

CHARTER COMMUNICATIONS INC /MO/
Form 10-Q
August 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from _____ to _____

Commission file number: 000-27927

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

Delaware	43-1857213
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

12405 Powerscourt Drive
St. Louis, Missouri 63131
(Address of principal executive offices including zip code)

(314) 965-0555
(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of Class A common stock outstanding as of June 30, 2008: 407,201,927

Number of shares of Class B common stock outstanding as of June 30, 2008: 50,000

Charter Communications, Inc.
 Quarterly Report on Form 10-Q for the Period ended June 30, 2008

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This quarterly report on Form 10-Q is for the three and six months ended June 30, 2008. The Securities and Exchange Commission ("SEC") allows us to "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this quarterly report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this quarterly report. In this quarterly report, "we," "us" and "our" refer to Charter Communications, Inc., Charter Communications Holding Company, LLC and their subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS:

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

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

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

PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 63	\$ 75
Short-term investments	13	--
Accounts receivable, less allowance for doubtful accounts of \$19 and \$18, respectively	250	225
Prepaid expenses and other current assets	35	36
Total current assets	361	336
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation	5,106	5,103
Franchises, net	8,935	8,942
Total investment in cable properties, net	14,041	14,045
OTHER NONCURRENT ASSETS	308	285
Total assets	\$ 14,710	\$ 14,666
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,293	\$ 1,332
Total current liabilities	1,293	1,332
LONG-TERM DEBT	20,480	19,908
NOTE PAYABLE – RELATED PARTY	69	65
DEFERRED MANAGEMENT FEES – RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	1,150	1,035
MINORITY INTEREST	203	199
PREFERRED STOCK – REDEEMABLE; \$.001 par value; 1 million shares authorized; 36,713 shares issued and outstanding	5	5
SHAREHOLDERS' DEFICIT:		
Class A Common stock; \$.001 par value; 10.5 billion shares authorized; 407,201,927 and 398,226,468 shares issued and outstanding, respectively	--	--
Class B Common stock; \$.001 par value; 4.5 billion 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	5,331	5,327
Accumulated deficit	(13,730)	(13,096)
Accumulated other comprehensive loss	(105)	(123)
Total shareholders' deficit	(8,504)	(7,892)
Total liabilities and shareholders' deficit	\$ 14,710	\$ 14,666

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
REVENUES	\$ 1,623	\$ 1,499	\$ 3,187	\$ 2,924
COSTS AND EXPENSES:				
Operating (excluding depreciation and amortization)	698	647	1,380	1,278
Selling, general and administrative	342	317	687	620
Depreciation and amortization	328	334	649	665
Other operating expenses, net	25	1	36	5
	1,393	1,299	2,752	2,568
Income from operations	230	200	435	356
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(474)	(462)	(939)	(926)
Change in value of derivatives	26	(3)	(11)	(4)
Other income (expense), net	1	(36)	(2)	(39)
	(447)	(501)	(952)	(969)
Loss before income taxes	(217)	(301)	(517)	(613)
INCOME TAX EXPENSE	(59)	(59)	(117)	(128)
Net loss	\$ (276)	\$ (360)	\$ (634)	\$ (741)
LOSS PER COMMON SHARE:	\$ (.74)	\$ (.98)	\$ (1.71)	\$ (2.02)
Weighted average common shares outstanding, basic and diluted	371,652,070	367,582,677	370,868,849	366,855,427

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)
Unaudited

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (634)	\$ (741)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	649	665
Noncash interest expense	27	21
Change in value of derivatives	11	4
Deferred income taxes	114	123
Other, net	22	39
Changes in operating assets and liabilities, net of effects from dispositions:		
Accounts receivable	(24)	(29)
Prepaid expenses and other assets	--	26
Accounts payable, accrued expenses and other	3	10
Net cash flows from operating activities	168	118
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(650)	(579)
Change in accrued expenses related to capital expenditures	(41)	(39)
Other, net	(11)	31
Net cash flows from investing activities	(702)	(587)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	1,765	7,247
Repayments of long-term debt	(1,195)	(6,727)
Payments for debt issuance costs	(39)	(33)
Other, net	(9)	3
Net cash flows from financing activities	522	490
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12)	21
CASH AND CASH EQUIVALENTS, beginning of period	75	60
CASH AND CASH EQUIVALENTS, end of period	\$ 63	\$ 81
CASH PAID FOR INTEREST	\$ 912	\$ 918
NONCASH TRANSACTIONS:		
Cumulative adjustment to accumulated deficit for the adoption of FIN 48	\$ --	\$ 56

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

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

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

1. Organization and Basis of Presentation

Charter Communications, Inc. ("Charter") is a holding company whose principal assets at June 30, 2008 are the 55% controlling common equity interest (52% for accounting purposes) in Charter Communications Holding Company, LLC ("Charter Holdco") and "mirror" notes which are payable by Charter Holdco to Charter and have the same principal amount and terms as those of Charter's convertible senior notes. Charter Holdco is the sole owner of CCHC, LLC ("CCHC"), which is the sole owner of Charter Communications Holdings, LLC ("Charter Holdings"). The consolidated financial statements include the accounts of Charter, Charter Holdco, CCHC, Charter Holdings and all of their subsidiaries where the underlying operations reside, which are collectively referred to herein as the "Company." Charter has 100% voting control over Charter Holdco and consolidates Charter Holdco as a variable interest entity under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46(R) Consolidation of Variable Interest Entities. Charter Holdco's limited liability company agreement provides that so long as Charter's Class B common stock retains its special voting rights, Charter will maintain a 100% voting interest in Charter Holdco. Voting control gives Charter full authority and control over the operations of Charter Holdco. All significant intercompany accounts and transactions among consolidated entities have been eliminated.

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

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

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

Reclassifications. Certain prior year amounts have been reclassified to conform with the 2008 presentation.

2. Liquidity and Capital Resources

The Company incurred net losses of \$276 million and \$360 million for the three months ended June 30, 2008 and 2007, respectively, and \$634 million and \$741 million for the six months ended June 30, 2008 and 2007, respectively. The Company's net cash flows from operating activities were \$168 million and \$118 million for the six months ended June 30, 2008 and 2007, respectively.

The Company has a significant amount of debt. The Company's long-term debt as of June 30, 2008 totaled \$20.5 billion, consisting of \$7.3 billion of credit facility debt, \$12.8 billion accreted value of high-yield notes, and \$365 million accreted value of convertible senior notes. For the remainder of 2008, \$36 million of the Company's debt

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

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

matures. As of June 30, 2008, the Company's 2009 debt maturities totaled \$238 million. In 2010 and beyond, significant additional amounts will become due under the Company's remaining long-term debt obligations.

The Company requires significant cash to fund debt service costs, capital expenditures and ongoing operations. The Company has historically funded these requirements through cash flows from operating activities, borrowings under its credit facilities, proceeds from sales of assets, issuances of debt and equity securities, and cash on hand. However, the mix of funding sources changes from period to period. For the six months ended June 30, 2008, the Company generated \$168 million of net cash flows from operating activities, after paying cash interest of \$912 million. In addition, the Company used \$650 million for purchases of property, plant and equipment. Finally, the Company generated net cash flows from financing activities of \$522 million, as a result of financing transactions completed during the six months ended June 30, 2008.

The Company expects that cash on hand, cash flows from operating activities, and the amounts available under the Charter Communications Operating, LLC ("Charter Operating") credit facilities will be adequate to fund its projected cash needs, including scheduled maturities, through 2009. The Company believes that cash flows from operating activities, and the amounts available under the Charter Operating credit facilities will not be sufficient to fund projected cash needs in 2010 (primarily as a result of the CCH II, LLC ("CCH II") \$1.9 billion of senior notes outstanding at July 2, 2008 that mature in September 2010) and thereafter. The Company's projected cash needs and projected sources of liquidity depend upon, among other things, its actual results, the timing and amount of its capital expenditures, and ongoing compliance with the Charter Operating credit facilities, including obtaining an unqualified audit opinion from its independent accountants. Although the Company has been able to refinance or otherwise fund the repayment of debt in the past, it may not be able to access additional sources of refinancing on similar terms or pricing as those that are currently in place, or at all, or otherwise obtain other sources of funding. A continuation of the recent turmoil in the credit markets and the general economic downturn could adversely impact the terms and/or pricing when the Company needs to raise additional liquidity. No assurances can be given that the Company will not experience liquidity problems if it does not obtain sufficient additional financing on a timely basis as the Company's debt becomes due or because of adverse market conditions, increased competition, or other unfavorable events.

If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under the Company's credit facilities, the Company would consider issuing equity, issuing convertible debt or some other securities, further reducing the Company's expenses and capital expenditures, selling assets, or requesting waivers or amendments with respect to the Company's credit facilities.

If the above strategies were not successful, the Company could be forced to restructure its obligations or seek protection under the bankruptcy laws. In addition, if the Company needs to raise additional capital through the issuance of equity or finds it necessary to engage in a recapitalization or other similar transaction, the Company's shareholders could suffer significant dilution, including potential loss of the entire value of their investment, and in the case of a recapitalization or other similar transaction, the Company's noteholders might not receive principal and interest payments to which they are contractually entitled.

Credit Facility Availability

The Company's ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Operating credit facilities. The Charter Operating credit facilities, along with the Company's indentures and the CCO Holdings, LLC ("CCO Holdings") credit facility, contain certain restrictive covenants, some of which require the Company to maintain specified leverage ratios, meet financial tests, and provide annual audited

financial statements with an unqualified opinion from the Company's independent accountants. As of June 30, 2008, the Company was in compliance with the covenants under its indentures and credit facilities, and the Company expects to remain in compliance with those covenants for the next twelve months. As of June 30, 2008, the Company's potential availability under Charter Operating's revolving credit facility totaled approximately \$1.4 billion, none of which was limited by covenant restrictions. Continued access to the Company's revolving credit facility is subject to the Company remaining in compliance with these covenants, including covenants tied to Charter Operating's leverage ratio and first lien leverage ratio. If any event of non-compliance were to occur, funding under the revolving credit

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

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

facility may not be available and defaults on some or potentially all of the Company's debt obligations could occur. An event of default under any of the Company's debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company's consolidated financial condition and results of operations.

Limitations on Distributions

As long as Charter's convertible senior notes remain outstanding and are not otherwise converted into shares of common stock, Charter must pay interest on the convertible senior notes and repay the principal amount. Charter's ability to make interest payments on its convertible senior notes, and to repay the outstanding principal of its convertible senior notes will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of June 30, 2008, Charter Holdco was owed \$115 million in intercompany loans from Charter Operating, which amounts were available to pay interest and principal on Charter's convertible senior notes. In addition, as long as Charter Holdco continues to hold the \$35 million of Charter Holdings' notes due 2009 and 2010 (as discussed further below), Charter Holdco will receive interest and principal payments from Charter Holdings. Such amounts may be available to pay interest and principal on Charter's convertible senior notes, although Charter Holdco may use those amounts for other purposes.

Distributions by Charter's subsidiaries to a parent company (including Charter, Charter Holdco and CCHC) for payment of principal on parent company notes, are restricted under the indentures governing the CCH I Holdings, LLC ("CIH") notes, CCH I, LLC ("CCH I") notes, CCH II notes, CCO Holdings notes, Charter Operating notes, and under the CCO Holdings credit facility, unless there is no default under the applicable indenture and credit facilities, and unless each applicable subsidiary's leverage ratio test is met at the time of such distribution. For the quarter ended June 30, 2008, there was no default under any of these indentures or credit facilities and each subsidiary met its applicable leverage ratio tests based on June 30, 2008 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at the time of the contemplated distribution. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of the contemplated distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in the Charter Operating credit facilities.

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

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on Charter's convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures, and other specified tests are met. For the quarter ended June 30, 2008, there was no default under Charter Holdings' indentures, the other specified tests were met, and Charter Holdings met its leverage ratio test of 8.75 to 1.0 based on June 30, 2008 financial results. Such distributions would be restricted, however, if Charter Holdings fails to meet these tests at the time of the contemplated distribution. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of the contemplated distribution. During periods in which distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that are not restricted payments) in Charter Holdco or Charter, up to an amount determined by a formula, as long as there is no default under the indentures.

Recent Financing Transactions

In March 2008, Charter Operating issued \$546 million principal amount of 10.875% senior second-lien notes due 2014 and borrowed \$500 million principal amount of incremental term loans under the Charter Operating credit facilities (see Note 5). In the second quarter of 2008, Charter Holdco repurchased, in private transactions, from a small number of institutional holders, a total of approximately \$35 million principal amount of various Charter Holdings notes due

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

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2009 and 2010 and approximately \$46 million principal amount of Charter's 5.875% convertible senior notes due 2009, for approximately \$77 million of cash. Charter Holdco continues to hold the Charter Holdings notes. The purchased 5.875% convertible senior notes were cancelled resulting in approximately \$3 million principal amount of such notes remaining outstanding.

In July 2008, CCH II completed a tender offer, in which \$338 million of CCH II's 10.25% senior notes due 2010 were accepted for \$364 million of CCH II's 10.25% senior notes due 2013, which were issued as part of the same series of notes as CCH II's \$250 million aggregate principal amount of 10.25% senior notes due 2013, which were issued in September 2006.

3. Franchises and Goodwill

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographical clustering of the Company's cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

As of June 30, 2008 and December 31, 2007, indefinite-lived and finite-lived intangible assets are presented in the following table:

	June 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises with indefinite lives	\$ 8,928	\$ --	\$ 8,928	\$ 8,929	\$ --	\$ 8,929
Goodwill	68	--	68	67	--	67
	\$ 8,996	\$ --	\$ 8,996	\$ 8,996	\$ --	\$ 8,996
Finite-lived intangible assets:						
Franchises with finite lives	\$ 15	\$ 8	\$ 7	\$ 23	\$ 10	\$ 13

Franchise amortization expense represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. During the six months ended June 30, 2008, the net carrying amount of indefinite-lived franchises was reduced by \$2 million related to cable asset sales completed in 2008, and \$4 million as a result of the finalization of purchase accounting related to cable asset acquisitions. Additionally, during the six months ended June 30, 2008, approximately \$5 million of franchises that were previously classified as finite-lived were reclassified to indefinite-lived, based on management's assessment when these franchises migrated to state-wide franchising. Franchise amortization expense for the three and six months ended June 30, 2008 was approximately \$0 and \$1 million, respectively. The Company expects that

amortization expense on franchise assets will be approximately \$2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

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

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

4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Accounts payable – trade	\$ 88	\$ 127
Accrued capital expenditures	54	95
Accrued expenses:		
Interest	412	418
Programming costs	288	273
Compensation	107	116
Franchise-related fees	55	66
Other	289	237
	\$ 1,293	\$ 1,332

5. Long-Term Debt

Long-term debt consists of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008		December 31, 2007	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
Long-Term Debt				
Charter Communications, Inc.:				
5.875% convertible senior notes due November 16, 2009	\$ 3	\$ 3	\$ 49	\$ 49
6.50% convertible senior notes due October 1, 2027	479	362	479	353
Charter Communications Holdings, LLC:				
10.000% senior notes due April 1, 2009	76	76	88	88
10.750% senior notes due October 1, 2009	54	54	63	63
9.625% senior notes due November 15, 2009	35	35	37	37
10.250% senior notes due January 15, 2010	9	9	18	18
11.750% senior discount notes due January 15, 2010	13	13	16	16
11.125% senior notes due January 15, 2011	47	47	47	47
13.500% senior discount notes due January 15, 2011	60	60	60	60
9.920% senior discount notes due April 1, 2011	51	51	51	51
10.000% senior notes due May 15, 2011	69	69	69	69
11.750% senior discount notes due May 15, 2011	54	54	54	54
12.125% senior discount notes due January 15, 2012	75	75	75	75
CCH I Holdings, LLC:				
11.125% senior notes due January 15, 2014	151	151	151	151
13.500% senior discount notes due January 15, 2014	581	581	581	581
9.920% senior discount notes due April 1, 2014	471	471	471	471
10.000% senior notes due May 15, 2014	299	299	299	299

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11.750% senior discount notes due May 15, 2014	815	815	815	815
12.125% senior discount notes due January 15, 2015	217	217	217	217
CCHI, LLC:				
11.000% senior notes due October 1, 2015	3,987	4,077	3,987	4,083

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

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

CCH II, LLC:				
10.250% senior notes due September 15, 2010	2,198	2,193	2,198	2,192
10.250% senior notes due October 1, 2013	250	260	250	260
CCO Holdings, LLC:				
8 ¾% senior notes due November 15, 2013	800	796	800	795
Credit facility	350	350	350	350
Charter Communications Operating, LLC:				
8.000% senior second-lien notes due April 30, 2012	1,100	1,100	1,100	1,100
8 3/8% senior second-lien notes due April 30, 2014	770	770	770	770
10.875% senior second-lien notes due September 15, 2014	546	526	--	--
Credit facilities	6,966	6,966	6,844	6,844
	\$ 20,526	\$ 20,480	\$ 19,939	\$ 19,908

The accreted values presented above generally represent the principal amount of the notes less the original issue discount at the time of sale, plus the accretion to the balance sheet date. However, the current accreted value for legal purposes and notes indenture purposes (the amount that is currently payable if the debt becomes immediately due) is equal to the principal amount of notes.

In March 2008, Charter Operating issued \$546 million principal amount of 10.875% senior second-lien notes due 2014, guaranteed by CCO Holdings and certain other subsidiaries of Charter Operating, in a private transaction. Net proceeds from the senior second-lien notes were used to reduce borrowings, but not commitments, under the revolving portion of the Charter Operating credit facilities.

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

In addition, Charter Operating borrowed \$500 million principal amount of incremental term loans (the "Incremental Term Loans") under the Charter Operating credit facilities. The Incremental Term Loans have a final maturity of March 6, 2014 and prior to this date will amortize in quarterly principal installments totaling 1% annually beginning on June 30, 2008. The Incremental Term Loans bear interest at LIBOR plus 5.0%, with a LIBOR floor of 3.5%, and are otherwise governed by and subject to the existing terms of the Charter Operating credit facilities. Net proceeds from the Incremental Term Loans were used for general corporate purposes.

In the second quarter of 2008, Charter Holdco repurchased, in private transactions, from a small number of institutional holders, a total of approximately \$35 million principal amount of various Charter Holdings notes due 2009 and 2010 and approximately \$46 million principal amount of Charter's 5.875% convertible senior notes due 2009, for approximately \$77 million of cash. Charter Holdco continues to hold the Charter Holdings notes. The purchased 5.875% convertible senior notes were cancelled resulting in approximately \$3 million principal amount of such notes remaining outstanding. The transactions resulted in a gain on extinguishment of debt of approximately \$4

million for the three months ended June 30, 2008, included in other income (expense), net on the Company's condensed consolidated statements of operations.

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6. Minority Interest and Equity Interest of Charter Holdco

Charter is a holding company whose primary assets are a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems, and \$482 million and \$528 million at June 30, 2008 and December 31, 2007, respectively, of mirror notes payable by Charter Holdco to Charter, and which have the same principal amount and terms as those of Charter's 5.875% and 6.50% convertible senior notes. Minority interest on the Company's condensed consolidated balance sheets represents Mr. Paul G. Allen's, Charter's chairman and controlling shareholder, 5.6% preferred membership interests in CC VIII, LLC ("CC VIII"), an indirect subsidiary of Charter Holdco, of \$203 million and \$199 million as of June 30, 2008 and December 31, 2007, respectively.

7. Comprehensive Loss

The Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, in accumulated other comprehensive loss. Comprehensive loss was \$154 million and \$310 million for the three months ended June 30, 2008 and 2007, respectively, and \$616 million and \$697 million for the six months ended June 30, 2008 and 2007, respectively.

8. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate swap agreements to manage its interest costs and reduce the Company's exposure to increases in floating interest rates. The Company's policy is to manage its exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt within a targeted range. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2013, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts.

The Company's hedging policy does not permit it to hold or issue derivative instruments for speculative trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For each of the three and six months ended June 30, 2008 and 2007, there was no cash flow hedge ineffectiveness on interest rate swap agreements.

Changes in the fair value of interest rate agreements that are designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, and that meet the effectiveness criteria specified by SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended June 30, 2008 and 2007, gains of \$122 million and \$50 million, respectively, and for the six months ended June 30, 2008 and 2007, gains of \$18 million and \$48 million, respectively, related to derivative instruments designated as cash flow hedges, were recorded in accumulated other comprehensive loss. The amounts are subsequently reclassified as an increase or decrease to change in value of derivatives in the same periods 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 a change in value of derivatives in the Company's consolidated statements of operations. For the three months ended June 30, 2008 and 2007, change in value of derivatives includes gains of \$36 million and \$6 million, respectively, and for the six months ended June 30, 2008 and 2007, gains of \$6 million and \$5 million, respectively, resulting from interest rate derivative instruments not designated as hedges.

As of June 30, 2008 and December 31, 2007, the Company had \$4.3 billion in notional amounts of interest rate swaps outstanding. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and,

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thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

Certain provisions of the Company's 5.875% and 6.50% convertible senior notes issued in November 2004 and October 2007, respectively, were considered embedded derivatives for accounting purposes and were required to be accounted for separately from the convertible senior notes. In accordance with SFAS No. 133, these derivatives are marked to market with gains or losses recorded as the change in value of derivatives on the Company's consolidated statement of operations. For the three months ended June 30, 2008 and 2007, the Company recognized \$10 million and \$9 million in losses related to these derivatives, respectively, and for the six months ended June 30, 2008 and 2007, the Company recognized losses of \$17 million and \$9 million, respectively. At June 30, 2008 and December 31, 2007, \$50 million and \$33 million, respectively, is recorded on the Company's balance sheets related to these derivatives.

The Company adopted SFAS 157, Fair Value Measurements, on its financial assets and liabilities effective January 1, 2008, and has an established process for determining fair value. The