May 17, 2013

Mr. Steven A. Broeckaert
Senior Deputy Chef
Policy Division
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: **CSR-8775**
MB Docket No. 13-63

Dear Mr. Broeckaert:

On behalf of KJLA, LLC ("KJLA"), the Petitioner in the above-referenced matter, we are hereby replying to the letter, dated May 9, 2013, in which CCO SoCal I, LLC, a subsidiary of Charter Communications, Inc. ("Charter"), has provided a supplementary statement in response to that certain letter from you to Charter, dated April 19, 2013.

The following set out the matters that you raised in your letter and KJLA's comments dealing with Charter's May 9 letter and the statements contained therein.

Item 1. Please tell us the exact date that KJLA was transitioned to digital-only on the Charter systems where KJLA is carried. To the extent that Charter did not transition KJLA to digital only on the same date for all systems, please specify all relevant dates.

KJLA Response: KJLA agrees with Charter's statement.

Item 2. Please explain the discrepancy between the United States Postal Service documentation, submitted as Exhibit 3 to Charter's Opposition to Petition ("Opposition"), which indicates that the letter sent on November 13, 2012 was "First Class Mail," and the submitted copy of Charter's November 13, 2012 notification letter to KJLA, submitted as Exhibit 2 to the Opposition, which states the letter was being sent "Certified Mail." Does Charter have a Certified Mail receipt or other documentation that specifies the full address where the November 13 letter was delivered?

KJLA Response: Ms. Monica Gonzalez is neither a "Purchase Manager" nor any other manager of KJLA. She is, in fact, a receptionist. KJLA management did not receive the November 13, 2012 letter and is not certain what happened to the letter after Ms. Gonzalez apparently signed for it.

Barry.Friedman@ThompsonHine.com Fax: 202.331.8330 Phone: 202.973.2789 bf

Item 3. Please tell us how many Charter subscribers in the Los Angeles DMA have received free digital equipment since the must carry stations, including KJLA, were transitioned to all digital this past February. If any requesting customers did not receive free digital equipment, please specify the number of customers and the reason(s) why not.

KJLA Response: KJLA continues to take note that all references to subscribers is couched as estimates. Charter should certainly be aware of actual numbers. KJLA requests that the Commission determine the number of analog subscribers as of February 12, 2013, the actual number of set-top boxes delivered to Charter subscribers since that date, and the number of analog subscribers as of the current time. Only this will provide useful evidence as to Charter's efforts to retain analog subscribers by offering them equipment needed to view the broadcast stations Charter removed from service.

Item 4. Does Charter provide customer service representatives with specific guidelines for how to handle calls from customers requesting free digital equipment? If so, please specify those guidelines.

KJLA Response: KJLA is providing herewith a copy of the transcript of Charter's May 7, 2013 earnings call (Exhibit A). The transcript is instructive as to Charter's handling of its basic subscriber base, the subscribers most likely to view KJLA. Throughout the call, it is evident that Charter is willing to accept the loss of basic subscribers in favor of retaining only those willing to be migrated to higher and more profitable levels of service. Mr. Christopher J. Winfrey, the Chief Financial Officer of Charter stated, at page 8 of the transcript: "The other piece that takes place is that you naturally are migrating that subscriber base into new pricing and packaging into a more full video product." The Commission, in allowing the rules to sunset, was expecting that cable operators, such as Charter, that remained in hybrid mode would offer their analog subscribers a simple and cheap device to allow them to continue as analog subscribers. Charter, instead, is undertaking every effort not to continue them as analog subscribers, able to view KJLA with a cheap device, but to migrate them to higher paying subscription levels. This is not what the Commission intended.

Item 5. Please describe the type(s) of free equipment Charter distributed to requesting subscribers. The January 2013 subscriber notification letter, submitted as Exhibit 4 to the Opposition, mentions a "digital receiver" - is a "digital receiver" the same as a DTA or is it equipment with greater functionality?

KJLA Response: Charter's response confirms that DTAs are not offered and that Charter provides its subscribers only with set top boxes that allow it to offer a wide variety of services

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beyond the simple retransmission of broadcast signals and the transmission of basic cable programming. This is part of a strategy to derive greater revenue from analog subscribers and not merely to replicate the analog subscribers' prior channel lineup.

Should there be any questions in regard hereto, please communicate with the undersigned.

Respectfully submitted,

Barry A. Friedman

Enclosure

cc: Frederick W. Giroux, Esq.

EXHIBIT A

Charter Communications Management Discusses Q1 2013 Results - Earnings Call Transcript

Executives

Stefan Anninger - Vice President of Investor Relations

Thomas M. Rutledge - Chief Executive Officer, President and Director

Christopher L. Winfrey - Chief Financial Officer and Executive Vice President

Robin Gutzler

Analysts

Jason B. Bazinet - Citigroup Inc, Research Division

Jeffrey Duncan Wlodarczak - Pivotal Research Group LLC

John C. Hodulik - UBS Investment Bank, Research Division

Douglas D. Mitchelson - Deutsche Bank AG, Research Division

Benjamin Swinburne - Morgan Stanley, Research Division

Philip Cusick - JP Morgan Chase & Co, Research Division

David Carl Joyce - ISI Group Inc., Research Division

Michael McCormack - Nomura Securities Co. Ltd., Research Division

Shing Yin - Guggenheim Securities, LLC, Research Division

Frank G. Louthan - Raymond James & Associates, Inc., Research Division

Shagun Singh Chadha - CRT Capital Group LLC, Research Division

Amy Yong - Macquarie Research

Charter Communications (CHTR) Q1 2013 Earnings Call May 7, 2013 10:00 AM ET

Operator

Good morning. My name is Alicia, and I will be your conference operator today. At this time, I would like to welcome everyone to the Charter Communications First Quarter 2013 Earnings Conference Call. [Operator Instructions] Thank you. Mr. Stefan Anninger, you may begin.

Stefan Anninger

Thanks, operator. Good morning, and welcome to Charter's 2013 First Quarter Earnings Call. This morning, we issued a press release over PR Newswire at 8 a.m. Eastern Time detailing our results.

Before we proceed, I would like to remind you that there are a number of risk factors and other cautionary statements contained in our SEC filings, including our most recent Form 10-K and 10-Q. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

Various remarks that we make on this call concerning expectations, predictions, plans and prospects constitute forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect management's current view only, and Charter undertakes no obligation to revise or update such statements or to make additional forward-looking statements in the future.

During the course of today's call, we'll be referring to non-GAAP measures as defined and reconciled in this morning's earnings release. These non-GAAP measures, as defined by Charter, may not be comparable to measures with similar titles used by other companies.

Joining me on today's call are Tom Rutledge, President and CEO; and Chris Winfrey, our CFO. The presentation that accompanies their comments can be found on our website, charter.com, under the Financial Information section of our Investor & News Center. The press release and trending schedules can be found at the same location.

With that, I'll turn the call over to Tom.

Thomas M. Rutledge

Thanks, Stefan. I'm pleased with our first quarter 2013 results. They demonstrate that the strategy we have implemented over the last year is starting to have a positive impact. Our revenue growth accelerated during the first quarter to 5%, even without the benefit of last year's election year advertising revenue.

We grew residential customer relationships by 56,000 and our expanded basic video customers grew by 4,000 in the quarter, while our limited basic video product, which we no longer actively market, declined by 28,000.

Triple-play sell-in as a percentage of first quarter video sales was nearly 50% for the quarter. And as of today, it exceeds 50%. Triple-play customers continue to connect at an average entry ARPU of $120, a significant premium to our $90 promotional offer. 43% of our customer base is now on our new pricing and packaging structure, meaning that our customer base is increasingly receiving a better product with more value. We are now more competitive in the marketplace and can sell more products to our existing customers and to their neighbors. Our commercial segment again grew by approximately 20%.

Even with all the operating changes we've implemented and the investments we're making, we grew adjusted EBITDA by 2.8% in the quarter. We are essentially selling and providing a different service than we were a year ago, which is reflected in our revenue growth. Relative to last year's first quarter, we saw that triple-play sell-in rate improved by over 75%. We also achieved higher selling ARPU across the average package we sold in a higher product penetration per sale.

We did have lower gross sales compared to the first quarter last year, as we continue to rebuild our direct sales force and reorganize our inbound call center sales force in the first quarter. But generally, our sales channel performance improved steadily through the first quarter and has continued to do so. So sales are going up, and as Slide 3 of today's investor presentation highlights, we're offering a better product and service, which is more competitive than -- and which we expect to continue to drive deeper penetration in existing and new homes served, increase customer satisfaction and lower churn, a reduction in the amount of transactions with our customers, and as a result, realize a better return on the increased amount of capital we're investing.

Moving on to our priority in 2013. On our last quarterly call, I outlined our 4 key areas of focus for 2013. I believe we're performing well in each of these areas. Here's a brief update. First, we're actively leveraging our 2-way interactive highcapacity cable plant in order to extend the advantages we have relative to our competition. We continue to make network investments and perform deferred plant maintenance in order to deliver quality service. We also continue in our efforts on taking our plant all digital by the end of 2014. Going all digital allows us to offer more video content and higher data speeds through DOCSIS 3.0. We've started in Texas on a hub-by-hub basis, offering a substantial high-definition channel increase. Our plan is working, and we'll continue to roll that out across our entire footprint this year and next.

We've also recently received our cable card waiver from the FCC. The waiver is important is it will further reduce our advanced set-top box costs and enhance the return on investment associated with our all digital effort. The waiver furthers our goal to end up with a network and product infrastructure that allows boxes from multiple vendors and smart TVs to connect to our network with downloadable security software.

The second large objective in 2013 is to further develop our product and feature sets. We're making good progress on developing a cloud-based user interface and search service that will move key product and serve functionality out of the box, into the network and available across various devices and platforms.

Third, we continue to execute on our most important objective, improved operational performance to drive deeper penetration of our video, Internet and phone products across our 12 million passings.

That starts with providing an improved product and service to our 5 million current customers to generate more satisfaction revenue with lower churn. That deeper product penetration and customer satisfaction directly translates to higher success in selling products to the roughly 7 million passings which we have no relationship.

Finally, we'll continue to grow our commercial services business in the $9.5 billion telecom marketplace opportunity within our footprint by continuing to focus our sales and product development effort in this space.

So we're executing well on our plan, and I believe there are more good things to come for Charter.

Now I'll turn it over to Chris to give additional details on the first quarter.

Christopher L. Winfrey

Thanks, Tom. When we implemented our new product offering and operating strategies in the middle of 2012, we provided a general sequence of how we could see success develop in the metrics. First, through the quality of PSU growth, which we quickly saw through extended basic video and triple-play and from penetration growth. Second, through residential customer ARPU and accelerating year-over-year revenue growth, which started in Q4 and continued into Q1 of this year. And ultimately, adjusted EBITDA and free cash flow, where we expect a meaningful first comparison once we have the full year of the same strategy and product offering in place.

As we look at Q1 2013 results, let me highlight what we're seeing within the metrics posted in today's materials. Starting with the customer trends on Slide 4. We lost 24,000 video customers in the quarter, down from a gain of 20,000 a year ago. If you exclude limited basic losses, we grew video customers by 4,000. And relative to the first quarter of 2012, we no longer actively market analog service or benefit from some of the aggressive packaging in place last year.

We added 99,000 Internet customers this quarter, less than the 141,000 gain a year ago that reflects our strategy of taking a more bundled approach and not having a $20 single play or $30 double-play offer in the market as we did for much of the first quarter last year. In fact, we have a higher quality product for the nearly 100,000 Internet net adds that we added at this quarter.

And as a result, we grew our phone customers by 59,000, a 28,000 increase versus the prior year, reflecting the higher sell-in of triple-play packages at the point of sale, which, as Tom mentioned, is nearly 50% of video sales in the first quarter.

You can see the early financial impact of the strategy most clearly in residential ARPU, which is now above $107 versus last year's $105 and overall revenue growth of 4.9%, which was increasing through the quarter.

Another way to express this is despite significant net adds in the first quarter of last year, in Q1 2012, we only grew residential revenue by 0.9% as compared to Q1 of 2011. In the first quarter of this year, we grew total residential revenue by 4.1%.

So looking at the detailed revenue line items on Slide 5. Our video revenue grew 6.8%, really driven by 4 factors: the quality of subscriber acquisition through higher sell-in of expanded basic versus limited basic. Our sell-in rate of expanded basic is now 99% versus 81% a year ago and our residential video base has grown to 90% expanded. We also have much higher level of box placement, SD, HD and DVR, all of which has revenue attached.

Thirdly, promotional rate step-ups partly offset by churn and rate increases, which really started in March. And finally, a higher amount of bundled sell-in, which results in allocating more revenue to video than in previous quarters.

Internet revenue grew 11%, driven by the addition of 250,000 Internet customers over the last year. And phone revenues declined 21%, with the increase in phone customers more than offset by revenue allocation out of this portion of the bundle.

Our commercial business grew by 19.6%, where we were a bit light on install revenue but continued the subscription revenue growth above 20% or 25%, excluding video.

If you look at commercial PSUs, we showed an increase of 6,000, which includes 10,000 commercial video losses in the quarter. As some of you may already know, EBU reporting reduces total reported bulk video customers with a basic cable rate increase, like the one we implemented in the first quarter rolls through our customer base.

So to be clear, our commercial video billing relationships grew in the first quarter and commercial video revenue also grew year-over-year. And total customer relationships for commercial would have grown by 8,000 excluding the EBU reporting effect.

Advertising sales fell by 9% in the quarter, driven by a decline in political and the eliminations of some barter contract revenue, which is offset in OpEx. Core advertising growth, excluding these impacts, was slightly positive in the quarter.

Slide 6 shows adjusted EBITDA rose 2.8% in the first quarter versus the prior year. We're pleased with this result given the amount of change still taking place in the business. And as a reminder, we're realigning our organization and restructuring field operations. We're migrating to more in-house versus outsourced labor. We revised our product and selling tactics and are redirecting various sales channels. We revamped our sales commission structure and we're catching up on deferred plant maintenance. So on the expense side, total operating expenses grew by 6.1% versus the prior year quarter.

The key items were programming cost, which was $24 million in the quarter. That equates to 4.9% on an absolute basis or 5.7% for expanded basic video customer. If you include the effect of higher limited basic losses and EBU accounting for commercial customers under our rate increase, the Q1 programming increase per total video customer was higher. We continue to expect full year 2013 programming expense growth in the mid to high single digits, particularly on an improved expanded basic customer basis, which is our focus.

Cost to service our customers increased by $36 million or 11%, reflecting higher spending on deferred plant maintenance and labor. This spending can have an outsized impact on reducing truck rolls, and we started to see early returns on these investments already.

Turning to Slide 7, our capital expenditures for the quarter were $412 million, reflecting a $72 million increase versus the first quarter of 2012. CPE spending increased by $61 million versus the prior year to support new customer acquisition, upgrades and the migration of existing customers to our new pricing and packaging.

Support capital increased $24 million year-over-year due to investments in our fleet, back-office systems and real estate. And commercial CapEx totaled $62 million, up $24 million year-over-year. The increase was primarily related to line extensions to support growth.

We continue to expect our total 2013 capital investments, excluding the impact of acquisitions, to be approximately $1.7 billion.

Before moving on to the balance sheet, I wanted to make a -- 2 below EBITDA items in this quarter's income statement. We have a $42 million loss on extinguishment of debt during the quarter related to early payments for our term loan C, which was held on the balance sheet at a discount due to fresh start accounting. The loss is a noncash charge.

On income tax expense, we typically run over $60 million per quarter in noncash deferred income tax expense as we have a valuation allowance against our deferred tax asset. In this quarter, the recent bond for bank refinancing lowered the noncash deferred income tax. We did not expect either of these noncash items to be recurring.

Moving on to Slide 8. We generated $118 million of free cash flow in the quarter, just above last year's first quarter level, driven by lower cash interest payments and higher adjusted EBITDA, offset by higher capital expenditures. We finished the first quarter with $865 million of total liquidity. And during the quarter, we issued $1 billion of senior notes due in both 2021 and 2023, most of which we used to pay down our term loan C.

Subsequent to the close of the first quarter, we priced a delayed draw 7-year term loan E in anticipation of the Bresnan closing. We amended and extended our term loan A. We amended, extended and upsized our revolver to $1.3 billion. We issued a new 7.5-year term loan F to refinance the term loan C and D, and we issued $1 billion in 10.5-year senior notes and tendered $900 million of 7 7/8 notes with a cleanup call for the remainder.

So our debt maturity schedule pro forma for these transactions in the closing of Bresnan is shown on Slide 9. Over 95% of our debt now matures beyond 2016 and our pro forma interest cost will be 5.6% with an annual run rate expense of approximately $820 million.

As of March 31, our leverage was 4.8x. We still expect to close Bresnan in the third quarter. At which point, we expect to be levered at approximately 5x in the last 12-month basis.

As a reminder, our tax asset consisted of an outsized tax basis $8.9 billion and $7.7 billion of NOLs as of December 31, 2012. We announced last week that Liberty has completed its 27% investment in Charter. And as a result, we experienced a cumulative 50% ownership change from the past 3 years, as defined in Section 382 of the Internal Revenue Code.

However, as today's 10-Q describes, we do not expect this ownership change to impact our ability to use our loss carryforwards in the future.

And on that note, we'll open it up for Q&A. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Jason Bazinet of Citi.

Jason B. Bazinet - Citigroup Inc, Research Division

I was just wondering if I could ask a longer-term question because it's one that comes up with investors quite often. The way we're sort of modeling sort of the longer-term top line growth for your firm is to sort of use the sequential lift you saw in the Bresnan properties as a proxy, nominally 2% or 3%. The question I get most often from the buy side is they look at your sort of aggregate penetration rates and say, "Gee, they're quite low relative to a lot of cable peers." Isn't the opportunity set much larger for you as you begin to turn Charter around? And I know it's a high-level question, but if you could just comment on that, that would be very helpful.

Thomas M. Rutledge

Jason, this is Tom. I don't want to give you a long-run forecast of what we think our revenue is potentially. But what you say is true, Charter's less penetrated than Bresnan is. And so from a potential point of view, it has more upside. Whether you can realize that or not, though, is the million dollar question. And the answer to that is there are logistical impediments to growth, and it's hard to grow faster than a certain rate growth, even regardless of what your base is. You see that in the commercial space if you look at how big it is relative to our penetration of it. It's growing rapidly, but it's hard to take that up by an order of magnitude. So I think that Charter has growth in front of it for years to come, whether we can logistically grow it faster than Optimum West or the Bresnan has grown, it's hard to say.

Operator

Question comes from the line of Jeff Wlodarczak of Pivotal.

Jeffrey Duncan Wlodarczak - Pivotal Research Group LLC

Two for Tom. Could you give us your thoughts on having Liberty Media as your largest shareholder with board seats? And then do you otherwise have a more favorable attitude towards M&A, given their presence, your tax advantage position and the attractive debt markets? And I have one follow-up.

Thomas M. Rutledge

Well, we are happy to have Liberty Media as a shareholder and as board members, as shareholders. I hope they're like any of our shareholders, and that they have expectations for the company's business plan, as we all do. And I think when you look at Charter's prospects, we do have a big runway in front of us. We are levered appropriately for the kinds of business we're in to get good returns from our growth. And we have a significant tax asset. And so, as investors, they're like all investors. I hope they understand our plan, and they do. As board members, they're experienced operators in this space, not only here but around the world. So they bring us a level of expertise that's really unmatched. And so we're pleased to have them. And in terms of our M&A approach, Charter doesn't need to do M&A to be successful, and we have an enormous opportunity in front of us and we're going to take advantage of that. If we can find other opportunities that are similar to Charter's opportunity and we can manage them and get them at an appropriate price, of course, we're interested. We just did the Optimum West acquisition for that reason, and we'll be opportunistic. But it doesn't really change our point of view.

Jeffrey Duncan Wlodarczak - Pivotal Research Group LLC

Fair enough. And then Tom, can you talk about if you are seeing any substitution for OTT video providers? And I wanted to get your interest level of Aerial {ph] wins out in the courts and offering a low-end alternative to multichannel, say, an Aerial {ph] like service bundled with maybe a Netflix or an Amazon combined with your data offering.

Thomas M. Rutledge

Yes. If you look at all the multichannel growth, there isn't much of it in the whole space, and I think -- and if you look at the population growth and household formation, it's shrinking, multichannel video penetration is shrinking, which you could argue is over the top. But I would argue that it's really more about pricing. We've gotten very expensive bundles of video packages in our product mix that we as distributors can't do much about at the moment, and which has gotten no relief from the FCC with retransmission consent. So it's a difficult consumer proposition, and the economy is still not great. We still have a lot of people unemployed and underemployed and the labor force participation is at historic lows. And so I think the big issue is price and economic, macroeconomic forces in general, that the value proposition or the desirability of the cable package or the multichannel video package that we sell is still really attractive to most people. So I think most people that are using over-the-top exclusively are doing it more out of economics than some value proposition in terms of what they really want to watch.

Jeffrey Duncan Wlodarczak - Pivotal Research Group LLC

And would it be interesting to you to do an Aerial [ph} like service bundle with Netflix for those low-end subscribers that are economically challenged combined with your data offering?

Thomas M. Rutledge

Well, if Aerial [ph] prevails, it means that there's a way to put broadcast TV on televisions inexpensively in places where there's poor reception, and that's what cable was historically long ago. And so there's an opportunity there. Whether it can be exploited, whether it's legal are big questions. Would it dramatically change the business? I don't think it would. I do think that content would migrate away from broadcast and move into multichannel bundles. Most of the broadcast companies own other product that's cable exclusive or multichannel satellite and cable exclusive. So I really don't see it as a game changer, regardless of whether it's legal or not.

Operator

Your next question comes from the line of John Hodulik of UBS.

John C. Hodulik - UBS Investment Bank, Research Division

A couple of quick questions on CapEx. It looks like the increase we're seeing year-over-year is being driven largely by the CPE and the all-digital conversion. So Tom, could you just refresh our memories in terms of what you think is the sort of long-term capital intensity of the business, given Time Warner Cable and Comcast in the '13 to '14 range? And as you laid out the all-digital conversion in '13 and '14, can we assume that we can start to move towards that sort of longer-term level, as we move into 2015?

Thomas M. Rutledge

Well, we've said that we think that in the long run, the business becomes less capital intensive, and that last year was really the zenith of our capital spending as a percentage of EBITDA, of revenue. Same thing really.

Christopher L. Winfrey

Yes.

Thomas M. Rutledge

And that -- so going forward, that it will be less. And I think that's true, absent some change in the whole dynamic of the business or some acquisition. On a per sub or per dollar of revenue per sub basis, capital intensity should decline. And there are a bunch of forces that are loose that make that so. One, the network is completed. Charter's actually doing capital expenditures and operating expenditures on its network coming from what I called in the script deferred maintenance. What that means is that we've been walking out our plant and expensing that walk out and finding problems with the physical infrastructure and fixing them, which do -- some of which get capitalized. So you're spending capital and OpEx at a higher level that really reflect some years of neglect that happened as a result of restructuring of the company. But in general, the plant is in great shape and it's highly capable and fully functioning 2-way operator -- 2-way operating capable infrastructure. And so I don't see a continued significant investment in our network infrastructure. Going forward, though, CPE is getting less expensive on a per-box basis. Our waiver furthers that in the sense that each box that we're going to buy is going to cost less and each -- and the opportunity to stand up additional vendors and to hook to smart TVs directly all will reduce CPE intensity relative to the amount of TVs we have connected to our network. And we also have some additional capital cost that we've been incurring in the short run, as we restructure the company from a company that outsourced a lot of its labor to a company that's in-sourcing its labor. The reason we're having to spend capital is, even though we're pulling from the same labor pool for contractors and employees, we have to equip our own internal employees with new trucks, test equipment, et cetera. So we have 1.5 years now of spending or 1.25 years since I've been here that reflects that kind of change in the structure. At some point, we normalize that and we don't have any outsized spending relative to our labor force. In fact, the labor component of our total cash outlays become smaller, because we capitalize some of it. So the general answer to your question is -- and the direction of it is yes, we're moving toward more normalized ratio of capital to revenue over time.

Operator

Your next question comes from the line of Doug Mitchelson of Deutsche Bank.

Douglas D. Mitchelson - Deutsche Bank AG, Research Division

I have a couple, but I do want to follow up on that. You said moving 2 more normalized ratio of CapEx to revenue. What will that more normalized ratio be? And then further, Tom, do you expect the cloud-based user-interface will have a impact on the business? Is that evolutionary or revolutionary?

Thomas M. Rutledge

Yes, the answer to your first question is normal is a function of how fast you're growing, and we have ambitions to grow our business more rapidly as a result of this penetration position relative to the rest of the industry. So we shouldn't be seeking to have the same capital intensity as every other company. But at a general proposition, it's improving. The second part of your question.

Christopher L. Winfrey

Cloud interface...

Thomas M. Rutledge

The cloud interface revolution, evolution, what it does is allow us to have state-of-the-art user interfaces like our competitors that are over-the-top. And to put those interfaces on multiple devices, including the TV, and control the TV from those devices, so it allows you to search using a touch screen or a mouse and then to pull up content that you want to have and have that content appear on your big screen in a form of Video On Demand or a linear channel. And that is actually an improvement to the over-the-top products. And if you look at our actual content inventory, it's not much different than what the over-the-top providers are making. So in the sense of control and ease, it's a big differentiator to where we are using a remote control device on a grid guide on a TV. And -- but the beauty of it is that it allows all of our boxes that are already deployed regardless of their processing power and age to be capable of using the cloud-based infrastructure. And what it means is that the intelligence comes out of the box and moves into the network. And the client, so to speak, the set-top box can become a thinner client, which means again, less capital intensity on a set-top box basis and a better user experience and a reduction -- and it eliminates the need to replace your entire box inventory with higher processing power boxes, which could display graphical interfaces.

Douglas D. Mitchelson - Deutsche Bank AG, Research Division

So we'll call it a revolutionary evolution, I think.

Thomas M. Rutledge

Yes. I mean it's a significant opportunity and -- but the beauty of it is that it makes every box you have state of the art.

Operator

Your next question comes from the line of Ben Swinburne of Morgan Stanley.

Benjamin Swinburne - Morgan Stanley, Research Division

I have one for Chris and one for Tom. Chris, on the quarter, last call, you were nice enough to tell us about your pricing plans for the year, and you talked, I believe, about at 2.3% lift to your revenue per customer kicking in, in the second quarter. But I don't know if the price moves you made came earlier than you had planned or anything you can help us to decompose the 2.2% increase year-over-year in ARPU or the $1.50 sequential, whatever you think is the right way to think about it.

Christopher L. Winfrey

So the rate increase, if you take a look at the different rate increases that we took against the product sets, it was 2.3% on 5 million customers for the full fiscal year of 2013. And we saw 1 month of that already inside of Q1, through different rate increases rolling through. So it really was at maximum 1/3 of kind of your run rate effects. So that's the right way to think about it.

Benjamin Swinburne - Morgan Stanley, Research Division

Great. And that includes the price -- the promotional price? Obviously, you guys called that.

Christopher L. Winfrey

No, that's a separate and apart from promotional rate step-ups that take place upon customers rolling off their promotional offers.

Benjamin Swinburne - Morgan Stanley, Research Division

I see. And then Tom, you guys had mentioned the CableCARD waiver a number of times over the last couple quarters. I know you haven't changed your CapEx outlook, but you seem to have called out the benefits of that. Could you maybe just spend a minute on why that's important and how that changes the speed and capital cost of the all-digital rollout?

Thomas M. Rutledge

Yes. So the reason we haven't changed our capital guidance is we assume we would get it, and we thought we can manage through it, even if we didn't -- at least in this fiscal year. But the -- in the long run, what it allows us to do is to buy less expensive boxes. And the simplest part of the equation is that right now, we have to buy a box that has a form factor in it that allows the insertion of the CableCARD and we have to buy a separate CableCARD. And that physical infrastructure in the box costs money, and it's significant on a per box basis. And we get that savings right away. In addition to that, the downloadable security infrastructure that we're going to stand up will allow us to hook TVs directly or devices, DVRs, any device, any CE device with the chipset in it, will be able to be activated with downloadable security by the cable company, by us. That means that not every device we have will require us having any CPE at all in the house. And as more smart TVs proliferate, you're moving to a world where a lot of CE devices that act as televisions or PCs will be able to be connected on a cable-ready basis, so to speak, no capital involved on the part of the cable company. And finally, there's been a duopoly of security, conditional access, we call it, between Cisco and Motorola, and it'll be opened. I think both of those companies recognize that, and that makes other vendors easier to sell products into this industry, which will mean that any CPE devices that are needed between the cable company and another device, like a TV, will be less expensive if there's a more competitive environment.

Operator

Next question comes from the line of Phil Cusick from JPMorgan.

Philip Cusick - JP Morgan Chase & Co, Research Division

One quick one and a little bit longer. So can you, number one, define for us what the single-play limited video is as a percentage of the base? And do you see a point where churn driven sort of basic video decline start to moderate? And then second, can you detail more for us the differentiated offer you started in additional markets in Texas? And is that leading to any acceleration in uptick?

Thomas M. Rutledge

I'll take the -- I can do -- do you want to do the first 2?

Christopher L. Winfrey

So that -- look, Phil, the simple answer is that we have 90% of our video base now expanded basic. So that by default means that you have 10%, which is the limited basic. We've provided you the single-play penetration percent, which inside of Q1 is now 37.7%. And what we've not done for a whole host of reasons is to provide single-play Internet versus single-play video. So -- but I think it's fair to say that the vast majority of the limited basic customers in that 10% of our video, the vast majority are traditionally single play, but there are some in there that were coming through as a result of low-end triple play offers that the company had made in the past, which then rolled off into promotions inside of Q1, and that's part of the reason you see higher churn on that base as well. So I think the amount of the drop-off that we've seen in the past couple of quarters is a function of that. So maybe some would accelerate it as to where, as Tom call it, your status [ph] becomes over time. The other piece that takes place is that you naturally are migrating that customer base into new pricing and packaging into a more full video product. So it's not just churn. It's also migration into the proper video product. And then you're selling, as you replace churn over time, you're selling at a 99% sell-in of extended video. So I think we've seen an accelerated amount of reduction in that limited base through all of those, but particularly given the roll-off to promotion that we were selling at this time last year. And as we get into a proper year-over-year comparison, we expect that base to continue to decline but maybe not quite as rapid of a rate.

Thomas M. Rutledge

And in your Texas question, we're going from a situation where we had a lot of analog television still on our network there, and we're turning it off completely and launching, I believe, 140 channels of HD approximately, simultaneously with the reduction in -- we're turning off of the analog product. Most of the way we market our way in with a fairly high digital penetration. And we're finding that, that, combined with the offers we have in the market there and the focus we have on it, our sale on a year-over-year basis are accelerating. I mean, essentially, we have better products there now, significantly better product than we had historically. And so it's early and -- but we're pleased with the results we see so far.

Operator

You have a question from the line of Vijay Jayant of ISI Group.

David Carl Joyce - ISI Group Inc., Research Division

This is David Joyce for Vijay. With some of your peers having a significant triple-play promotions over the course of past year that are in some instances, turning into increase churn, we were wondering how that situation might play out for you, given that you've got lower penetration. Wondering if you might not have the same experience, if you could talk to that please.

Thomas M. Rutledge

Our goal is to reduce churn through our strategy, and that's our expectation. And the reason we think it will work for us is because we're putting a more valuable product in the home than customers have historically had. It's all digital. It's 2-way. It's lots of high definition TV, linear and On Demand. It's very fast Internet service, 30 megabits at the slowest speed that we saw incrementally and a very feature-rich phone product. And when -- and it's value priced, and it's value priced if you keep it together as a service offering in the future. And we believe that, that product is valuable, that consumers recognize it and it can't be replicated by our competitors easily. It's superior to satellite in that it's a 2-way interactive product. It's faster than DSL, and the phone service is more fully featured and less expensive than you can buy from an incumbent phone company. And packaged, it's a better economic value than you can buy the component pieces from individual companies. So if you look at our satellite competitors and look at their ARPU, and you look at what the full package that we sell is and its value proposition, there's a significant opportunity for us to grow and to retain the customers that we connect. So we don't expect it to increase churn.

Operator

Your next question comes from the line of Mike McCormack of Nomura.

Michael McCormack - Nomura Securities Co. Ltd., Research Division

Could you just talk a little bit about the -- you talked about the economy and sort of price sensitivity and the over-the-top discussion. How's that impacting customers' interest or appetite for moving up the speed tiers? And also as you think about the price increase you just instituted, will that also have a negative impact based upon people, obviously, looking for cheaper products out there?

Thomas M. Rutledge

Well, the answer to that is yes. We took a modest price increase on the products, 2.3% across our customer base, and we were conservative with it for that reason. Even though our costs for programming are rising more rapidly than that. And we think that our product -- if you look at what people are subscribing to already and our relative market share of that, that we can stand up a better product than our competitors, and that better product can be more -- can be priced from a value proposition in a better way and that we can take share. That's our business proposition. But if we had a growing economy and we have people going back to work, the opportunities for growth will be greater.

Michael McCormack - Nomura Securities Co. Ltd., Research Division

Tom, just to circle back on the M&A discussion, what do you think about potential acquisitions out there? Is contiguousness or demographics important to you thinking about urban versus rural assets?

Thomas M. Rutledge

Well, no, I guess is a simple answer. I think, any -- at some level, if the asset is small enough, the demographics matter. But any cable operation of size that covers a significant part of the country will tend to have average demographics. And I think that average demographics create an opportunity for a well-run cable system.

Operator

Your next question comes from Shing Yin of Guggenheim.

Shing Yin - Guggenheim Securities, LLC, Research Division

I had a follow-up to an earlier question about the limited basic subs and a kind of related question. So on the limited basic subs, you said you lost 28,000 in the quarter. I just wanted to clarify whether that is a net number, that is net of any that you may have recaptured or upgraded to an expanded video product. And if so, can you give us an idea what your recapture rate was in the quarter and has typically been over the last several quarters?

Christopher L. Winfrey

Ours -- so let me answer that one first before you go on to the second question. So it is a net number. It's a net loss number. And the way to think about what we offset is that we sold 99% expanded inside the quarter, which meant that we were permitting 1% sell-in of the limited basic relative to that being a substantially higher number last year. So the goal was to sell expanded basic. And so the vast majority of gross disconnects were not offset by new connects into limited basic.

Shing Yin - Guggenheim Securities, LLC, Research Division

I see, that's helpful. And my second question was from the trending schedule, your percentage of customers who are non-video increased to 22% in the quarter from 17% a year ago. I just wondered if you can give us an idea whether that reflects a larger number of customers within your markets who maybe are not choosing to take video at all? Or are you actually seeing more customers take your Internet product but choose video from another provider? And if so, who are you primarily losing these video subscribers to?

Thomas M. Rutledge

Yes. I'm not sure that I would argue that we're losing video subs to someone else as a result of the Internet sales. I think we're replacing DSL in satellite homes with Internet-only customers is my view of what the primary driver of that is.

Shing Yin - Guggenheim Securities, LLC, Research Division

And so does that suggest that when they switch over to your Internet product, they are actually keeping their -- whatever video service they previously had?

Thomas M. Rutledge

Yes, yes. And our goal, obviously, is to improve our video product and our brand and our reputation in the video space so that we can improve that conversion. But we have a highly valued, highly well-branded, recognized data product, and it's having significant successful traction in the marketplace. Our video product is rapidly improving but it doesn't have those attributes yet in the minds, eye of the consumer. And so there's more work on video, but I think we can get there.

Operator

Your next question comes from the line of Frank Louthan of Raymond James.

Frank G. Louthan - Raymond James & Associates, Inc., Research Division

Just one question to clarify another question. The $107 for customer relationships, just to clarify, does that include commercial customers or not? And then looking at your NOLs, what's your current expectation for the percentage of your share base that going towards the change of control post the Liberty acquisition? How close are you to possibly tripping that? And what agreements do you have with 5% holders to avoid jeopardizing the tax asset?

Christopher L. Winfrey

Sure. So on the first one, it's residential revenue per residential relationships. So it's a clean number. And on the second question, we did push through the 50% cumulative 3-year change in ownership. And despite that, we do not believe that the value of our tax assets is impaired. There's a fairly good disclosure inside of the Q as to why that's the case. It's a function of both the price at which that transaction closed, as well as additional realized built-in gains. But net-net, we don't believe that we're at all impaired to convert related [ph] to use those tax assets.

Operator

Question comes from the line of Lance Vitanza of CRT Capital Group.

Shagun Singh Chadha - CRT Capital Group LLC, Research Division

This is Shagun for Lance. So all the investments made in network sales, marketing and promotion were made last summer. That -- would that make 1Q the trough in terms of EBITDA margin compression? Or should we expect at least some margin compression in 2Q as well and then for it to ease in the back half?

Christopher L. Winfrey

So the -- I think the fact is we're not going to be giving lots of EBITDA margin guidance. But if I just trace you back through the changes that we made, the changes that we made were really started in Q3. They include both the way that we went to market product, pricing, packaging as well as the accelerated preventative maintenance and continue starting to do some of that deferred plant maintenance that Tom was talking about, and that really accelerated through the fourth quarter last year that's continuing today. And so I don't think that if you try to take a look at the business the way it's being operated and what we're selling and the customer base that we have, you're not going to begin to have a really clear year-over-year look until you can at least get into Q3. And even then, you're going to have a mixed customer base that is a function of both legacy as well as new pricing and packaging customers. Today we're at 43%. That is not an inconsequential number. So 43% of our base is now in that new pricing and packaging. And the higher we can get that number over time, the more like-for-like it becomes as well as our operating practice on a year-over-year basis. So I think you need to think about all those things when you think about the investments going in both in P&L as well as capital expenditures.

Shagun Singh Chadha - CRT Capital Group LLC, Research Division

Got it. And then one question regarding CapEx. 1Q CapEx was actually slightly below what we were expecting, although we are expecting it to be down on a full year basis. I was just wondering if any capital expenditures will push from 1Q into 2Q. Or is this really the run rate we should be expecting going forward?

Christopher L. Winfrey

Look, I don't know your model, so I'm not going to try to comment on it, but we spent $412 million of capital expenditures inside of Q1. Our estimate still is $1.7 billion for the full year. It's a function of growth, it's a function of scalable, it's a function of commercial. There's a lot of moving parts inside there. So I'd rather not go much further beyond that than what we've already talked about.

Operator

Your final question comes from the line of Amy Yong of Macquarie.

Amy Yong - Macquarie Research

Two quick questions. Can you talk about the video revenue growth of 6.8% in the quarter and kind of parse out what drove the growth mix, revenue allocation and price increase and how we should think about the rate of growth over the next few quarters? And then just quickly on Bresnan, can you help us think through some of the synergies that we should be thinking about?

Christopher L. Winfrey

Sure. So on video revenue, I gave a fair amount of color from the prepared remarks, as well as the -- as well as what we'll see in the release and the 10-Q today, so I don't want to be overly repetitive. But we're selling different products, so you're getting more revenue at acquisition. We're putting more boxes onto these homes, both from new customers as well as they migrate. We also have been more rate disciplined at promotional rate step-up. We took some rate increases. And then finally, I gave a sense that there is -- as we sell in and migrate customers to new pricing and packaging, there's effectively a reallocation on the bill that's taking place on bundled customers out of phone, and that's by design and a little bit into the Internet and video. So all those things put together, I'm not going to provide a waterfall because it's extremely complex. We had to take a look at acquisition, which package and is it single, double triple play and migrations or not. So it would be inappropriate to do that, but that's the right context to think about it. In Bresnan, we'll handle that very appropriately. We've not disclosed anything about integration that we expect to have synergies. I think the reality is it's operated in a way that Charter's operating its plant today and it's going to market the same way that we do. And so we think it's going to fit very well, so it's less about trying to drive the cost synergies and more about trying to grow the business and grow penetration and grow the amount of ARPU per relationship and the amount of cash flow per home passed by [ph], doing both on the revenue side, as well as lower transaction cost and improving the capital efficiency along the way.

Thomas M. Rutledge

But I think the one thing I would add about Bresnan is that it's already more capital efficient than Charter because capital is spent to get that plant ready to be marketed like we're currently marketing Charter.

Thank you all.

Christopher L. Winfrey

Thanks, everyone.

Robin Gutzler

Thank you, operator.

Operator

This concludes today's conference call. You may now disconnect.