to common stock	\$(2,517)	\$(1,168)	\$ (858)
Add back: amortization of indefinite-lived franchises	—	1,453	1,341
Less: minority interest	—	(808)	(800)
Adjusted net loss applicable to common stock	<u>\$(2,517)</u>	<u>\$ (523)</u>	<u>\$ (317)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE:			
Reported net loss per share	\$ (8.55)	\$ (4.33)	\$(3.80)
Add back: amortization of indefinite-lived franchises	—	5.39	5.94
Less: minority interest	—	(3.00)	(3.54)
Adjusted net loss per share	<u>\$ (8.55)</u>	<u>\$ (1.94)</u>	<u>\$ (1.40)</u>

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2002, 2001 and 2000 (in millions):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Accounts payable	\$ 290	\$ 297	\$ 364
Capital expenditures	141	196	285
Accrued interest	243	230	193
Programming costs	237	191	173
Accrued general and administrative	126	119	72
Franchise fees	68	62	53
State sales tax	67	52	29
Other accrued expenses	233	232	174
	<u>\$1,405</u>	<u>\$1,379</u>	<u>\$1,343</u>

10. Long-Term Debt

Long-term debt consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	<u>2002</u>		<u>2001</u>		<u>2000</u>	
	<u>Face Value</u>	<u>Accreted Value</u>	<u>Face Value</u>	<u>Accreted Value</u>	<u>Face Value</u>	<u>Accreted Value</u>
Long-Term Debt						
Charter Communications, Inc.:						
October and November 2000						
5.75% convertible senior notes due 2005	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750

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	2002		2001		2000	
	Face Value	Accreted Value	Face Value	Accreted Value	Face Value	Accreted Value
May 2001						
4.75% convertible senior notes due 2006 . . .	633	633	633	633	—	—
Charter Holdings:						
March 1999						
8.250% senior notes due 2007	600	599	600	599	600	599
8.625% senior notes due 2009	1,500	1,497	1,500	1,497	1,500	1,496
9.920% senior discount notes due 2011 . . .	1,475	1,307	1,475	1,187	1,475	1,077
January 2000						
10.000% senior notes due 2009	675	675	675	675	675	675
10.250% senior notes due 2010	325	325	325	325	325	325
11.750% senior discount notes due 2010 . . .	532	421	532	376	532	335
January 2001						
10.750% senior notes due 2009	900	900	900	899	—	—
11.125% senior notes due 2011	500	500	500	500	—	—
13.500% senior discount notes due 2011 . . .	675	454	675	398	—	—
May 2001						
9.625% senior notes due 2009	350	350	350	350	—	—
10.000% senior notes due 2011	575	575	575	575	—	—
11.750% senior discount notes due 2011 . . .	1,018	693	1,018	618	—	—
January 2002						
9.625% senior notes due 2009	350	348	—	—	—	—
10.000% senior notes due 2011	300	298	—	—	—	—
12.125% senior discount notes due 2012 . . .	450	280	—	—	—	—
Senior bridge loan facility	—	—	—	—	273	273
Renaissance:						
10.00% senior discount notes due 2008	114	113	114	104	114	95
CC V Holdings:						
11.875% senior discount notes due 2008 . . .	180	163	180	146	180	132
Other long-term debt	1	1	1	1	2	2
Credit Facilities						
Charter Operating	4,542	4,542	4,145	4,145	4,432	4,432
CC Michigan, LLC and CC New England, LLC (Avalon)	—	—	—	—	213	213
CC VI	926	926	901	901	895	895
Falcon Cable	1,155	1,155	582	582	1,050	1,050
CC VIII Operating	1,166	1,166	1,082	1,082	712	712
	<u>\$19,692</u>	<u>\$18,671</u>	<u>\$17,513</u>	<u>\$16,343</u>	<u>\$13,728</u>	<u>\$13,061</u>

The accreted values presented above represent the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.

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5.75% Charter Convertible Notes. In October and November 2000, the Company issued 5.75% convertible senior notes with an aggregate principal amount at maturity of \$750 million (the “5.75% Charter Convertible Notes”). The net proceeds of \$728 million were used to repay certain amounts outstanding under the Charter Holdings 2000 senior bridge loan facility. The 5.75% Charter Convertible Notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 46.3822 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$21.56 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the option of the Company at amounts decreasing from 102.3% to 100% of the principal amount plus accrued and unpaid interest beginning on October 15, 2003, to the date of redemption. Interest is payable semiannually on April 15 and October 15, beginning April 15, 2001, until maturity on October 15, 2005.

4.75% Charter Convertible Notes. In May 2001, the Company issued 4.75% convertible senior notes with an aggregate principal amount at maturity of \$633 million (the “4.75% Charter Convertible Notes”). The net proceeds of \$609 million were used to repay certain amounts outstanding under the revolving portions of the credit facilities of the Company’s subsidiaries and for general corporate purposes, including capital expenditures. The 4.75% Charter Convertible Notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.0952 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the option of the Company at amounts decreasing from 101.9% to 100% of the principal amount, plus accrued and unpaid interest beginning on June 4, 2004, to the date of redemption. Interest is payable semiannually on December 1 and June 1, beginning December 1, 2001, until maturity on June 1, 2006.

The 5.75% Charter Convertible Notes and the 4.75% Charter Convertible Notes rank equally with any future unsubordinated and unsecured indebtedness of Charter, but are structurally subordinated to all existing and future indebtedness and other liabilities of the Company’s subsidiaries. Upon a change of control, subject to certain conditions and restrictions, the Company may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

March 1999 Charter Holdings Notes. In March 1999, Charter Holdings and Charter Communications Holdings Capital Corporation (“Charter Capital”) (collectively, the “Issuers”) issued \$3.6 billion principal amount of senior notes. The March 1999 Charter Holdings notes consisted of \$600 million in aggregate principal amount of 8.250% senior notes due 2007, \$1.5 billion in aggregate principal amount of 8.625% senior notes due 2009, and \$1.5 billion in aggregate principal amount at maturity of 9.920% senior discount notes due 2011. The net proceeds of approximately \$2.9 billion, combined with the borrowings under the Company’s credit facilities, were used to consummate tender offers for publicly held debt of several of the Company’s subsidiaries, as described below, to refinance borrowings under the Company’s previous credit facilities, for working capital purposes and to finance acquisitions.

The 8.250% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

The 8.625% senior notes are redeemable at the option of the Issuers at amounts decreasing from 104.313% to 100% of par value plus accrued and unpaid interest beginning on April 1, 2004, to the date of redemption. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

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The 9.920% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 104.960% to 100% of accreted value beginning April 1, 2004. Thereafter, cash interest is payable semiannually in arrears on April 1 and October 1 beginning October 1, 2004, until maturity. The discount on the 9.920% senior discount notes is being accreted using the effective interest method.

January 2000 Charter Holdings Notes. In January 2000, Charter Holdings and Charter Capital issued \$1.5 billion principal amount of senior notes. The January 2000 Charter Holdings notes consisted of \$675 million in aggregate principal amount of 10.000% senior notes due 2009, \$325 million in aggregate principal amount of 10.250% senior notes due 2010, and \$532 million in aggregate principal amount at maturity of 11.750% senior discount notes due 2010. The net proceeds of approximately \$1.25 billion were used to consummate change of control offers for certain of the Falcon, Avalon and Bresnan notes and debentures.

The 10.000% senior notes are not redeemable prior to maturity. Interest is payable semiannually on April 1 and October 1, beginning April 1, 2000 until maturity.

The 10.250% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.125% to 100% of par value plus accrued and unpaid interest, beginning on January 15, 2005, to the date of redemption. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2000, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2005. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2005, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

January 2001 Charter Holdings Notes. In January 2001, Charter Holdings and Charter Capital issued \$2.1 billion in aggregate principal amount of senior notes. The January 2001 Charter Holdings notes consisted of \$900 million in aggregate principal amount of 10.750% senior notes due 2009, \$500 million in aggregate principal amount of 11.125% senior notes due 2011 and \$675 million in aggregate principal amount at maturity of 13.500% senior discount notes due 2011. The net proceeds of approximately \$1.72 billion were used to repay all remaining amounts then outstanding under the Charter Holdings 2000 senior bridge loan facility and the CC VI revolving credit facility and a portion of the amounts then outstanding under the Charter Operating and CC VII revolving credit facilities and for general corporate purposes.

The 10.750% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 2001, until maturity.

The 11.125% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.563% to 100% of par value plus accrued and unpaid interest beginning on January 15, 2006, to the date of redemption. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.125% senior notes at a redemption price of 111.125% of the principal amount under certain conditions. Interest is payable semiannually in arrears on January 15 and July 15, beginning July 15, 2001, until maturity.

The 13.500% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.750% to 100% of accreted value beginning January 15, 2006. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 13.500% senior discount notes at a redemption price of 113.500% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on January 15 and July 15 beginning July 15, 2006, until maturity. The discount on the 13.500% senior discount notes is being accreted using the effective interest method.

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May 2001 Charter Holdings Notes. In May 2001, Charter Holdings and Charter Capital issued \$1.94 billion in aggregate principal amount of senior notes. The May 2001 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$575 million in aggregate principal amount of 10.000% senior notes due 2011 and \$1.0 billion in aggregate principal amount at maturity of 11.750% senior discount notes due 2011. The net proceeds of approximately \$1.47 billion were used to pay a portion of the purchase price of the AT&T transactions, repay all amounts outstanding under the Charter Operating and Falcon Cable revolving credit facilities and for general corporate purposes, including capital expenditures.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2006. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.750% senior discount notes at a redemption price of 111.750% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on May 15 and November 15 beginning November 15, 2006, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

January 2002 Charter Holdings Notes. In January 2002, Charter Holdings and Charter Capital, issued \$1.1 billion in aggregate principal amount at maturity of senior notes and senior discount notes. The January 2002 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$300 million in aggregate principal amount of 10.000% senior notes due 2011 and \$450 million in aggregate principal amount at maturity of 12.125% senior discount notes due 2012. The net proceeds of approximately \$873 million were primarily used to repay a portion of the amounts outstanding under the revolving credit facilities of the Company's subsidiaries.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 12.125% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007. At any time prior to January 15, 2005, the issuers may redeem up to 35% of the aggregate principal amount of the 12.125% senior discount notes at a redemption price of 112.125% of the accreted value under certain conditions. Cash interest is payable semi-annually in arrears on January 15 and July 15 beginning July 15, 2007, until maturity. The discount on the 12.125% senior discount notes is being accreted using the effective interest method.

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Renaissance Notes. In connection with the acquisition of Renaissance in April 1999, the Company assumed \$163 million principal amount at maturity of 10.000% senior discount notes due 2008 of which \$49 million was repurchased in May 1999. The Renaissance notes do not require the payment of interest until April 15, 2003. From and after April 15, 2003, the Renaissance notes bear interest, payable semi-annually in cash, on April 15 and October 15, commencing on October 15, 2003. The Renaissance notes are due on April 15, 2008.

CC V Holdings Notes. Charter Holdco acquired CC V Holdings in November 1999 and assumed CC V Holdings' outstanding 11.875% senior discount notes due 2008 with an accreted value of \$123 million and \$150 million in principal amount of 9.375% senior subordinated notes due 2008. After December 1, 2003, cash interest on the CC V Holdings 11.875% notes will be payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2004. In addition, a principal payment of \$66 million is due on December 1, 2003.

In January 2000, through change of control offers and purchases in the open market, the Company repurchased all of the \$150 million aggregate principal amount of the CC V Holdings 9.375% notes. Contemporaneously, the Company completed change of control offers in which it repurchased \$16 million aggregate principal amount at maturity of the 11.875% senior discount notes.

High Yield Restrictive Covenants; Limitation on Indebtedness. The indentures governing the public notes of the Company's subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, the CCV notes issuers, Renaissance Media Group, and all of their restricted subsidiaries to:

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

Charter Operating Credit Facilities. The Charter Operating credit facilities provide for borrowings of up to \$5.2 billion and provide for four term facilities: two Term A facilities with an aggregate principal amount of \$1.11 billion that matures in September 2007, each with different amortization schedules, one beginning in June 2002 and one beginning in September 2005; and two Term B facilities with an aggregate principal amount of \$2.73 billion, of which \$1.84 billion matures in March 2008 and \$893 million matures in September 2008. The Charter Operating credit facilities also provide for two revolving credit facilities, in an aggregate amount of \$1.34 billion, which will reduce annually beginning in March 2004 and September 2005, with a maturity date in September 2007. At the option of the lenders, supplemental credit facilities in the amount of \$100 million may be available. Amounts under the Charter Operating credit facilities bear interest at the Base Rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.58% to 3.13% as of December 31, 2002) and 1.75% for base rate loans. A quarterly commitment fee of between 0.25% and

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0.375% per annum is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were approximately \$4.5 billion and the unused total potential availability was \$633 million although financial covenants limited our availability to \$318 million as of December 31, 2002.

CC VI Operating Credit Facilities. The CC VI Operating credit facilities provide for two term facilities, one with a principal amount of \$450 million that matures May 2008 (Term A), and the other with a principal amount of \$400 million that matures November 2008 (Term B). The CC VI Operating credit facilities also provide for a \$350 million reducing revolving credit facility with a maturity date in May 2008. At the option of the lenders, supplemental credit facilities in the amount of \$300 million may be available until December 31, 2004. Amounts under the CC VI Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 3.0% for Eurodollar loans (4.31% to 2.62% as of December 31, 2002) and 2.0% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% per annum is payable on the unborrowed balance of the Term A facility and the revolving facility. As of December 31, 2002, outstanding borrowings were \$926 million and unused total potential availability was \$274 million although financial covenants limited our availability to \$127 million as of December 31, 2002.

Falcon Cable Credit Facilities. The Falcon Cable credit facilities provide for two term facilities, one with a principal amount of \$192 million that matures June 2007 (Term B), and the other with the principal amount of \$288 million that matures December 2007 (Term C). The Falcon Cable credit facilities also provide for a reducing revolving facility of up to approximately \$68 million (maturing in December 2006), a reducing supplemental facility of up to \$110 million (maturing in December 2007) and a second reducing revolving facility of up to \$670 million (maturing in June 2007). At the option of the lenders, supplemental credit facilities in the amount of up to \$486 million may also be available. Amounts under the Falcon Cable credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.5% for Eurodollar loans (4.07% to 2.685% as of December 31, 2002) and up to 1.5% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion and unused total potential availability was \$173 million, all of which would have been available based on financial covenants as of December 31, 2002.

CC VIII Operating Credit Facilities. The CC VIII Operating credit facilities provide for borrowings of up to \$1.49 billion as of December 31, 2002. The CC VIII credit facilities provide for three term facilities, two Term A facilities with a reduced current aggregate principal amount of \$450 million, that continues reducing quarterly until they reach maturity in June 2007, and a Term B facility with a reduced current principal amount of \$495 million, that continues reducing quarterly until it reaches maturity in February 2008. The CC VIII Operating credit facilities also provide for two reducing revolving credit facilities, in the aggregate amount of \$547 million, which will reduce quarterly beginning in March 2002 and September 2005, respectively, with maturity dates in June 2007. At the option of the lenders, supplemental facilities in the amount of \$300 million may be available. Amounts under the CC VIII Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.54% to 2.89% as of December 31, 2002) and up to 1.75% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion, and unused total potential availability was \$326 million, all of which would have been available based on financial covenants as of December 31, 2002.

Obligations under the credit facilities of the Company's subsidiaries are guaranteed by each respective subsidiary's parent and by each of their operating subsidiaries. The obligations under the credit facilities of the Company's subsidiaries are secured by pledges of all equity interests owned by each subsidiary and its operating subsidiaries in other persons, and intercompany obligations owing to each subsidiary and/or its

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operating subsidiaries by their affiliates, but are not secured by the other assets of each subsidiary or its operating subsidiaries. The obligations under each subsidiary's credit facilities are also secured by pledges by the subsidiary's parent of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of the subsidiary's parent.

Each of the credit facilities of the Company's subsidiaries contain representations and warranties, affirmative and negative covenants similar to those described above with respect to the indentures governing the public notes of the Company's subsidiaries, information requirements, events of default and financial covenants. The financial covenants, which are generally tested on a quarterly basis, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense. Additionally, the credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not promptly reinvested in assets useful in the business of the borrower. The Charter Operating credit facility also provides that in the event that any existing Charter Holdings notes or other long-term indebtedness of Charter Holdings remain outstanding on the date, which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facility will mature and the revolving credit facilities will terminate on such date.

In the event of a default under the Company's subsidiaries' credit facilities or public notes, the subsidiaries' creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, the subsidiaries' credit facilities and indentures that were so accelerated or were otherwise in default will not permit the Company's subsidiaries to distribute funds to Charter Holdco or the Company to pay interest or principal on the public notes. If the amounts outstanding under such credit facilities or public notes are accelerated, all of the subsidiaries' debt and liabilities would be payable from the subsidiaries' assets, prior to any distribution of the subsidiaries' assets to pay the interest and principal amounts on the public notes. In addition, the lenders under the Company's credit facilities could foreclose on their collateral, which includes equity interests in the Company's subsidiaries, and exercise other rights of secured creditors. In any such case, the Company might not be able to repay or make any payments on its public notes. Additionally, such a default would cause a cross-default in the indentures governing the Charter Holdings notes and the convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of the subsidiaries' credit facilities or public notes might adversely affect the holders of the Company's public notes and the Company's growth, financial condition and results of operations and could force the Company to examine all options, including seeking the protection of the bankruptcy laws.

Backup Credit Facility. Effective April 14, 2003, the Company entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. or an affiliate (the "lender") would lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. The borrower would be able to draw under the facility or have letters of credit issued, in each case within five business days of the end of each quarter ending on or prior to March 31, 2004. The loans and letters of credit could only be used to repay loans, or replace letters of credit, under the Company's operating subsidiaries' credit facilities to the extent required to comply with the leverage ratios under those credit facilities or to create cushions in excess of the minimum amount necessary to comply with such ratios. The facility would be guaranteed by the Company and certain of its subsidiaries and would be secured by a lien on the Company's corporate headquarters in St. Louis and certain corporate aircraft. The Company would be required to use its commercially reasonable efforts to form a new interim holding company (CCH II, LLC) as a subsidiary of Charter Holdings and to cause Charter Holdings to transfer to it the equity interests in Charter Communications Operating LLC, CC VI Holdings, LLC, Charter Communications VII, LLC and CC V Holdings, LLC, which transfer the

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Company refers to as the equity contribution. The equity interests to be transferred in the equity contribution have been pledged as security for the loans under the Charter Operating credit facility. The Company would also be required to use its commercially reasonable efforts to obtain the consent of the lenders under the Charter Operating credit facility to the grant to the lender of a second priority lien on the equity interests transferred to CCH II, LLC. Upon the equity contribution, CCH II, LLC would become the borrower under the facility.

In addition to the liens on our corporate headquarters, on the corporate aircraft and on the equity interests transferred pursuant to the equity contribution, the facility would also be secured on a pari passu basis by liens or security interests granted on any assets or properties (other than assets or properties of CCH II, LLC, which shall secure the facility on a first priority basis, subject to the prior lien in favor of the lenders under Charter Operating credit facility on the equity interests transferred pursuant to the equity contribution) to secure any indebtedness of us or any of our subsidiaries (other than the operating company credit facilities and other ordinary and customary exceptions to be determined).

The interest rate on the loans would be initially 13% per annum, reducing to 12% per annum at such time as CCH II, LLC became the borrower under the facility. If the borrower were unable to receive funds from its operating subsidiaries to pay such interest, the borrower would be able to pay interest by delivering additional notes to the lender in the amount of the accrued interest calculated at the rate of 15% per annum, reducing to 14% per annum for any issuance after CCH II, LLC became the borrower under the facility. Such additional notes would bear interest at the same rate as, and otherwise be on the same terms as, the notes issued to represent the original loans under the facility. Upon the occurrence of an event of default, the interest rate would be increased by 2% per annum over the interest rate otherwise applicable.

If letters of credit are issued pursuant to the facility, the borrower would pay a letter of credit fee of 8% per annum of the face amount of the letter of credit.

The borrower would pay the lender a facility fee of 1.5% of the amount of the facility, payable over three years (with 0.5% being earned upon execution of the commitment letter and 1.0% being earned upon execution of the definitive documentation). In addition to the facility fee, the borrower would pay a commitment fee on the undrawn portion of the facility in the amount of 0.5% per annum commencing upon execution of the definitive documentation.

The borrower would have the right to terminate the facility at any time that no loans or letters of credit are outstanding, although any fees earned prior to termination would remain payable. No amortization payments would be required prior to maturity. The facility would mature on November 12, 2009, provided that at such time as CCH II, LLC became the borrower under the facility the maturity date would become March 1, 2007. The loan may not be prepaid prior to March 31, 2004, but the borrower would have the right to make prepayments at any time after March 31, 2004, without the payment of any premium or penalty. The borrower would be required to offer to purchase outstanding notes evidencing the loans under the facility with the proceeds of certain asset sales and debt issuances.

The definitive documentation would contain customary representations, covenants, events of default and indemnification provisions including a total leverage covenant and an interest coverage covenant, in each case modeled after the comparable covenants in the operating company credit facilities, with appropriate adjustments to be determined.

The facility is subject to the negotiation and execution of definitive documentation by June 30, 2003. If the parties have not executed the definitive documentation by that date, the facility will terminate. Once the documentation has been executed, the borrower's ability to draw on the facility would be subject to certain conditions, such as the use of other available funds for covenant compliance purposes, evidence of compliance

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with financial covenants, accuracy of representations and warranties, no material adverse change having occurred, there being no default under other credit facilities and indentures, and receipt of financial statements. Although the Company believes that it will be able to satisfy those conditions, there can be no assurance that the Company will be able to do so or that if the Company fails to do so it will be able to negotiate waivers of such conditions.

Based upon outstanding indebtedness as of December 31, 2002, the amortization of term loans, scheduled reductions in available borrowings of the revolving credit facilities, and the maturity dates for all senior and subordinated notes and debentures, aggregate future principal payments on the total borrowings under all debt agreements as of December 31, 2002, are as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 236
2004	193
2005	1,210
2006	1,991
2007	2,647
Thereafter	<u>13,415</u>
	<u>\$19,692</u>

For the amounts of debt scheduled to mature during 2003, it is management's intent to fund the repayments from borrowings on the Company's revolving credit facility. The accompanying balance sheet reflects this intent by presenting all debt balances as long-term while the table above reflects actual debt maturities as of the stated date.

11. Minority Interest and Equity Interests of Charter Holdco

The Company is a holding company whose primary asset is a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems. Minority interest on the Company's consolidated balance sheets represents the ownership percentages of Charter Holdco not owned by the Company, or 53.5% of total members' equity of Charter Holdco, plus \$668 million, \$655 million and \$641 million of preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, as of December 31, 2002, 2001 and 2000, respectively. As more fully described below, this preferred interest arises from the approximately \$629 million of preferred units issued by CC VIII in connection with the Bresnan acquisition in February, 2000. Members' equity of Charter Holdco was \$662 million, \$7.0 billion and \$8.4 billion as of December 31, 2002, 2001 and 2000, respectively. Gains and losses arising from the issuance by Charter Holdco of its membership units are recorded as capital transactions, thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the accompanying consolidated balance sheets. Minority interest was 53.5%, 53.5% and 59.2% as of December 31, 2002, 2001 and 2000, respectively.

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Changes to minority interest consist of the following for the periods presented (in millions):

	<u>Minority Interest</u>
Balance, December 31, 1999	\$ 5,381
Equity of subsidiaries issued to Bresnan sellers	1,014
Equity of subsidiaries classified as redeemable securities	(1,095)
Minority interest in loss of a subsidiary	(1,282)
Minority interest in income tax benefit	15
Option compensation expense, net	22
Impact of issuance of equity by Charter Holdco	445
Redeemable securities reclassified as minority interest	49
Other	<u>(3)</u>
Balance, December 31, 2000	4,546
Equity reclassified from redeemable securities (26,539,746 shares of Class A common stock)	1,096
Minority interest in loss of a subsidiary	(1,464)
Minority interest in change in accounting principle	(14)
Minority interest in income tax benefit	16
Option compensation expense, net	(2)
Changes in fair value of interest rate agreements	(22)
Gain on issuance of equity by Charter Holdco	<u>253</u>
Balance, December 31, 2001	4,409
Minority interest in loss of a subsidiary	(3,179)
Minority interest in change in accounting principle	(306)
Minority interest in income tax benefit	132
Option compensation expense, net	3
Changes in fair value of interest rate agreements	(35)
Gain on issuance of equity by Charter Holdco	<u>1</u>
Balance, December 31, 2002	<u>\$ 1,025</u>

In February 2000, Charter Holdco issued 15 million membership units for approximately \$25 per share, or \$385 million, primarily to the Comcast sellers as partial consideration for the Bresnan acquisition thereby decreasing Charter's ownership percentage of Charter Holdco to 40% from 41% immediately preceding the transaction. These transactions resulted in a loss on issuance of equity by Charter Holdco of \$51 million. In September 2000, Charter Holdco issued 12 million membership units to Charter for approximately \$15 per share in exchange for \$178 million of equity interest of two businesses acquired by Charter and contributed to Charter Holdco thereby increasing Charter's ownership percentage of Charter Holdco to 41% from 40% immediately preceding the transaction. This transaction resulted in a loss on issuance of equity by Charter Holdco of \$5 million. In May 2001, Charter Holdco issued 60 million membership units to Charter for approximately \$20 per share in exchange for \$1.2 billion of proceeds from issuance of Charter common stock thereby increasing Charter's ownership percentage of Charter Holdco to 46% from 41% immediately preceding the transaction. This transaction resulted in a gain on issuance of equity by Charter Holdco of \$236 million.

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As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued Class A Preferred Membership Interests (collectively, the CC VIII Interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, now owned by Comcast Corporation (the Comcast Sellers). The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast Put Right). In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to the initial capital account of the Comcast Sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII Interest following consummation of the Comcast Put Right. Charter's Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

12. Redeemable Securities

In connection with several acquisitions in 1999 and 2000, sellers who acquired Charter Holdco membership units, additional equity interests in a subsidiary of Charter Holdings or shares of Class A common stock in Charter's initial public offering received potential rescission rights against Charter and Charter Holdco arising out of possible violations of Section 5 of the Securities Act of 1933, as amended, in connection

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with the offers and sales of these equity interests. Accordingly, the maximum potential cash obligation related to the rescission rights, estimated at \$1.1 billion as of December 31, 2000, has been excluded from shareholders' equity or minority interest and classified as redeemable securities on the consolidated balance sheet.

In February 2001, all remaining rescission rights associated with the redeemable securities expired without the security holders requesting repurchase of their securities. Accordingly, the Company reclassified the respective amounts to minority interest and shareholders' equity, as applicable.

13. Preferred Stock — Redeemable

On August 31, 2001, in connection with its acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., the Company issued 505,664 shares of Series A Convertible Redeemable Preferred Stock (the Preferred Stock) valued at and with a liquidation preference of \$51 million. Holders of the Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Preferred Stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. The Preferred Stock is convertible, in whole or in part, at the option of the holders from April 1, 2002 through August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Preferred Stock is the Liquidation Preference of \$100, subject to certain customary adjustments. In the first quarter of 2003, the Company issued 39,595 additional shares of preferred stock valued at and with a liquidation preference of \$4 million.

14. Comprehensive Loss

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying consolidated balance sheets. The Company reports changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in accumulated other comprehensive loss. Comprehensive loss for the years ended December 31, 2002, 2001 and 2000 was \$2.5 billion, \$1.2 billion and \$0.9 billion, respectively.

15. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of its credit facilities. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

Effective January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." Interest rate agreements are recorded in the consolidated balance sheet at December 31, 2002 and 2001 as either an asset or liability measured at fair value. In connection with the

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adoption of SFAS No. 133, the Company recorded a loss of \$10 million (approximately \$24 million before minority interest effects) as the cumulative effect of change in accounting principle. The effect of adoption was to increase net loss and loss per share by \$10 million and \$0.04 per share, respectively, for the year ended December 31, 2001.

The Company has certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments are those that effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the years ended December 31, 2002 and 2001, other expense includes \$14 million and \$2 million, respectively, of losses, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations are reported in accumulated other comprehensive loss. For the year ended December 31, 2002 and 2001, a loss of \$65 million and \$39 million, respectively, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value with the impact recorded as loss on interest rate agreements. For the years ended December 31, 2002 and 2001, the Company recorded other expense of \$101 million and \$48 million, respectively, for interest rate derivative instruments not designated as hedges.

As of December 31, 2002, 2001 and 2000, the Company had outstanding \$3.4 billion, \$3.3 billion and \$1.9 billion and \$520 million, \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. Additionally, at December 31, 2000, the Company had \$15 million of interest rate caps. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

16. Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments as of December 31, 2002, 2001 and 2000 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash, receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments. The Company is exposed to market price risk volatility with respect to investments in publicly traded and privately held entities.

The fair value of interest rate agreements represents the estimated amount the Company would receive or pay upon termination of the agreements. Management believes that the sellers of the interest rate agreements will be able to meet their obligations under the agreements. In addition, some of the interest rate agreements are with certain of the participating banks under the Company's credit facilities, thereby reducing the exposure

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to credit loss. The Company has policies regarding the financial stability and credit standing of major counterparties. Nonperformance by the counterparties is not anticipated nor would it have a material adverse effect on the Company's consolidated financial position or results of operations.

The estimated fair value of the Company's notes, credit facilities and interest rate agreements at December 31, 2002, 2001 and 2000 are based on quoted market prices or a discounted cash flow analysis using the Company's incremental borrowing rate for similar types of borrowing arrangements and dealer quotations.

A summary of the carrying value and fair value of the Company's debt and related interest rate agreements at December 31, 2002, 2001 and 2000 is as follows (in millions):

	2002		2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt						
Charter convertible notes	\$1,383	\$ 295	\$1,383	\$1,327	\$ 750	\$ 877
Charter Holdings debt	9,222	3,867	7,999	7,964	4,780	4,426
Credit facilities	7,789	6,367	6,710	6,710	7,302	7,302
Other	277	212	251	237	229	195
Interest Rate Agreements						
Assets (Liabilities)						
Swaps	(258)	(258)	(80)	(80)	(1)	5
Collars	(34)	(34)	(34)	(34)	—	11

The weighted average interest pay rate for the Company's interest rate swap agreements was 7.40%, 7.22% and 7.61 % at December 31, 2002, 2001 and 2000, respectively. The Company's interest rate collar agreements are structured so that if LIBOR falls below 5.3%, the Company pays 6.7%. If the LIBOR rate is between 5.3% and 8.0%, the Company pays LIBOR. The LIBOR rate is capped at 8.0% if LIBOR is between 8.0% and 9.9%. If the LIBOR rate rises above 9.9%, the cap is removed.

17. Revenues

Revenues consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video	\$3,083	\$2,768	\$2,503
Digital video	457	307	89
High-speed data	340	155	55
Advertising sales	302	197	142
Other	384	380	352
	\$4,566	\$3,807	\$3,141

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18. Operating Expenses

Operating expenses consist of the following for the years presented (in millions):

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Analog video programming	\$1,012	\$ 874	\$ 741
Digital video programming.....	159	103	34
High-speed data	112	65	25
Advertising sales	87	64	57
Service	434	374	328
	<u>\$1,804</u>	<u>\$1,480</u>	<u>\$1,185</u>

19. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following for the years presented (in millions):

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
General and administrative	\$813	\$696	\$505
Marketing	153	136	103
	<u>\$966</u>	<u>\$832</u>	<u>\$608</u>

20. Option Plans

The Company grants stock options, restricted stock and other incentive compensation pursuant to two plans — the 1999 Option Plan of Charter Holdco (the “1999 Plan”) and the 2001 Stock Incentive Plan of Charter (the “2001 Plan”). The 1999 Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and current and prospective non-employee directors of Charter. Options granted generally vest over five years from the grant date, with 25% vesting 15 months after the anniversary of the grant date and ratably thereafter. Options not exercised accumulate and are exercisable, in whole or in part, in any subsequent period, but not later than ten years from the date of grant. Membership units received upon exercise of the options are automatically exchanged into Class A common stock of Charter on a one-for-one basis.

The 2001 Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 3,000,000), as each term is defined in the 2001 Plan. Employees, officers, consultants and directors of the Company and its subsidiaries and affiliates are eligible to receive grants under the 2001 Plan. Options granted generally vest over four years from the grant date, with 25% vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date.

Together, the plans allow for the issuance of up to an aggregate of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock). The aggregate shares available reflects an October 2002 amendment to the 2001 Plan approved by the board of directors of Charter to increase available shares by 30,000,000 shares. However, the amendment is subject to shareholder approval and any grants with respect to these additional shares will not be exercisable unless and until the Company’s shareholders approve the amendment. In 2001, any shares covered by options that terminated under the 1999 Plan were transferred to the 2001 Plan, and no new options were granted under the 1999 Plan. During

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September and October 2001, in connection with new employment agreements and related option agreements entered into by the Company, certain executives of the Company were awarded an aggregate of 256,000 shares of restricted Class A common stock, of which 26,250 shares were cancelled as of December 31, 2002. In January and February of 2003, an additional 92,813 shares were canceled. The shares vested 25% upon grant, with the remaining shares vesting monthly over a three-year period beginning after the first anniversary of the date of grant. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$1 million.

In September 2001, when the Company's former President and Chief Executive Officer terminated his employment, as part of his separation agreement he waived his right to an option to purchase approximately seven million Charter Holdco membership units, of which approximately 5 million had vested. Accordingly, the Company recorded a reversal of compensation expense previously recorded on unvested options of \$22 million.

A summary of the activity for the Company's stock options, excluding granted shares of restricted Class A common stock, for the years ended December 31, 2002, 2001 and 2000, is as follows (options in thousands, except per share data):

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	46,558	\$17.10	28,482	\$19.24	20,758	\$19.79
Granted	13,122	4.88	29,395	16.01	10,247	18.06
Exercised	—	—	(278)	19.23	(17)	20.00
Cancelled	(6,048)	16.32	(11,041)	19.59	(2,506)	18.98
Options outstanding, end of period	<u>53,632</u>	<u>\$14.22</u>	<u>46,558</u>	<u>\$17.10</u>	<u>28,482</u>	<u>\$19.24</u>
Weighted average remaining contractual life . . .	<u>8 years</u>		<u>9 years</u>		<u>9 years</u>	
Options exercisable, end of period	<u>17,844</u>	<u>\$17.93</u>	<u>9,994</u>	<u>\$18.51</u>	<u>7,044</u>	<u>\$19.98</u>
Weighted average fair value of options granted	<u>\$ 2.89</u>		<u>\$ 9.15</u>		<u>\$ 9.63</u>	

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$ 1.11 - \$ 2.85	9,184	10 years	\$ 2.58	125	10 years	\$ 1.58
\$ 9.13 - \$13.96	19,676	9 years	12.20	4,330	9 years	12.50
\$14.31 - \$20.00	16,180	7 years	19.04	11,024	7 years	19.23
\$20.46 - \$23.09	8,592	8 years	22.21	2,365	8 years	22.14

The Company uses the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for the option plans. Option compensation expense of \$5 million, a net option compensation benefit of \$5 million and option compensation expense of \$38 million for the years ended December 31, 2002, 2001 and 2000, respectively, was recorded in the consolidated statements of operations

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since the exercise prices of certain options were less than the estimated fair values of the underlying membership interests on the date of grant. A reversal of previously recognized option compensation expense of \$22 million for the year ended December 31, 2001 was recorded in the consolidated statements of operations primarily in connection with the waiver of the right to approximately seven million options by the Company's former President and Chief Executive Officer as part of his September 2001 separation agreement. This was partially offset by expense recorded because exercise prices on certain options were less than the estimated fair values of the Company's stock at the time of grant. Estimated fair values were determined by the Company using the valuation inherent in the companies acquired by Paul G. Allen in 1998 and valuations of public companies in the cable television industry adjusted for factors specific to the Company. Compensation expense is being recorded with the method described in FIN 28 over the vesting period of the individual options that varies between four and five years. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$2 million. No stock option compensation expense was recorded for the options granted after November 8, 1999, since the exercise price was equal to the estimated fair value of the underlying membership interests or shares of Class A common stock on the date of grant. Since the membership units are exchangeable into Class A common stock of Charter on a one-for-one basis, the estimated fair value was equal to the quoted market values of Class A common stock.

On July 25, 2001, the Company issued options to purchase 186,385 shares of Charter Class A common stock to a consultant in consideration of services to be rendered in the future, pursuant to an equity compensation plan not approved by shareholders. The options are exercisable immediately, at an exercise price of \$20.46 per share and if not exercised prior to the tenth anniversary of the grant date, will expire. The Company accounts for options granted to consultants in accordance with the provisions of SFAS No. 123 and recorded option compensation expense of \$3 million on July 25, 2001. The fair value of the options, \$13.95 per option, was estimated on the date of grant using the Black-Scholes option-pricing model and the following assumptions: risk-free interest rate of 5.7%; expected volatility of 49.8%; and an expected life of 10 years. The valuation assumed no dividends are paid.

On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123, under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date. Adoption of these provisions will result in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 123, the fair value method will be applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been \$20 million.

21. Special Charges

In the fourth quarter of 2002, the Company recorded a special charge of \$35 million, of which \$31 million is associated with its workforce reduction program and the consolidation of its operations from three divisions and ten regions into five operating divisions, elimination of redundant practices and streamlining its management structure. The remaining \$4 million is related to legal and other costs associated with the Company's ongoing grand jury investigation, shareholder lawsuits and SEC investigation. The \$31 million charge related to realignment activities includes severance costs of \$28 million and lease termination costs of

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\$3 million. The Company intends to terminate approximately 1,400 employees, of which 100 employees were terminated in the fourth quarter of 2002. As of December 31, 2002, a liability of approximately \$31 million is recorded on the accompanying consolidated balance sheet related to the realignment activities.

During the year ended December 31, 2001, the Company recorded \$18 million in special charges that represent \$15 million of costs associated with the transition of approximately 145,000 (unaudited) data customers from the Excite@Home Internet service to the Charter Pipeline Internet service, as well as \$3 million associated with certain employee severance costs.

In December 2001, the Company implemented a restructuring plan to reduce its workforce in certain markets and reorganize its operating divisions from two to three and operating regions from twelve to ten. The restructuring plan was completed during the first quarter of 2002, resulting in the termination of approximately 320 employees and severance costs of \$4 million of which \$1 million was recorded in the first quarter of 2002 and \$3 million was recorded in the fourth quarter of 2001.

22. Income Taxes

All operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are not subject to income tax. However, certain of these subsidiaries are corporations and are subject to income tax. All of the taxable income, gains, losses, deductions and credits of Charter Holdco are passed through to its members: Charter, Charter Investment, Vulcan Cable, and certain former owners of acquired companies.

Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco amended and restated limited liability company agreement (“Agreement”) and partnership tax rules and regulations.

The Agreement provides for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Pursuant to the Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units will be allocated instead to the membership units held by Vulcan Cable and Charter Investment (the “Special Loss Allocations”) to the extent of their capital account balances. The Agreement further provides that, beginning at the time Charter Holdco first generates net tax profits, the net tax profits that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common membership units will instead be allocated to Vulcan Cable and Charter Investment (the “Special Profit Allocations”). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The Agreement generally provides that any additional net tax profits are to be allocated proportionately among the members of Charter Holdco based on their ownership of Charter Holdco membership units. The cumulative amount of the actual income tax losses allocated to Vulcan Cable and Charter Investment as a result of the Special Loss Allocations through the period ended December 31, 2002 is approximately \$3.3 billion.

In certain situations, the Special Loss Allocations and Special Profit Allocations described above could result in Charter paying taxes in an amount that is more or less than if Charter Holdco had allocated net tax profits and net tax losses among its members based generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to application of section 704(c) under the Internal Revenue Code, (iii) the amount and timing of

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alternative minimum taxes paid by Charter, (iv) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (v) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit Allocations and Special Loss Allocations will change significantly pursuant to the provisions of the income tax regulations. Such change could defer the actual tax benefits to be derived by Charter with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards.

In addition to the aforementioned reasons, under their exchange agreement with Charter, Vulcan Cable and Charter Investment may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable and Charter Investment could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. The Company's principal shareholder has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter.

For the years ended December 31, 2002, 2001 and 2000, the Company recorded deferred income tax benefits as shown below. The income tax benefits are realized through reductions in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries.

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

	<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Current expense:			
Federal income taxes	\$ —	\$ —	\$ —
State income taxes	<u>2</u>	<u>—</u>	<u>—</u>
Current income tax expense	<u>2</u>	<u>—</u>	<u>—</u>
Deferred benefit:			
Federal income taxes	(456)	(11)	(9)
State income taxes	<u>(66)</u>	<u>(1)</u>	<u>(1)</u>
Deferred income tax benefit:	<u>(522)</u>	<u>(12)</u>	<u>(10)</u>
Total income benefit	<u><u>\$(520)</u></u>	<u><u>\$(12)</u></u>	<u><u>\$ (10)</u></u>

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The Company's effective tax rate differs from that derived by applying the applicable Federal income tax rate of 35%, and average state income tax rate of 5% for the years ended December 31, 2002, 2001 and 2000 as follows (dollars in millions):

	<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Statutory federal income taxes	\$(969)	\$(409)	\$(304)
State income taxes, net of federal benefit	(138)	(58)	(43)
Valuation allowance provided	<u>587</u>	<u>455</u>	<u>337</u>
Provision for income taxes	<u>\$(520)</u>	<u>\$ (12)</u>	<u>\$ (10)</u>

The tax effects of these temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002, 2001 and 2000 which are included in long-term liabilities are presented below (dollars in millions).

	<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Deferred tax assets:			
Net operating loss carryforward	\$ 1,489	\$ 893	\$ 423
Other	<u>9</u>	<u>9</u>	<u>8</u>
Total gross deferred tax assets	1,498	902	431
Less: valuation allowance	<u>(1,444)</u>	<u>(857)</u>	<u>(402)</u>
Net deferred tax assets	<u>\$ 54</u>	<u>\$ 45</u>	<u>\$ 29</u>
Deferred tax liabilities:			
Investment in Charter Holdco	\$ (266)	\$ (671)	\$ (671)
Property, plant & equipment	(47)	(34)	(15)
Franchises	<u>(240)</u>	<u>(493)</u>	<u>(523)</u>
Gross deferred tax liabilities	<u>(553)</u>	<u>(1,198)</u>	<u>(1,209)</u>
Net deferred tax liabilities	<u>\$ (499)</u>	<u>\$(1,153)</u>	<u>\$(1,180)</u>

As of December 31, 2002, the Company has deferred tax assets of \$1.4 billion, which primarily relate to the excess of cumulative financial statement losses over cumulative tax losses allocated from Charter Holdco. The deferred tax assets also include \$322 million of tax net operating loss carryforwards (generally expiring in years 2003 through 2022) of Charter and its indirect corporate subsidiaries, which are subject to separate return limitations. Valuation allowances of \$277 million exist with respect to these carryforwards.

The total valuation allowance for deferred tax assets as of December 31, 2002, 2001 and 2000 was \$1.4 billion, \$857 million and \$402 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset deferred tax liabilities.

The Company is currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on the Company's consolidated financial position or results of operation.

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23. Related Party Transactions

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

Charter has entered into management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable television systems owned or operated by its subsidiaries. The management services include such services as centralized customer billing services, data processing and related support, benefits administration and coordination of insurance coverage and self-insurance programs for medical, dental and workers' compensation claims. Certain costs for these services are billed and charged directly to the Company's operating subsidiaries and are included within operating costs. Such costs totaled \$176 million, \$119 million and \$51 million for the years ended December 31, 2002, 2001 and 2000, respectively. All other costs incurred on the behalf of the Company's operating subsidiaries are considered a part of the management fee and are recorded as corporate expense in the accompanying consolidated financial statements. For the years ended December 31, 2002, 2001 and 2000, the management fee charged to the Company's operating subsidiaries approximated the corporate expenses incurred by Charter Holdco and Charter on behalf of the Company's operating subsidiaries. The credit facilities of the Company's operating subsidiaries prohibit payments of management fees in excess of 3.5% of revenues until repayment of the outstanding indebtedness. In the event any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per annum, compounded annually, from the date it was due and payable until the date it is paid.

Mr. Allen, the controlling shareholder of Charter, and a number of his affiliates have interests in various entities that provide services or programming to Charter's subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter may not, and may not allow its subsidiaries to, engage in any business transaction outside the cable transmission business except for certain existing approved investments. Should Charter or its subsidiaries wish to pursue a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries to engage in the business transaction, they will be able to do so. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable television systems owned, operated or managed by Charter or its subsidiaries from time to time.

Mr. Allen or his affiliates own equity interests or warrants to purchase equity interests in various entities with which the Company does business or which provides it with products, services or programming. Among these entities are TechTV Inc. (TechTV), Oxygen Media Corporation (Oxygen Media), Digeo, Inc., Click2learn, Inc., Trail Blazer Inc., Action Sports Cable Network (Action Sports) and Microsoft Corporation. In addition, Mr. Allen and Mr. Savoy were directors of USA Networks, Inc. (USA Networks), who operates the USA Network, The Sci-Fi Channel, Trio, World News International and Home Shopping Network, owning approximately 5% and less than 1%, respectively, of the common stock of USA Networks. In 2002, Mr. Allen and Mr. Savoy sold their common stock and are no longer directors of the USA Network. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated (Vulcan Ventures) and Vulcan Inc. and is the president of Vulcan Ventures. Mr. Savoy is also a vice president and a director of Vulcan Ventures. The various cable, media, Internet and telephony companies in which Mr. Allen has invested may mutually benefit one another. The agreements governing the Company's relationship with Digeo, Inc. are an example of a cooperative business relationship among Mr. Allen's affiliated companies. The Company can give no

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assurance that any of these business relationships will be successful, that the Company will realize any benefits from these relationships or that the Company will enter into any business relationships in the future with Mr. Allen's affiliated companies.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of the Company and its business. The Company cannot assure that, in the event that the Company or any of its subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to the Company as terms it might have obtained from an unrelated third party. Also, conflicts could arise with respect to the allocation of corporate opportunities between the Company and Mr. Allen and his affiliates. The Company has not instituted any formal plan or arrangement to address potential conflicts of interest.

High Speed Access Corp. (High Speed Access) has been a provider of high-speed Internet access services over cable modems. During the period from 1997 to 2000, certain Charter entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity controlled by Mr. Allen, and certain of Charter's subsidiaries made equity investments in High Speed Access.

On February 28, 2002, Charter's subsidiary and an affiliate to the Company, CC Systems, purchased from High Speed Access the contracts and associated assets, and assumed related liabilities, that served the Company's customers, including a customer contact center, network operations center and provisioning software. Immediately prior to the asset purchase, Vulcan Ventures beneficially owned approximately 37%, and the Company beneficially owned approximately 13%, of the common stock of High Speed Access (including the shares of common stock which could be acquired upon conversion of the Series D preferred stock, and upon exercise of the warrants owned by Charter Communications Holding Company). Following the consummation of the asset purchase, neither the Company nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

The Company receives or will receive programming for broadcast via its cable systems from TechTV, USA Networks, Oxygen Media and Action Sports. The Company pays a fee for the programming service generally based on the number of customers receiving the service. Such fees for the years ended December 31, 2002 and 2001 were each less than 2% of total operating expenses. In addition, the Company receives commissions from USA Networks for home shopping sales generated by its customers. Such revenues for the years ended December 31, 2002 and 2001 were less than 1% of total revenues. On November 5, 2002, Action Sports announced that it was discontinuing its business. The Company believes that the failure of Action Sports will not materially affect the Company's business or results of operations.

As discussed in Note 5, in April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of the Company, completed the cash purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar Income IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash sale price of approximately \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash sale price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. All of the executive officers of Charter and Charter Holdco act as officers of Enstar Communications Corporation.

The Company purchases certain equipment for use in the Company's business from ADC Telecommunications, which provides broadband access and network equipment. Mr. Wangberg, a director for Charter,

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serves as a director for ADC Telecommunications. Such fees for the years ended December 31, 2002 and 2001 were each less than 1% of total operating expenses under this arrangement.

On January 10, 2003 Charter signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. The Company believes that entities controlled by Mr. Mark Cuban, co-founder and president of HDNet, owns 96.9% of HDNet and HDNet Movies as of December 31, 2002. As of December 31, 2002 Mr. Cuban, owns approximately 5.3% equity interest in Charter.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued the CC VIII Interest to the Comcast Sellers. The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000. In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to the initial capital account of the Comcast Sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII Interest following consummation of the Comcast Put Right. Our Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

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24. Commitments and Contingencies

Leases

The Company leases certain facilities and equipment under noncancellable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2002, 2001 and 2000, were \$31 million, \$25 million and \$23 million, respectively. As of December 31, 2002, future minimum lease payments are as follows (in millions):

<u>Year</u>	<u>Amount</u>
2003	\$18,456
2004	14,202
2005	12,190
2006	9,212
2007	6,145
Thereafter	20,726

The Company also rents utility poles in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense incurred for pole rental attachments for the years ended December 31, 2002, 2001 and 2000, was \$41 million, \$33 million and \$31 million, respectively. The Company pays programming fees under multi-year contracts ranging from three to six years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Litigation

Fourteen putative federal class action lawsuits (the “Federal Class Actions”) have been filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter’s securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages are sought by the plaintiffs. In general, the lawsuits allege that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter’s operations and prospects.

In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the “Panel”) to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel’s transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel’s transfer order. We anticipate that the lead plaintiff will file a single consolidated amended complaint shortly. No response from Charter will be due until after this consolidated amended complaint is filed.

On September 12, 2002, a shareholders derivative suit (the “State Derivative Action”) was filed in Missouri state court against Charter and its current directors, as well as its former auditors. A substantively identical derivative action was later filed and consolidated into the State Derivative Action. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter’s behalf, are sought by the plaintiffs.

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

In addition to the Federal Class Actions, the State Derivative Action and the Federal Derivative Action, six putative class action lawsuits have been filed against Charter and certain of its current directors and officers in the Court of Chancery of the State of Delaware (the "Delaware Class Actions"). The Delaware Class Actions are substantively identical and generally allege that the defendants breached their fiduciary duties by participating or acquiescing in a purported and threatened attempt by Defendant Paul Allen to purchase shares and assets of Charter at an unfair price. The lawsuits were brought on behalf of Charter's securities holders as of July 29, 2002, and seek unspecified damages and possible injunctive relief. No such proposed transaction by Mr. Allen has been presented.

The lawsuits discussed above are each in preliminary stages and no dispositive motions or other responses to any of the complaints have been filed. No reserves have been established for those matters because the Company believes they are either not estimable or not probable. Charter intends to vigorously defend the lawsuits.

In August of 2002, Charter became aware of a grand jury investigation being conducted by the United States Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, refunds that Charter sought from programmers and its reporting of amounts received from digital set-top terminal suppliers for advertising. Charter has been advised by the U.S. Attorney's Office that no member of the Board of Directors, including its Chief Executive Officer, is a target of the investigation. Charter is fully cooperating with the investigation.

On November 4, 2002, Charter received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission (SEC). The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas.

The investigation and subpoenas generally concern Charter's prior reports with respect to its determination of the number of customers, and various of its other accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. Charter is actively cooperating with the SEC Staff.

Charter is unable to predict the outcome of the lawsuits and the government investigations described above. An unfavorable outcome in the lawsuits or the government investigations described above could have a material adverse effect on Charter's results of operations and financial condition.

Charter is generally required to indemnify each of the named individual defendants in connection with these matters pursuant to the terms of its Bylaws and (where applicable) such individual defendants' employment agreements. Pursuant to the terms of certain employment agreements and in accordance with the Bylaws of Charter, in connection with the pending grand jury investigation, SEC investigation and the above described lawsuits, Charter's current directors and its current and former officers have been advanced certain costs and expenses incurred in connection with their defense.

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

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Charter has directors' and officers' liability insurance coverage that it believes is available for these matters, subject to the terms, conditions and limitations of the respective policies.

Regulation in the Cable Industry

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

The 1996 Telecom Act required the FCC to undertake a number of implementing rulemakings. Moreover, Congress and the FCC have frequently revisited the subject of cable regulation. Future legislative and regulatory changes could adversely affect the Company's operations.

The 1992 Cable Act permits certified local franchising authorities to order refunds of basic service tier rates paid in the previous twelve-month period determined to be in excess of the maximum permitted rates. During the years ended December 31, 2002, 2001 and 2000, the amounts refunded by the Company have been insignificant. The Company may be required to refund additional amounts in the future.

25. Employee Benefit Plan

The Company's employees may participate in the Charter Communications, Inc. 401(k) Plan. Employees that qualify for participation can contribute up to 50% of their salary, on a pre-tax basis, subject to a maximum contribution limit as determined by the Internal Revenue Service. The Company matches 50% of the first 5% of participant contributions. The Company made contributions to the 401(k) plan totaling \$8 million, \$9 million and \$7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

26. Recently Issued Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 on January 1, 2003. The Company does not expect the adoption of SFAS No. 143 to have a material impact on the Company's financial condition or results of operations.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. The Company will adopt SFAS No. 145 beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which will be adopted for transactions occurring subsequent to May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material impact on the consolidated financial statements of the Company.

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In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by the Company for exit or disposal activities that are initiated after December 31, 2002. Adoption will not have a material impact on the consolidated financial statements of the Company.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted SFAS No. 148 beginning January 1, 2003. On January 1, 2003, the Company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation" on the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date.

27. Parent Company Only Financial Statements

As the result of limitations on, and prohibitions of, distributions, substantially all of the net assets of the consolidated subsidiaries are restricted for distribution to Charter, the parent company. The following condensed parent-only financial statements of Charter account for the investment in Charter Holdco under the equity method of accounting. The financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto. The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its consolidated financial statements of the years ended December 31, 2001 and 2000. See Note 3 for a description of the restatement.

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CHARTER COMMUNICATIONS, INC. (Parent Company Only)
CONDENSED BALANCE SHEET

	<u>December 31, 2002</u>
ASSETS	
Cash and cash equivalents	\$ 10
Receivable from related party	3
Investment in Charter Holdco	308
Notes receivable from Charter Holdco	<u>1,433</u>
	<u>\$1,754</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	\$ 13
Convertible notes	1,383
Deferred income taxes	266
Preferred stock — redeemable	51
Shareholders' equity	<u>41</u>
Total liabilities and shareholders' equity	<u>\$1,754</u>

CONDENSED STATEMENT OF OPERATIONS

	<u>Year Ended December 31, 2002</u>
REVENUES	
Interest income	\$ 76
Management fees	<u>9</u>
Total revenues	85
EXPENSES	
Equity in losses of Charter Holdco	(2,922)
General and administrative expenses	(9)
Interest expense	<u>(73)</u>
Total expenses	<u>(3,004)</u>
Net loss before income taxes	(2,919)
Income taxes	<u>405</u>
Net loss	(2,514)
Dividend on preferred equity	<u>(3)</u>
Net loss after preferred dividends	<u>\$ (2,517)</u>

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CONDENSED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31, 2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss after preferred dividends	\$(2,517)
Equity in losses of Charter Holdco	2,922
Changes in operating assets and liabilities	10
Deferred income taxes	(405)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in Charter Holdco	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10
CASH AND CASH EQUIVALENTS, beginning of year	<u>—</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10</u>

The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2001 (in millions):

CONDENSED BALANCE SHEET

	<u>December 31, 2001</u>	
	<u>(As previously reported)</u>	<u>(As restated)</u>
ASSETS		
Receivable from related party	\$ 14	\$ 14
Investment in Charter Holdco	2,912	3,256
Notes receivable from Charter Holdco	<u>1,383</u>	<u>1,433</u>
	<u>\$4,309</u>	<u>\$4,703</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ 14	\$ 13
Convertible notes	1,383	1,383
Deferred income taxes	—	671
Preferred stock — redeemable	51	51
Shareholders' equity	<u>2,861</u>	<u>2,585</u>
Total liabilities and shareholders' equity	<u>\$4,309</u>	<u>\$4,703</u>

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CONDENSED STATEMENT OF OPERATIONS

	<u>Year Ended December 31, 2001</u>	
	<u>(As previously reported)</u>	<u>(As restated)</u>
REVENUES		
Interest income	\$ 60	\$ 61
Management fees	<u>6</u>	<u>6</u>
Total revenues	66	67
EXPENSES		
Equity in losses of Charter Holdco	(1,179)	(1,168)
General and administrative expenses	(6)	(6)
Interest expense	<u>(59)</u>	<u>(60)</u>
Total expenses	<u>(1,244)</u>	<u>(1,234)</u>
Net loss	(1,178)	(1,167)
Dividend on preferred equity	<u>(1)</u>	<u>(1)</u>
Net loss after preferred dividends	<u><u>\$ (1,179)</u></u>	<u><u>\$ (1,168)</u></u>

CONDENSED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31, 2001</u>	
	<u>(As previously reported)</u>	<u>(As restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss after preferred dividends	\$(1,179)	\$(1,168)
Equity in losses of Charter Holdco	1,179	1,168
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and receivables from Charter Holdco	(633)	(633)
Investment in Charter Holdco	(1,224)	(1,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	633	633
Net proceeds from issuance of common stock	1,218	1,218
Other	<u>6</u>	<u>6</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	—	—
CASH AND CASH EQUIVALENTS, beginning of year	<u>—</u>	<u>—</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity

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method of accounting, showing previously reported and restated amounts as of December 31, 2000 (in millions):

CONDENSED BALANCE SHEET

	<u>December 31, 2000</u>	
	<u>(As previously reported)</u>	<u>(As restated)</u>
ASSETS		
Receivable from related party	\$ —	\$ 10
Investment in Charter Holdco	4,228	3,447
Notes receivable from Charter Holdco	<u>750</u>	<u>750</u>
	<u>\$4,978</u>	<u>\$4,207</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ —	\$ 11
Payables to related party	1	—
Convertible notes	750	750
Deferred income taxes	—	671
Redeemable securities	1,104	8
Shareholders' equity	<u>3,123</u>	<u>2,767</u>
Total liabilities and shareholders' equity	<u>\$4,978</u>	<u>\$4,207</u>

CONDENSED STATEMENT OF OPERATIONS

	<u>Year Ended December 31, 2000</u>	
	<u>(As previously reported)</u>	<u>(As restated)</u>
REVENUES		
Interest income	\$ 9	\$ 7
Management fees	<u>5</u>	<u>5</u>
Total revenues	14	12
EXPENSES		
Equity in losses of Charter Holdco	(829)	(858)
General and administrative expenses	(5)	(5)
Interest expense	<u>(9)</u>	<u>(7)</u>
Total expenses	<u>(843)</u>	<u>(870)</u>
Net loss	<u>\$ (829)</u>	<u>\$ (858)</u>

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CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(829)	\$(858)
Equity in losses of Charter Holdco	829	858
Changes in operating assets and liabilities	(19)	(19)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and receivables from Charter Holdco	(750)	(750)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	750	750
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(19)	(19)
CASH AND CASH EQUIVALENTS, beginning of year	<u>19</u>	<u>19</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ —</u>	<u>\$ —</u>

28. Unaudited Quarterly Financial Data (Restated)

The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its financial statements for the years ended December 31, 2002, 2001 and 2000. See Note 3 for a description of the restatement.

The following table presents quarterly data for the periods presented on the consolidated statement of operations:

	Year ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,074	\$ 1,137	\$ 1,166	\$ 1,189
Income (loss) from operations	97	85	91	(4,593)
Loss before minority interest, income taxes and cumulative effect of accounting change	(234)	(354)	(368)	(4,991)
Net loss applicable to common stock	(317)	(160)	(167)	(1,873)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.17)	(0.54)	(0.56)	(6.36)
Basic and diluted loss per common share	(1.07)	(0.54)	(0.57)	(6.36)
Weighted-average shares outstanding	294,394,939	294,453,454	294,454,659	294,457,934

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	Year ended December 31, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 856	\$ 897	\$ 1,002	\$ 1,052
Loss from operations	(293)	(288)	(285)	(334)
Loss before minority interest, income taxes and cumulative effect of accounting change	(637)	(626)	(713)	(657)
Net loss applicable to common stock	(268)	(266)	(330)	(304)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.11)	(1.04)	(1.12)	(1.03)
Basic and diluted loss per common share	(1.15)	(1.04)	(1.12)	(1.03)
Weighted-average shares outstanding	233,777,675	255,027,543	294,250,549	294,384,003
	Year ended December 31, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 721	\$ 788	\$ 808	\$ 824
Loss from operations	(234)	(263)	(283)	(308)
Loss before minority interest and income taxes	(457)	(510)	(560)	(623)
Net loss applicable to common stock	(181)	(202)	(222)	(253)
Basic and diluted loss per common share	(0.81)	(0.91)	(0.99)	(1.08)
Weighted-average shares outstanding	221,917,083	222,089,746	224,965,289	233,738,668

The following tables reconcile the Company's previously filed quarterly financial data to the restated quarterly financial data included herein for revisions described more fully in Note 2 (in millions, except for share data). A summary of the nature of the reconciling items for each quarter has been provided below each table and should be read in conjunction with Note 3.

	For the Three Months Ended March 31, 2002		
	As previously reported	Adjustments	As restated
Revenues	\$ 1,078	\$ (4)	\$ 1,074
Income (loss) from operations	(38)	135	97
Loss before minority interest, income taxes and cumulative effect of accounting change	(371)	137	(234)
Net loss applicable to common stock	(175)	(142)	(317)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.59)	0.42	(0.17)
Basic and diluted loss per common share	(0.59)	(0.48)	(1.07)
Weighted average common shares outstanding, basic and diluted	294,394,939	—	294,394,939

Net loss applicable to common stock increased due to impairment of franchises caused by additional franchises being recorded in prior years related to corrections to purchase accounting for acquisitions in 1999

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and 2000 and due to the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan and the tax benefit generated by these adjustments.

	<u>For the Three Months Ended June 30, 2002</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,158	\$ (21)	\$ 1,137
Income from operations	8	77	85
Loss before minority interest and income taxes	(431)	77	(354)
Net loss applicable to common stock	(203)	43	(160)
Basic and diluted loss per common share	(0.69)	0.15	(0.54)
Weighted average common shares outstanding, basic and diluted	294,453,454	—	294,453,454

Net loss applicable to common stock decreased as a result of the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan, offset by the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives.

	<u>For the Three Months Ended September 30, 2002</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,179	\$ (13)	\$ 1,166
Income (loss) from operations	(17)	108	91
Loss before minority interest and income taxes	(493)	125	(368)
Net loss applicable to common stock	(240)	73	(167)
Basic and diluted loss per common share	(0.81)	0.25	(0.56)
Weighted average common shares outstanding, basic and diluted	294,454,659	—	294,454,659

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002, except for a decline in customer acquisition costs as the Company eliminated its customer acquisition campaigns through third-party contractors.

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	<u>For the Three Months Ended March 31, 2001</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 874	\$ (18)	\$ 856
Loss from operations	(314)	21	(293)
Loss before minority interest, income taxes and cumulative effect of accounting change	(685)	48	(637)
Net loss applicable to common stock	(281)	13	(268)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.20)	0.09	(1.11)
Basic and diluted loss per common share	(1.20)	(0.05)	(1.15)
Weighted average common shares outstanding, basic and diluted	233,777,675	—	233,777,675

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

	<u>For the Three Months Ended June 30, 2001</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 928	\$ (31)	\$ 897
Loss from operations	(298)	10	(288)
Loss before minority interest and income taxes	(637)	11	(626)
Net loss applicable to common stock	(274)	8	(266)
Basic and diluted loss per common share	(1.07)	0.03	(1.04)
Weighted average common shares outstanding, basic and diluted	255,027,543	—	255,027,543

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

	<u>For the Three Months Ended September 30, 2001</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,044	\$ (42)	\$ 1,002
Loss from operations	(250)	(35)	(285)
Loss before minority interest and income taxes	(680)	(33)	(713)
Net loss applicable to common stock	(318)	(12)	(330)
Basic and diluted loss per common share	(1.08)	(0.04)	(1.12)
Weighted average common shares outstanding, basic and diluted	294,250,549	—	294,250,549

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

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	<u>For the Three Months Ended December 31, 2001</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,107	\$ (55)	\$ 1,052
Loss from operations	(333)	(1)	(334)
Loss before minority interest and income	(655)	2	(657)
Net loss applicable to common stock	(306)	2	(304)
Basic and diluted loss per common share	(1.04)	0.01	(1.03)
Weighted average common shares outstanding, basic and diluted	294,384,003	—	294,384,003

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

	<u>For the Three Months Ended March 31, 2000</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 722	\$ (1)	\$ 721
Loss from operations	(224)	(10)	(234)
Loss before minority interest and income taxes	(450)	(7)	(457)
Net loss applicable to common stock	(181)	—	(181)
Basic and diluted loss per common share	(0.81)	—	(0.81)
Weighted average common shares outstanding, basic and diluted	221,917,083	—	221,917,083

Net loss applicable to common stock increased due to the expensing of certain costs originally capitalized associated with customer installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan.

	<u>For the Three Months Ended June 30, 2000</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 795	\$ (7)	\$ 788
Loss from operations	(241)	(22)	(263)
Loss before minority interest and income taxes	(494)	(16)	(510)
Net loss applicable to common stock	(197)	(5)	(202)
Basic and diluted loss per common share	(0.89)	(0.02)	(0.91)
Weighted average common shares outstanding, basic and diluted	222,089,746	—	222,089,746

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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	<u>For the Three Months Ended September 30, 2000</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 839	\$ (31)	\$ 808
Loss from operations	(237)	(46)	(283)
Loss before minority interest and income taxes	(523)	(37)	(560)
Net loss applicable to common stock	(210)	(12)	(222)
Basic and diluted loss per common share	(0.93)	(0.06)	(0.99)
Weighted average common shares outstanding, basic and diluted	224,965,289	—	224,965,289

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

	<u>For the Three Months Ended December 31, 2000</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 893	\$ (69)	\$ 824
Loss from operations	(269)	(39)	(308)
Loss before minority interest and income taxes	(588)	(35)	(623)
Net loss applicable to common stock	(241)	(12)	(253)
Basic and diluted loss per common share	(1.03)	(0.05)	(1.08)
Weighted average common shares outstanding, basic and diluted	233,738,668	—	233,738,668

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000 with an additional adjustment to expense certain costs originally capitalized as customer acquisition costs.

Board of Directors:

Paul G. Allen

Chairman,
Charter Communications
Owner, Vulcan Inc. and
other private investment
vehicles

Carl E. Vogel

President,
Chief Executive Officer
and Director,
Charter Communications

Marc B. Nathanson

Director,
Charter Communications
Chairman, Mapleton
Investments, an
investment vehicle

Ronald L. Nelson

Director,
Charter Communications
Chief Financial Officer
and Board Member,
Cendant Corp., a travel and
real estate conglomerate

Nancy B. Peretsman

Director,
Charter Communications
Executive Vice President
and Managing Director,
Allen & Co., an investment
bank (not affiliated with
Paul Allen)

William D. Savoy

Director,
Charter Communications
President and
Chief Executive Officer,
Portfolio and Asset
Management, Vulcan Inc.,
Paul Allen's primary
investment vehicle

John H. Tory

Director,
Charter Communications
President and
Chief Executive Officer,
Rogers Cable, a Canadian
cable operator

Larry W. Wangberg

Director,
Charter Communications
Director and
Former Chairman and
Chief Executive Officer,
TechTV Inc., a cable
television network

Senior Management:

Carl E. Vogel

President, Chief Executive
Officer and Director

Margaret A. "Maggie" Bellville

Executive Vice President
and Chief Operating Officer

Steven A. Schumm

Executive Vice President,
Chief Administrative Officer
and Interim Chief
Financial Officer

Stephen E. Silva

Executive Vice President
and Chief Technical Officer

David C. Andersen

Senior Vice President
Communications

Lee A. Clayton

Senior Vice President
Midwest Division
Operations

Wayne H. Davis

Senior Vice President
Engineering &
Technical Operations

Michael R. Haislip

Senior Vice President
Great Lakes Division
Operations

Sue Ann R. Hamilton

Senior Vice President
Programming

James M. Heneghan

Senior Vice President
Advertising Sales

Joshua L. Jamison

Senior Vice President
Northeast Division
Operations

Paul E. Martin

Senior Vice President
and Corporate Controller

Charles H. "Chuck" McElroy

Senior Vice President
Southeast Division
Operations

Michael E. Riddle

Senior Vice President
and Chief Information Officer

Eloise A. Schmitz

Vice President
and Treasurer

Curtis S. Shaw

Senior Vice President,
General Counsel and
Secretary

Shareholder Information:

Common Stock Information

Charter Communications, Inc. Class A common stock is traded on the Nasdaq National Market under the symbol CHTR. As of May 27, 2003, there were approximately 3,700 record holders of Class A common stock (representing a total of approximately 171,000 beneficial owners) and one holder of Class B common stock. Charter does not expect to pay any cash dividends on its Class A common stock in the foreseeable future. Charter intends to retain future earnings, if any, to finance the expansion of its business. The ability of Charter to pay cash dividends on its common stock is limited by the terms of Charter's outstanding preferred stock and provisions in the indentures governing the publicly held debt and credit facilities of Charter and its subsidiaries.

Market Information

2002 Quarter ended	High	Low
1st Quarter	\$16.85	\$ 9.10
2nd Quarter	11.53	2.96
3rd Quarter	4.65	1.81
4th Quarter	2.27	.76
2001 Quarter ended	High	Low
1st Quarter	\$24.19	\$19.00
2nd Quarter	24.07	18.88
3rd Quarter	24.45	10.49
4th Quarter	17.05	11.73

Annual Meeting of Shareholders

July 23, 2003, 10 a.m. (Pacific Time)
W Seattle Hotel
1112 Fourth Avenue
Seattle, WA 98101

Form 10-K

Form 10-K, filed annually with the Securities and Exchange Commission, is available without charge without exhibits by accessing our web site at www.charter.com or by contacting Investor Relations.

Corporate Headquarters

Charter Communications, Inc.
Charter Plaza
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St. Louis, MO 63131
314.965.0555

Web site: www.charter.com

Charter's web site contains an Investor and News Center, accessed via "About Us," that offers financial information, including stock data, press releases, access to quarterly conference calls and SEC filings. You may request a shareholder kit, including the recent financial information, through the site. You may subscribe for e-mail alerts for all press releases and SEC filings through the site as well. The site also offers information on Charter's vision, products and services and management team.

Investor Relations

Shareholder requests may be directed to Investor Relations at our corporate headquarters via e-mail at investor@chartercom.com or via telephone at 314.543.2459.

Transfer Agent and Registrar

Questions related to stock transfers, lost certificates or account changes should be directed to:

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660

Toll-free number: 888.213.0965

Web site:
www.mellon-investor.com

Independent Public Accountants

KPMG LLP

Trademarks

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