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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012
or

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

For the Transition Period From to
Commission File Number: 001-33664
Charter Communications, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

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

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

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This quarterly report on Form 10-Q is for the three and nine months ended September 30, 2012. The Securities and Exchange Commission ("SEC") allows us to "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you directly to those documents. In this quarterly report, "we," "us" and "our" refer to Charter Communications, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS:

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

- our ability to sustain and grow revenues and free cash flow by offering video, Internet, telephone, advertising and other services to residential and commercial customers, to adequately meet the customer experience demands in our markets and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition, the need for innovation and the related capital expenditures and the difficult economic conditions in the United States;
- the development and deployment of new products and technologies;
- the impact of competition from other market participants, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband and telephone providers, digital subscriber line (“DSL”) providers, and video provided over the Internet;
- general business conditions, economic uncertainty or downturn, high unemployment levels and the level of activity in the housing sector;
- our ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);
- the effects of governmental regulation on our business;
- the availability and access, in general, of funds to meet our debt obligations prior to or when they become due and to fund our operations and necessary capital expenditures, either through (i) cash on hand, (ii) free cash flow, or (iii) access to the capital or credit markets; and
- our ability to comply with all covenants in our indentures and credit facilities any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions.

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in millions, except share data)

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

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

The accompanying notes are an integral part of these condensed consolidated financial statements.
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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in millions, except per share and share data)
Unaudited

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(dollars in millions)
Unaudited

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

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

The accompanying notes are an integral part of these condensed consolidated financial statements.
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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)
Unaudited

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

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

1. Organization and Basis of Presentation

Organization

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

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

Basis of Presentation

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

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

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

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

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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)

2. Franchises, Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

3. Accounts Payable and Accrued Expenses

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

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

4. Long-Term Debt

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

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

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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)

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

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

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

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

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

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

In April 2012, Charter Operating entered into a senior secured term loan D facility pursuant to the terms of the Charter Operating credit agreement providing for $750 million of term loans with a final maturity date of May 15, 2019. Pricing on the new term loan D was set at LIBOR plus 3% with a LIBOR floor of 1%, and issued at a price of 99.5% of the aggregate principal amount. The proceeds were used to refinance Charter Operating's existing term loan B-1 and term loan B-2, both due 2014, with the remaining amount used to pay down a portion of its existing term loan C due 2016. Charter Operating concurrently amended and restated its existing $1.3 billion revolving credit facility with a new $1.15 billion revolving credit facility due 2017 at the interest rate of LIBOR plus 2.25% and amended and restated its existing credit agreement dated March 31, 2010 (the "Existing Credit Agreement"). The amendments to the Existing Credit Agreement included, among other things, certain allowances under the negative covenants, including an allowance for restricted payments so long as the Consolidated Leverage Ratio as defined in the Charter Operating credit agreement is no greater than 3.5 after giving pro forma effect to such restricted payment, the calculation of certain financial covenants and changes to the related financial definitions, and the thresholds for certain events of default, including a modification of the Change of Control definition. The Change of Control definition was amended to conform to the provision contained in the CCO Holdings' indentures so that a Change of Control would now occur upon both the consummation of a transaction resulting in any person or group having the power to vote more than 50% of the ordinary voting power and a Ratings Event as defined in the Charter Operating credit agreement. The Change of Control definition previously contained the more than 50% threshold without the Ratings Event trigger. The Company recorded a loss on extinguishment of debt of approximately $59 million during the nine months ended September 30, 2012 related to these transactions.

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

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

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

5. Treasury Stock

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

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

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

6. Accounting for Derivative Instruments and Hedging Activities

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

The Company does not hold or issue derivative instruments for speculative trading purposes. The Company has certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, realized derivative gains and losses offset related results on hedged items in the condensed consolidated statements of operations. The Company formally documents, designates and assesses the effectiveness of transactions that receive hedge accounting.

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

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

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

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

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

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

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

During the second quarter of 2012, the Company entered into $1.1 billion in delayed start interest rate swaps that become effective in March 2013 through March 2015. In any future quarter in which a portion of these delayed start hedges first becomes effective, an equal or greater notional amount of the currently effective swaps are scheduled to mature. Therefore, the $2.0 billion notional amount of currently effective interest rate swaps will gradually step down over time as current swaps mature and an equal or lesser amount of delayed start swaps become effective.

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

7. Fair Value Measurements

Financial Assets and Liabilities

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

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

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

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

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

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

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

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Nonfinancial Assets and Liabilities

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

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8. Other Operating Expenses, Net

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

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

(Gain)/loss on sale of assets, net

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

Special charges, net

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

9. Income Taxes

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

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

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

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

10. Contingencies

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

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

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

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

11. Stock Compensation Plans

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

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

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

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

12. Consolidating Schedules

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

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

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

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

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

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

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

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

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

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