

ATTACHMENT 2

Final Transcript

***CHTR – Q1 2007 Charter Comm Earnings Conference Call
May 3, 2007***

FINAL TRANSCRIPT

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CHTR - Q1 2007 Charter Comm Earnings Conference Call

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May. 03. 2007 / 9:00AM, CHTR - Q1 2007 Charter Comm Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Nicole and I will be your conference operator today. At this time I would like to welcome everyone to Charter's first quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (OPERATOR INSTRUCTIONS)

I would now like to turn the conference over to Mary Jo Moehle, Vice President of Investor Relations and Communications. You may begin your conference.

Mary Jo Moehle - *Charter Communications, Inc. - VP of Investor Relations and Communications*

Thank you, and good morning. Welcome to Charter Communications first quarter 2007 conference call. The results we're reporting this morning are included in a news release we issued over Business Wire at 8:00 am Eastern time, if you would like

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a copy of the release, please visit our website at Charter.com to obtain one. It can be found in the investor and news center via about Charter, located at the top of our home page. A presentation to accompany this mornings remarks, also can be found there by clicking on the presentation webcast section.

This morning's calls will contain certain forward-looking statements, that are subject to risks and uncertainties that could cause actual results to differ from historical or anticipated results. Certain factors that could affect actual results are set forth as risk factors described in Charter's SEC reports and filings, including our annual report on form 10-K for the year ended December 31, 2006 and our quarterly report on SEC form 10-Q for the quarter ended March 31, 2007, which was filed with the SEC earlier today. From time to time we modify our reporting metrics and therefore we've condensed our expense categories and, as discussed in our year end earnings call, modified our free cash flow calculation, both of which now are more consistent with our peer's presentations.

During the course of this call, we'll be referring to adjusted EBITDA and pro forma adjusted EBITDA, as defined in this mornings' earnings release. The company believes that adjusted EBITDA and pro forma adjusted EBITDA provided information useful to investors in assessing our ability to service debt, fund our operations, and make additional investments from internally generated funds. Adjusted EBITDA and pro forma adjusted EBITDA are non-GAAP financial measures and should be considered, in addition to and not as a substitute, for net cash flows from operating activities as reported in accordance with GAAP. These terms, as defined by Charter, may not be comparable to measures with similar titles – titles used by other companies.

In today's earnings release, we reported results in accordance with GAAP, as well as pro forma results for the first and fourth quarters of 2006. The pro forma results reflect the acquisition of the cable system in January 2006 and the sales of certain systems that closed in the third quarter of 2006 and in January 2007, as if they had occurred as of January 1, 2006. During this mornings' call we'll be referring to pro forma growth and results for the first and fourth quarters of 2006 unless otherwise stated. With that introduction, I'll now turn the call over to Charter's President and CEO, Neil Smit.

Neil Smit - Charter Communications, Inc. - President and CEO

Good morning and thank you for joining us. I am very pleased with our first quarter results. We built on our 2006 performance and executed on our strategies, to achieve the second consecutive quarter of double-digit revenue and adjusted EBITDA growth coupled with our highest RGU additions in more than five years. Continued focus on marketing to bundle drove revenue growth of 10.7%. We're leveraging our operational foundation, thereby realizing greater efficiencies, resulting in adjusted EBITDA growth of 13.2%. The high in more than four years. Our strategic priorities remain the same. Improve the customer experience, increase sales and retention, focus resources on high-return investments and improve our balance sheet. I believe bundling is the key to our continued growth. Our targeted marketing initiatives are focused on promoting the value of the bundle and building long term relationships with our customers. As of the end of the first quarter, telephone was available to 7.3 million homes. We're focused on aggressively growing the business and leveraging telephone to improve performance across our other product lines.

As we continue to roll out telephone and focus on the bundle, we achieved the highest RGU additions in the first quarter we have seen in five years. We added 332,000 RGU's, with higher customer growth in every category, compared to the first quarter of 2006. We grew analog customers during the first quarter as we continued to strive for a healthy balance between price and volume growth. This is further demonstrated by our improved RGU growth while achieving 12.3% ARPU growth, compared the year-ago quarter. Our expanded phone and mark – phone – footprint and marketing strategies are yielding strong tripple and double play bundling growth, with over 40% of customers now in a bundle. Bundling has a positive impact on ARPU, retention, revenue and adjusted EBITDA growth, all of which is demonstrated in our first quarter results. In addition to bundling, our video strategy is focused on enhancing Charter's value proposition for our customers, through initiatives to free up bandwidth in order to provide more advanced services. We're seeing increased demand for our high-definition and DVR services and on-demand usage in revenues continue to climb. We maintained a disciplined approach to capital and operating spend, which is reflected in improving operating margin, compared to a year ago, as well as the high proportion of success-based CapEx during the

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quarter. Also of note, we closed on the refinancing of our bank debt and related transactions, which increased liquidity by approximately \$1 billion. With these transactions and cash flows, from our operating activities, we expect to have adequate liquidity through 2008. This was another important transaction for the company and we appreciate your support.

In our continued effort to further strengthen our strategic asset clusters, I'm pleased to announce that we have signed an agreement to exchange our West Sacramento system, representing approximately 34,000 RGU's for systems in the Cerritos and Ventura area, adding to the strength of our Los Angeles key market area. The transaction is subject to customary closing conditions and approvals. The bottom line is, we're consistently executing on our strategies, which is producing strong results. We delivered double-digit revenue and EBITDA -- adjusted EBITDA growth in the first quarter and we improved every area of customer growth. I think there's a lot of opportunity in this business and we remain committed to continuing the growth. I'll now turn the call over to Mike Lovett.

Mike Lovett - Charter Communications, Inc. - EVP, COO

Thank you, Neil. As Neil stated, we are pleased with what we view as a very strong first quarter. Which achieved solid RGU additions coupled with strong ARPU growth. Leveraging the power of the bundle, we're attracting and retaining high-quality customers, enhancing the value of our video product and aggressively driving telephone and high-speed customer growth. We increased our marketing spend in the first quarter, driving strong RGU growth, which we translated in to double-digit revenue growth. We gained a net 332,000 RGU's, during the first quarter, compared to 227,000 net adds in the year-ago quarter. This level of volume growth was coupled with strong ARPU growth of over 12%, compared to the year-ago first quarter.

As we have said before our marketing strategy is built on the foundation of growing bundled services. As a result of this strategy, coupled with our operational improvements, we enhanced customer growth in every category year-over-year. And achieved the highest growth in our high-speed internet customers in 3 years. Over 40% of our customers subscribed to a bundle, and our Triple Play bundle customer base, has increased to nearly 4 times to what it was a year ago. Our telephone service is gaining momentum. As of the end of the first quarter we passed 7.3 million homes with Charter Telephone. During the quarter, we gained 127,000 telephone customers, our 7th consecutive quarter of about 30% customer growth. As of March 31, 2007, we served a total of 573,000 customers, representing 8% penetration of telephone homes passed. As demonstrated on slide 6, the past four quarters reflect a continued improvement in phone customer net gains, as well as improving penetration rate. This is not simply a factor of having a larger footprint. Our quarterly net additions, as a percent of homes past, at the beginning of the period or rate in which we penetration available homes, has continued to increase. We know what it takes to drive penetration and I believe our nearly 7.5% annualized penetration rate, demonstrates that we are successfully executing, as we move out of the launch phase.

We're effectively marketing the value of our Triple Play bundle, and more than 3/4 of our telephone customers subscribed to all three services. While our base Triple Play offer is \$99 per month, we're seeing a Triple Play ARPU of \$125 to \$130 per month reflecting, reflecting demand for additional value-added services. In markets with double-digit penetration -- telephone penetration, we're experiencing positive trends in our overall business including increased retention and customer satisfaction, along with improved RGU and ARPU growth. Plus we're achieving higher revenue and OCF growth, along with higher margins than the company average.

In our southern Wisconsin system, for example, telephone penetration is over 12% and Triple Play penetration is nearly double the company average. More than 50% of our southern Wisconsin customers are in a bundle and video penetration that is significantly higher than the average. Other markets, with double-digit telephone penetration, show similar trends. During the first quarter, we gained about 17,000 analog customers, a 6,000 gain improvement, compared to the year-ago quarter. We added 65,000 digital customers, up from 57 -- 7,000 net adds in the year-ago quarter. As of March 31, we served 2.9 million digital customers, with penetration of 53% of analog customers.

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We're seeing continued success of video on demand. VOD buys year-over-year increased 21%. And total VOD revenues increased 43%. We continue to see growth in HD and DVR service, with a 20% increase in customers subscribing to these services compared to year end. An increase in digital customers and higher demand for these advanced video services, contributed to a more than 5% increase in video ARPU year-over-year.

The benefits of Triple Play are spilling over in our high-speed business, bolstering its growth as well. We added 124,000 high-speed internet customers during the first quarter, a nearly 20% increase over first quarter of 2006 additions. This is the highest quarter of growth since early 2004. As of the end of the first quarter, we served 2.5 million high-speed internet customers with penetration of 23% of high-speed internet homes past. As evidence of value proposition, we achieved this exceptional unit growth while increasing high-speed ARPU more than 7% year-over-year. Based in part on the popularity of value added services. We're successfully migrating customers to faster speeds, with up to 5 and 10 mega bit per second speeds available in all 19 of our key market areas. We are greatly encouraged by our bundling success through the initial stage of our telephone deployment and as we move in to the next phase, we focused on increasing penetration in Charter's existing phone markets while continuing to roll out phone to additional markets. I believe bundling is positively impacting every operating metric. As our telephone markets mature and bundling penetration increases, we remain focused on achieving growth in all areas of the business through effective and disciplined execution. I will now turn the call over to JT.

JT Fisher - Charter Communications, Inc. - CFO

Thanks, Mike. For the first quarter of 2007, total revenue was \$1.425 billion. An increase of 10.7% over the first quarter of 2006. High-speed internet revenues increased by 22.8% for the quarter, as strong consumer demand drove overall customer growth while supporting a more than 7% year-over-year increase in ARPU. Our telephone service revenues more than tripled in the first quarter to \$63 million. Video revenues grew by 3.6% in the first quarter due to contributions from advanced services, packaging and rate adjustments, and growth in the number of digital customers. Ad sales revenues decreased 6% or \$4 million for the quarter, primarily due to slow national advertising demand. Revenue from our commercial business continued to climb with 15.7% growth year-over-year.

We translated the 10.7% increase in revenues into adjusted EBITDA growth of 13.2% for the first quarter. Adjusted EBITDA margin for the first quarter was 35%, compared to 34% in the year-ago quarter as a result of an increase in operational efficiencies, improved clustering, benefits from improved third-party contracts, and favorable settlements of past obligations which contributed about 2 percentage points of adjusted EBITDA growth. First quarter operating costs and expenses for the quarter totaled \$929 million, up 9.4% compared to the year-ago quarter. Operating expenses representing service, programming and ad sales increased 7.7% year-over-year. Selling, general, and administrative expenses increased by 13.3% compared to this the year-ago quarter. Primarily related to increase customer care and marketing expenditures. We continue to see success from our marketing programs and have increased our marketing expenditures to 3.8% of revenues from 2.8% in the first quarter of 2006.

Overall strong customer growth resulted in increased success-based capital spending, primarily on customer [premiss] equipment. More than 3/4 of our CapEx spend was on success-based initiatives. This contributed to total CapEx in the first quarter of \$298 million, up from \$241 million a year ago. We have closed on \$8.35 billion of new senior secured credit facilities, which replaced the previous \$6.85 billion of senior secured credit facilities at Charter Operating. This transaction, along with the associated refinancings, provided an additional \$1 billion of liquidity, extended \$2.4 billion of maturity through 2012 and reduced annual interest costs by approximately \$50 million. As a part of our ongoing strategy to manage interest rate risk, we enter in to interest rate hedge contracts. Including the effects of hedges in place today, 85% of our total debt is fixed rate. As of March 31, 2007, our potential availability under our revolving credit facility totaled approximately \$1.4 billion, none of which was limited by covenant restrictions. The company expects that cash on hand, cash flows from operating activities, and the amounts available under its credit facilities, will be adequate to meet its cash needs through 2008. With that, I'll turn the call back to the operator, and we'll take your questions.

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QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (OPERATOR INSTRUCTIONS) We'll pause for just a moment to compile the Q&A roster. Our first question comes from the line of Mike Pace with J.P. Morgan.

Mike Pace - JP Morgan - Analyst

Hi, good morning, thank you. First question, operational -- I guess I'm looking at some of your -- your ARPU's, particularly high-speed data and telephony. Looking at a \$40 data ARPU, higher than the year-ago period, higher than the fourth quarter. I'm wonder what is going on there. Are there people migrating up to -- up to higher speeds, are you getting people in to the higher levels? Maybe the ratio there is improving. And also with telephony, relatively flat at \$42, I'm just wondering again, how are you able to maintain that.?

Neil Smit - Charter Communications, Inc. - President and CEO

Hi, Michael this is Neil. The -- two points. One it that we continue to look at ARPU as we drive the bundle, and that's really part of the bundle strategy is driving ARPU up, specifically to HSI. It's just the point you've made, we're migrating into faster speeds we have 5 and 10 meg available in all of our key market areas, and we have had great success in migrating people, especially via some of the investments we made in training the call center reps last year. Those are really paying off. In telephone we have been able to hold that flat and, you know, we continued to use telephone as a key driver of the bundle -- Triple Play bundled offering.

Mike Pace - JP Morgan - Analyst

Okay, and then I guess a bigger-picture question Neil, you said in -- in your prepared remarks, one of the goals is to continue to improve the balance sheet. I guess your liquidity is stronger than it has been in a while. Your results are improving. I'm curious on how you balance -- I guess the first two. There's no sense of urgency to do anything by any means. You know, do you wait to get -- to prove out better results? Clearly you don't want to do anything when you actually have to or need to. I'm wondering how you balance those two things.

Neil Smit - Charter Communications, Inc. - President and CEO

Well, I think the -- as we've said all along, we continue to be opportunistic in our balance sheet and debt transactions. What was nice about this transaction, is that it extended maturity, provided liquidity and reduced interest costs. I think the way we look at it is -- is we'll continue to see what the opportunities are. I think what we have achieved over the last year and a half is really by moving out the maturities and ensuring liquidity it provides us flexibility and financial flexibility to continuing investment in our business and take a long-term strategic approach to the business.

Mike Pace - JP Morgan - Analyst

And then finally, just again, bigger picture -- curious how, you think, as you speak to your board as you speak to your peers in the cable industry, how the competitive landscape might change with John Malone re-entering in to the pay TV market? Thank you.

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Neil Smit - Charter Communications, Inc. - President and CEO

Well, hard to -- hard to speak to what Mr. Malone and the -- and the competitive players are thinking. We continue to believe that we have a very strong offering in the Triple Play and as witnessed by our results, it really drives a lot of metrics for the business. We'll stay focused on that strategy. You know, we -- we always monitor our competitors and take them all seriously, and -- but we believe we have a good offering, and a good strategy, and we'll stick with it.

Operator

Your next question comes from the line of Joseph Stein with UBS.

Joseph Stein - UBS - Analyst

Hi, guys, congratulations.

Neil Smit - Charter Communications, Inc. - President and CEO

Thank you, Joseph.

Joseph Stein - UBS - Analyst

I had a couple of quick questions. The first was that telephony was available to 7.3 million homes which should be a little over 60% of your footprint. Was wondering if you could remind us where that will be at year end as a percentage of your footprint, or where you expect it to be. So we can get an idea of what VoIP acceleration might be like a throughout the year? I also was wondering if the swap of the systems you mentioned to strengthen the the presence in L.A., it seems like that's pretty much in line with -- with your previous goals of kind of selling or divesting non-core systems and in this case actually at the same time strengthening a core system. Was wondering if you might still be considering the sale of additional non-core systems throughout the year? Or if you think that that phase is largely behind you? And my last question is that with another quarter of great EBITDA growth acceleration, and growth really that is in line and ahead of some of the bigger industry players, do you think you might be ready to supply the street with some guidance beyond CapEx?

Neil Smit - Charter Communications, Inc. - President and CEO

Let me take those questions in reverse order Joseph. I think from a guidance perspective, as you know we provide guidance on CapEx and we will continue to consider whether we want to provide guidance on other metrics. As I've said, you know, the top priority is continue to grow revenue and EBITDA and focus on those two growth metrics, but we'll continue to consider that. Considering the assets, the swap -- as -- as I stated before, I think we're really -- we want to continue to strengthen our clusters, so we can receive operating and capital efficiencies, I think we felt this was a very good transaction for us, because it achieved those objectives. You know, we'll continue to look at the opportunities as they arise, whether it be via divestitures, acquisitions or swaps. This was a good opportunity for us, and as we have done in the past, we move quickly to realize the opportunity. With that, Mike, would you like to address the telephone question?

Mike Lovett - Charter Communications, Inc. - EVP, COO

Yeah, Joseph our plans-- well we haven't shared any specific numbers for year-end '07, marketable homes for phone, our plans are to pass the majority of those households that have 750 MHz or higher plant, to pass the -- vast majority of those marketable for telephone over the next couple of years And there is a point of reference, we have just under 90% of our homes passed by 750 megs or higher.

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Joseph Stein - UBS - Analyst

Great. Thank you.

Operator

Your next question comes from the line of Rich Greenfield with Pali Capital.

Rich Greenfield - Pali Capital - Analyst

Hi, a couple questions. One, first, could you just clarify what – the comment about your operating expenses. I think you made a comment that roughly 2% of your EBITDA growth was driven by some non-recurring – or by some contract change. Wondering, is that a recurring event, meaning will you continue to get the benefit of that in you margins and EBITDA growth for the rest of the year? Or is that really just a one-time benefit, and in turn were margins more like flat, versus up a little bit year-over-year, just wondering how to think about margin expansion over the last rest of the year. And then two, obviously you raised prices quite a little bit through all of your footprint early in the first quarter. Can you talk to – kind of any way of thinking about the subs you lost during the quarter, related to those price increases. Obviously over all it worked out quite well. But what were the actual sub losses and is there any way to think about how many of those subs that were thinking about turning due to the price increase, that you were able to up-sell in to a bundle rather than churn? Thanks.

Neil Smit - Charter Communications, Inc. - President and CEO

I'll have JT, Rich, answer the first question and then Michael respond to the second. JT?

JT Fisher - Charter Communications, Inc. - CFO

Yeah, Rich specifically as we mentioned, our year-over-year margin improvement in the first quarter reflects a number of things. Increased operational efficiencies, benefits from third-party contracts and favorable settlements of certain past obligations and primarily what you are looking at there are things like pro – examples are like programming contracts that have been open that we closed during the period as well as things like property tax audits. So, we call those out because that added to our EBITDA growth on a year-over-year basis and so we wanted to specifically let people be aware of that.

Mike Lovett - Charter Communications, Inc. - EVP, COO

Okay. Rich, regarding the overall rate adjustment and the migration strategy on our video product line, we're obviously very pleased with the performance throughout the quarter. I will say that we are complete with those adjustments, we started in fourth quarter, as you know, wrapped up at just the end of April. So we're done through that process. Some stats here on the overall performance. We had roughly 80% of our customers either stayed in their same existing package, taking a higher rate associated with that package, or migrated north via the bundling that we have talked about. So, again, very pleased – not – not in a position to share any specific statistics about customers that may have been impacted or lost because of the adjustment, but, again, if you look at the overall performance – couldn't be happier with how things have played out with our migration strategy.

Neil Smit - Charter Communications, Inc. - President and CEO

I think, Rich – you know, really demonstrates a few things. One is the value of the bunned that you are able to leverage the bundle to keep – either keep people in, you know, a package or sell– up-sell them other services at greater value. I think that's

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one. And the second thing is that the investments we made, Mike and his team spent a lot of time the – all of the different queues in the call centers up to speed on how to sell the value of the bundle. And it worked – it was very effective for us. It really paid off, and we saw the marketing opportunity as we saw the growth and the demand, we increased the marketing spend which was about 3.8% of revenue this year – or this quarter, excuse me.

Rich Greenfield - *Pali Capital - Analyst*

Thanks a lot.

Operator

Your next question comes from Bryan Kraft with Credit Suisse.

Bryan Kraft - *Credit Suisse - Analyst*

Hi, thank you. It looked like SG&A declined sequentially in programming – increase year-over-year, by somewhere in the mid-single-digit range. I guess, just wanted to confirm on the programming side if that's correct? And also what you can comment on what you expect for programming costs increases for the full year. And also just wanted to follow up on the last question, can you clarify – just wasn't clear to me whether the favorable settlements from past obligations are a reoccurring margin benefit or if that was a one-time benefit?

Neil Smit - *Charter Communications, Inc. - President and CEO*

Yes, on the – I – I consider those one-time benefits, and, you know, but there are always things that, you know, are – are settle-in adjustments during any quarter, but I think I would like at those as one-time adjustments. Concerning programming, as you know we made some slight modifications to our addendum in the quarter. One of which was to condense the expense lines into operating and SG&A. It's consistent with the disclosure of our peer companies. Programming expenses still reported in the SEC filings, and first quarter programming was about 8% year-over-year. We – we have stated that, you know, '06 was in the high single digits, and '07 I don't expect to – programming costs to increase, to be substantially different than that.

Bryan Kraft - *Credit Suisse - Analyst*

Great. Thank you very much.

Operator

Your final question comes from – I'm sorry I'll now turn the call over to Neil Smit for closing remarks.

Mary Jo Moehle - *Charter Communications, Inc. - VP of Investor Relations and Communications*

No, I'm sorry I think we do have one more question.

Operator

Yes, your final question will come from the line of Thomas Eagan with Oppenheimer & Company.

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Thomas Eagan - *Oppenheimer and Company - Analyst*

Alright, good --great, thank you very much. I guess first on installation costs. If you could give us a sense of how that has changed say this quarter over last year's first quarter. So, for example, what is the --the installation cost for RGU if you have that? And then how many of your installers, or what percentage of your installers, can install, you know, say two or three services? And then secondly, if you have it what percentage of your data adds came from DSL? Thanks.

Neil Smit - *Charter Communications, Inc. - President and CEO*

I'm sorry Thomas, can you repeat the last part of your question?

Thomas Eagan - *Oppenheimer and Company - Analyst*

The second question was what percentage of your data adds came from DSL. We heard from another operator that about 50% of their data ads came from DSL. We heard from a -- another operator earlier in this week, that about 50% of the data adds came from DSL.

Neil Smit - *Charter Communications, Inc. - President and CEO*

Regarding the installation, I don't -- I don't have the breakdown regarding the overall costs year-over-year. The percentage of our customers -- or installers that can do multiple products, in-house folks -- relative to contractors, because we do use third-party installation crews -- our in-house folks, 60% of our folks, not pushing 70%, can do two and three-product installations. Our contracts -- that varies quite a bit depending the type of contractor we have in market, but it runs in the 70 to 80% range -- can do multiple product installations. And on the data to DSL, we don't -- we don't have that data to share for this quarters performance, but I would -- I would suggest that it would be similar to what we're seeing from our peers in the industry.

Thomas Eagan - *Oppenheimer and Company - Analyst*

Great. Thank you.

Mary Jo Moehle - *Charter Communications, Inc. - VP of Investor Relations and Communications*

Operator, we'll take the next question.

Operator

Your next question comes from the line of Ethan Lacy with Merrill Lynch.

Ethan Lacy - *Merrill Lynch - Analyst*

Good morning. Thanks for taking the question. Just wanted to get your view in terms of the HD offerings. You know, we have been hearing a lot about direct TV's, you know, incremental HD offerings they are planning for by the end of the year. And I'm -- I'm -- you know, certainly your advance service penetration numbers are benefiting from demand in the market for that, but do you feel pressured at all or do you think, you know, going forward you are going to have to increase your offering in that respect?

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Neil Smit - Charter Communications, Inc. - President and CEO

HD and DVR are available to about 80% of our digital customers right now. On-demand services are about 75% of our digital. I think HD -- we do intend to increase our HD offerings. We believe we are well positioned. Markets vary but we offer in the range of up to 18 HD channels and we plan to increase that north of 20 in the majority of our HD markets by the year end. We'll be doing that via -- work with our programmers as well as freeing up bandwidth as we continue to execute our video strategy and technology improvements on the various plans.

Ethan Lacy - Merrill Lynch - Analyst

And, you know, just to that point in terms of managing bandwidth Neil, are you -- have you guys started to look at switch digital? I know certainly some of your peers are already using that to reclaim some bandwidth in the market. Do you have any intention of doing that this year or maybe early '08? Yes. Similar to our peers, we plan to use switch digital to free up bandwidth and add content in advance services such as HD. We plan to pilot a couple -- in a couple of markets in '07, and more wide deployment in 2008 and beyond. And I guess just last question with AT&T, you know, sort of rolling out U-verse now in Los Angeles, are you see that in any of your L.A. markets and can you sort of give us a color of what that product might look like from a competitive perspective.

Neil Smit - Charter Communications, Inc. - President and CEO

At this stage in the L.A. markets, we have seen U-verse deployments from a construction standpoint, but we haven't seen them from a marketing standpoint, so it's a little early to tell what is happening on the content front as well as what the potential impact might be from a competitive standpoint to our customer base. But, again, we have seen very, very limited deployments from a construction standpoint. As a company, it's probably worthwhile backing up and saying as an organization between Fiore and U-verse, we have approximately 2% of our homes passed, at competitive risk today. So, again a very small piece of our overall homes passed are looking at the [Arbach] competitive threat.

Ethan Lacy - Merrill Lynch - Analyst

Thank you. Nice quarter.

Neil Smit - Charter Communications, Inc. - President and CEO

Thank you.

Mike Lovett - Charter Communications, Inc. - EVP, COO

Thanks.

Operator

Your next question comes from the line of Benjamin [Frenbern] with Morgan Stanley.

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Benjamin Frenbern - Morgan Stanley - Analyst

Thank you. Thanks for taking the question. I jumped on late, so if this has been asked again – stop me – asked before, stop me. I wanted to touch on the commercial outlook for your business and how you guys are investing either in salespeople or line extensions and network capacity to build your SME opportunity? Maybe give us an idea of where you think the revenue base can go over the next, kind of two years, and what the margin structure might look like in that business?

Neil Smit - Charter Communications, Inc. - President and CEO

Yes, as you know commercial has been a good business opportunity for us, its about a \$300 million business and grew about 15% year-over-year. We continue to invest in it and see if its a good growth opportunity. Mike?

Mike Lovett - Charter Communications, Inc. - EVP, COO

From a strategy standpoint, we feel like we are very well positioned. We have an existing in-house sales force as Neil mentioned, generating approximately \$300 million annually today and growing at a pretty good clip. We have deployed phone product in a significant portion of our KMA's that have phone marketable, and by the end of Q3, we'll have commercial voice available to all of the KMA's that we launched residential voice to. And when we look at the – the commercial business, we look at small and medium business primarily targeting 2 to 12 line businesses. We feel like that's the sweet spot for Charter, at this stage, and we are getting – you know, early returns are, we are getting traction in that sector. We feel good about having size of the overall revenue opportunity for the coming years.

Benjamin Frenbern - Morgan Stanley - Analyst

Can I ask one follow-up just from a competitive perspective. This is probably the first time a lot of the big [Arbach's] are seeing competition in this market. What is the typical, sort of price differential you are going to market with? And are you seeing any reaction from them on the pricing side at all to date?

Neil Smit - Charter Communications, Inc. - President and CEO

We – we – we have not seen a response on price in the small, medium businesses that we're targeting, and typically – and we're very pleased with the fact that it's not specifically about price its about choice. So, we have a product that offers choice and then this is a segment that has not had choice – I would argue, ever – and we're pricing 10 to 15% and again, really focusing on the bundled services. We have a lot of these households – or a lot of these customers that currently have data and or video with us and we're focusing on the bundle there, similar to how we're approaching the residential opportunity.

Benjamin Frenbern - Morgan Stanley - Analyst

Thank you very much.

Operator

Your next question comes from the line of Jason Bazinet with Citigroup.

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Jason Bazinet - Citigroup - Analyst

Just had one question on high definition. Do you know what your strategy is longer term in terms of charging for the HD box? There seems to be a little bit of divergence within the industry today, and I was just wondering what your thinking is on that topic. Thanks.

Neil Smit - Charter Communications, Inc. - President and CEO

I mean, currently we feel good with our offering, and customers are -- are, you know, there is demand for it and people like the product. The -- I think the going forward, we continue to look at the value and consider what the -- you know, what the right blend of our offering is to the customer, whether it's a mix of -- you know, services or price or tiers or box. And we always have different tests out in the market and see which one responds the best, and we'll continue to monitor it that way, I think.

Jason Bazinet - Citigroup - Analyst

Okay. Thank you.

Operator

Your next question comes from the line of [Tsuna Amoby] with Standard & Poors Equity.

Tsuna Amoby - Standard & Poors Equity - Analyst

Thank you very much. On interactive advertising, I was wondering if you can provide any color of any kind of test that you are running, you know, the -- the level of revenues you are generating right now? It's probably still small, by how do you see that segment growing in the next few years?

Neil Smit - Charter Communications, Inc. - President and CEO

It's a relatively small business for us right now. We've -- we have some tests that we have run, and successfully, in both the California and St. Louis markets. The -- and it's been well received by both the advertisers as well as the consumers. We will continue to look at those tests and monitor the results. I -- I think it's a good opportunity for the -- our business and the industry going forward, and we'll continue to monitor the results and invest appropriately going forward, but I think it is a good opportunity for the overall industry.

Tsuna Amoby - Standard & Poors Equity - Analyst

And with respect to your portal, what kind of enhancements have you introduced in the last year or so? And when does that scale to the point where you begin to, you know, generate meaningful, you know, revenues? You know, whether it's video, et cetera? Can you kind of provide, you know, any color on that? It seems to me that Charter has a pretty high -- relatively high, [leveragable] base of internet broadband subscribers that could form a base to drive some additional revenue streams.

Neil Smit - Charter Communications, Inc. - President and CEO

Yes, I agree with you, I think its -- we have a good base and an ever-increasing base of customers on that portal. We've -- as you may know, we totally re-did the portal in the last year and currently have a beta in market that seems to be very well received by the testers of the beta. I think it's a good revenue opportunity. It would be difficult for me to size it specifically right now. But

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we are looking at how to best integrate it, with out other platforms, you know, you can get TV listings and movie listings, and local information. And so we're integrating it well with some of our strengths of our other platforms and our -- and our very -- the very local aspect of our business. So we -- we'll continue to invest in it. We -- we feel good about the products that we have launched in the last year and the enhancements we have made. But I agree with you. I think it's a good revenue opportunity going forward and we have a good base of customers to leverage.

Tsuna Amoby - *Standard & Poors Equity - Analyst*

Great. Thank you.

Operator

There are no further questions at this time, are there any closing remarks?

Neil Smit - *Charter Communications, Inc. - President and CEO*

Yes, I -- I'm very proud the report the first quarter results this morning. The Chart teams executing on our strategy, capitalizing on the opportunities of the business and realizing the benefits of the bundle. Our continued momentum is reflected in our results. I look forward to reporting out progress throughout the rest of the year. Thank you all again for joining us this morning.

Operator

Thank you for participating in today's conference call. This call will be available for replay beginning at 10:00 a.m. EST today, through 11:59 p.m. EST on May 9th. The number to dial for the replay is 800-642-1687, or 706-645-9291 and the conference ID number is 458-3725. Thank you. You may now disconnect.

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