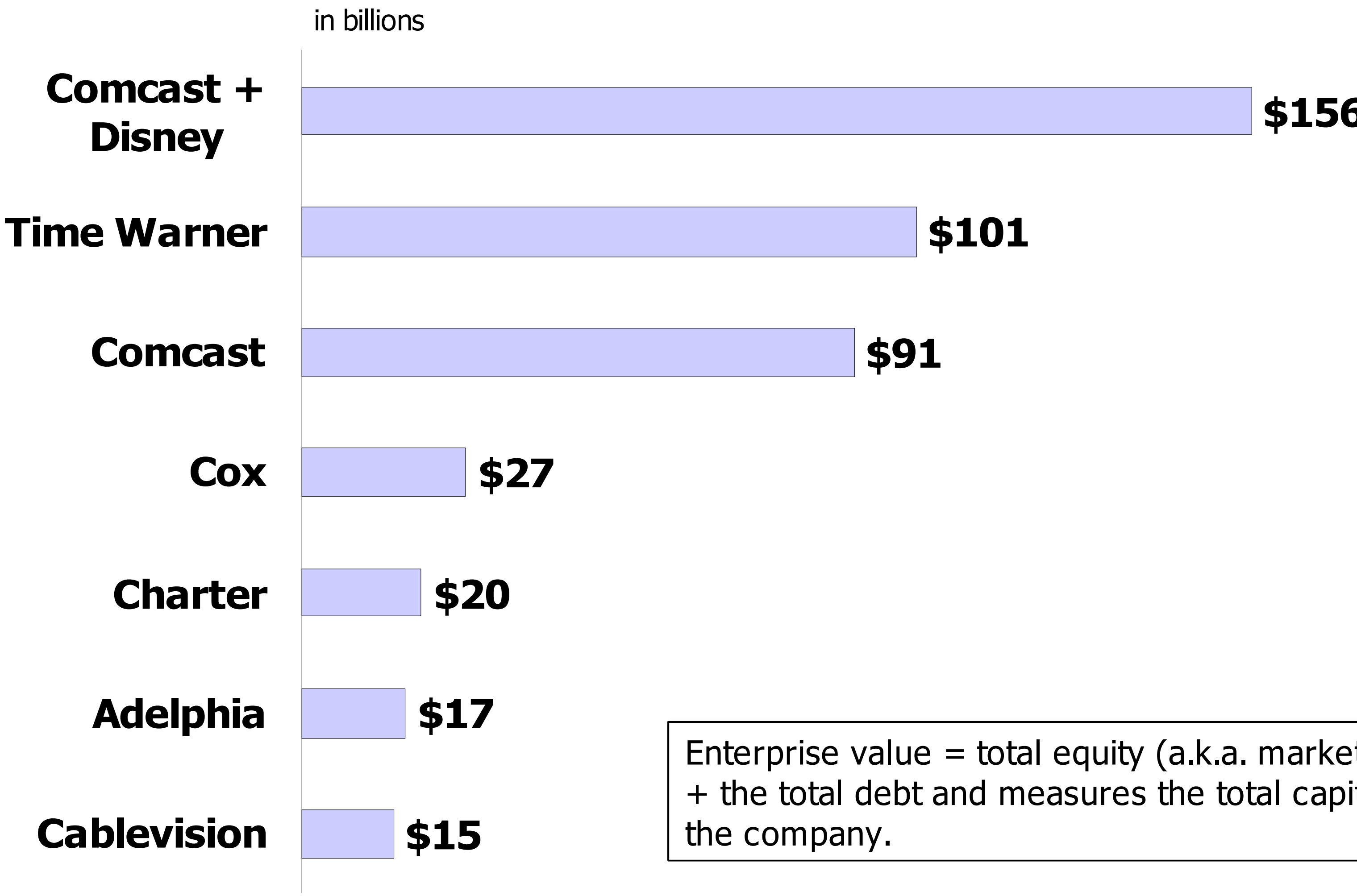
Cable Industry Economics

George Kohl, Assistant to the President & Director of Research
Communications Workers of America, March 4, 2004

Cable Industry Enterprise Values



Enterprise value = total equity (a.k.a. market cap) + the total debt and measures the total capital of the company.

Enterprise values as of March 2004.

MPVD (Multi-Program Video Distribution) Market Share

MPVD Market	
Comcast	23%
Time Warner	12%
Charter	7%
Cox	7%
Adelphia	5%
Cablevision	3%
DirecTV	12%
EchoStar	9%
Others	22%
Total	**100%**

Source: FCC, 10th Annual Report on Competition in Video Markets, Jan. 2004 (6/03 data)

Cable Subscribers Are Valued at $3,820 per Sub

	Adelphia	Cablevision	Charter	Comcast	Cox	Time Warner*
Cable Subscribers	5,100,000	2,960,000	6,537,000	21,468,000	8,400,000	4,300,000
Enterprise Value (billions)	$17.0	$15.3	$19.8	$90.9	$26.9	$100.95
Value per Sub	$3,333	$5,169	$3,034	$4,236	$3,202	Not Valid
*Figures are for all of Time Warner; separate financials for Time Warner Cable not available.						

Weighted average value per sub: $3,820

Source: Company financial statements.

Cable Companies Report Accounting Losses But Make Real Profits

Cable companies say they're barely making a profit . . .

	Adelphia	Cablevision	Charter	Comcast	Cox	Time Warner
Net Profit Margin	-16.6%	-6.1%	-4.94%	-.66%	-2.29%	7.95%*

. . . but the real story is in the operating cash flow margin

"Operating Cash Flow is the primary basis used to measure the operational strength and performance of our businesses. . . . This metric . . . is a significant component of our annual incentive compensation programs." (Comcast press release, Feb. 11, 2004, p. 13)

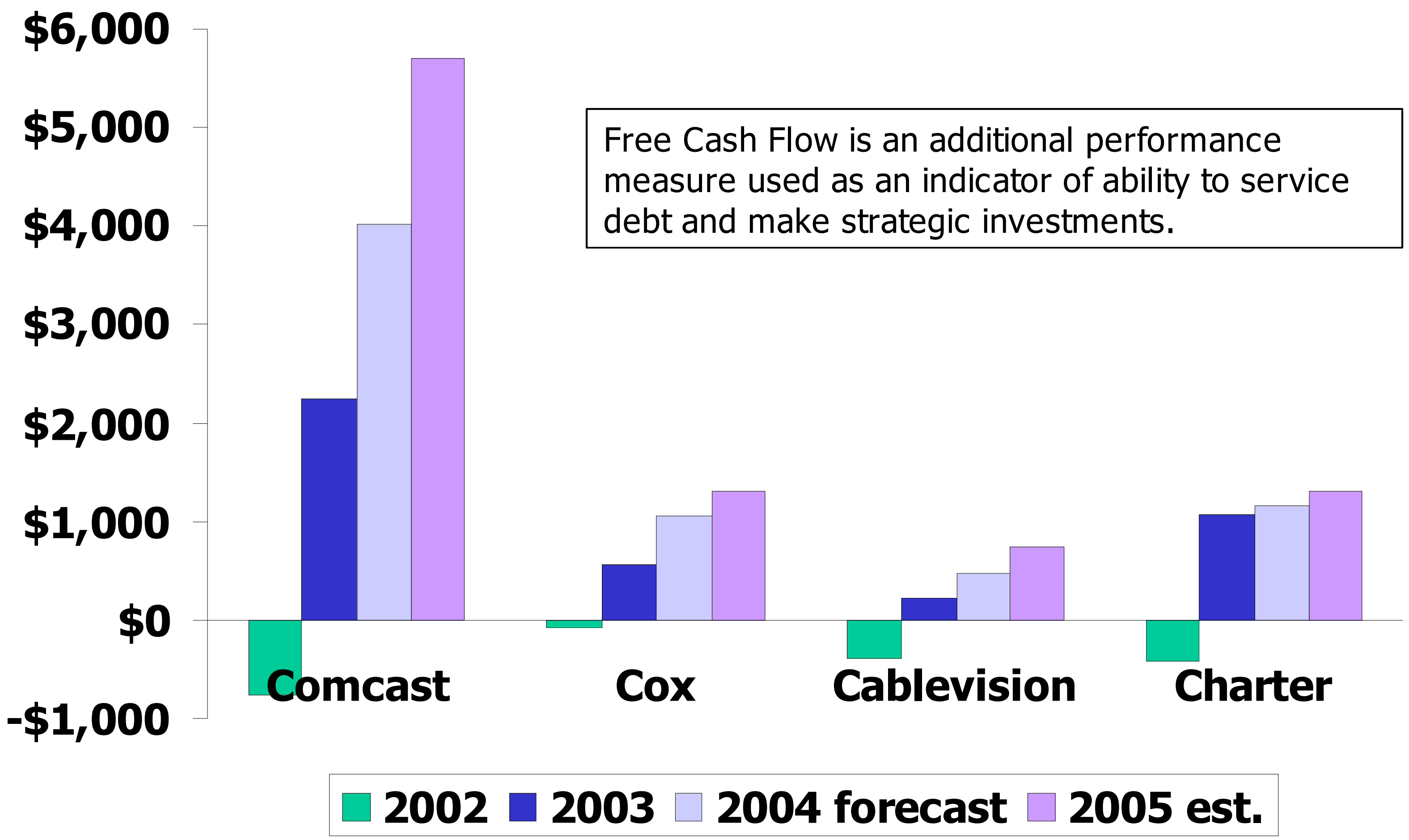
Cash Flow Margin	29%	28%	40%	36%	37%	39%

Source: Company financial statements. For Adelphia, figures are for 18 months ending 12/03; all others for year 2003. Time Warner net for entire company; operating cash flow for cable operations only.

Companies Look at Operating Cash Flow and Free Cash Flow

Revenues	Cash	**Operations**
- Operating Expenses	Cash	
= Operating Cash Flow		
- Cap Ex	Cash	**Investment & Financing**
- Interest	Cash	
- **Free Cash Flow**		
- Taxes	Accounting & cash	**Accounting**
- Depreciation	Accounting	
- Amortization	Accounting	
="Profit"		

Free Cash Flow Is Increasing

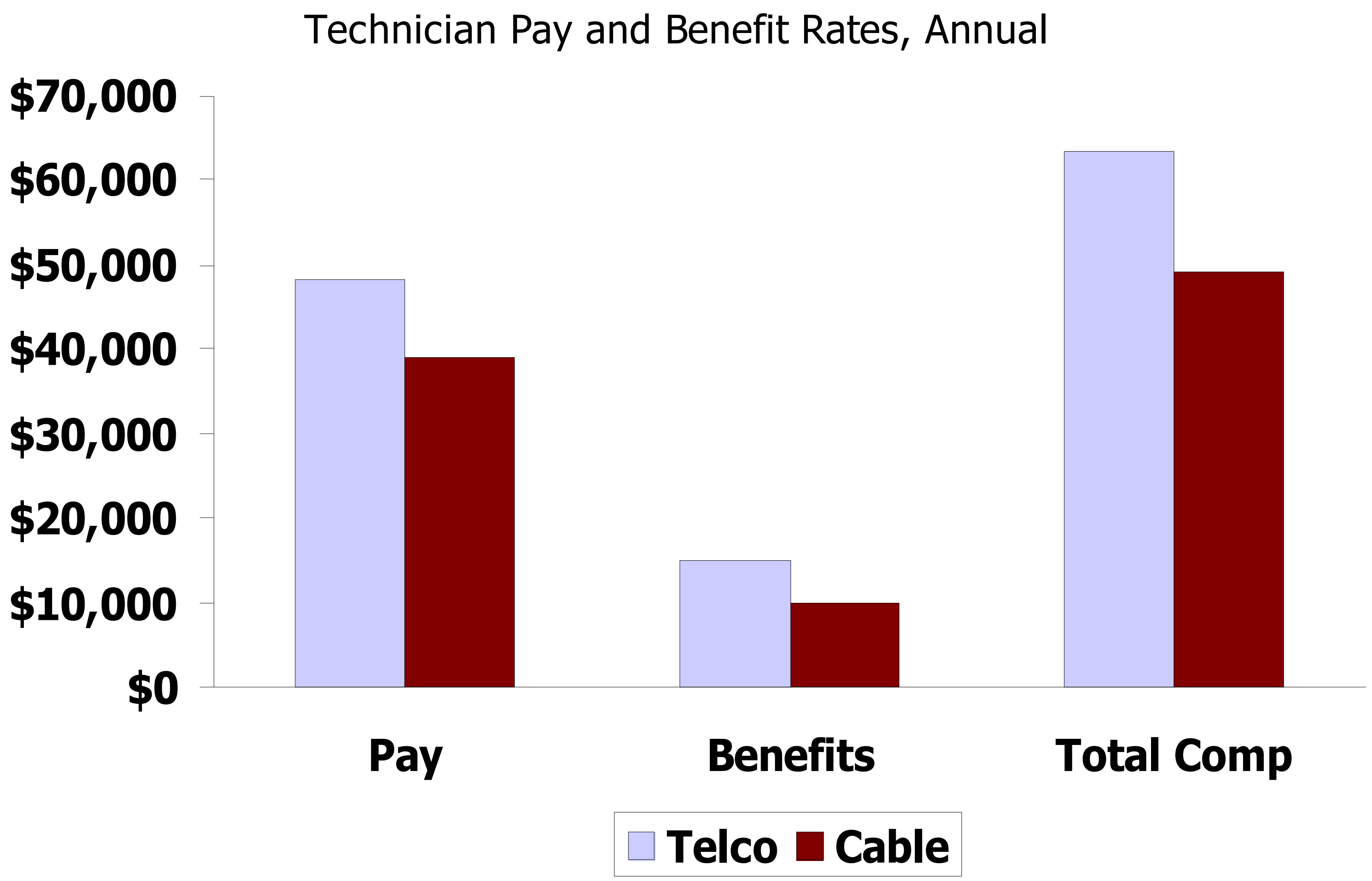


Getting More Out, Putting Less In

		002	003	2004 forecast	2005 est.
Comcast	Operating Cash Flow	$4,469	$6,350	$7,366	$8,700
	Capex	5,240	4,097	3,350	3,000
	Free Cash Flow*	**-771**	**2,253**	**,016**	**5,700**
Cox	Operating Cash Flow	1,789	2,117	2,400	2,700
	Capex	1,857	1,561	,350	,400
	Operating Cash Flow	**68**	**556**	**1,050**	**1,300**
Cable vision	Operating Cash Flow	958	1,070	1,175	1,300
	Capex	1,340	847	710	550
	Free Cash Flow	**-382**	**223**	**465**	**750**
Charter	Operating Cash Flow	1,796	1,927	2,050	2,100
	Capex	2,222	854	900	800
	Free Cash Flow	**-426**	**1,073**	**1,150**	**1,300**

*Free cash flow before interest.

Cable Labor Costs 20% Below Industry Standard



Source: Dr. Jeff Keefe, unpublished survey data. Pay includes base wage, overtime, and commissions.

Nine of the World's Richest People Got Their Fortunes from Cable

	Source of Fortune	Net Worth
Ted Turner	AOL-TW, TBS, others	$2.3 billion
Barbara Cox Anthony	Cox	$11.0 billion
Anne Cox Chambers	Cox	$11.0 billion
Harold FitzGerald Lenfest	Lenfest Cable	$825 million
John Malone	TCI, other cable TV	$1.9 billion
Alan Gerry	Cable TV	1.1 billion
Amon Barr Hostetter, Jr.	MediaOne, others	$2.1 billion
Charles Francis Dolan	Cablevision	$1.4 billion
Brian Roberts	Comcast	$625 million

Source: Forbes, March 2004

Cable Deals Have Paid Off for Execs

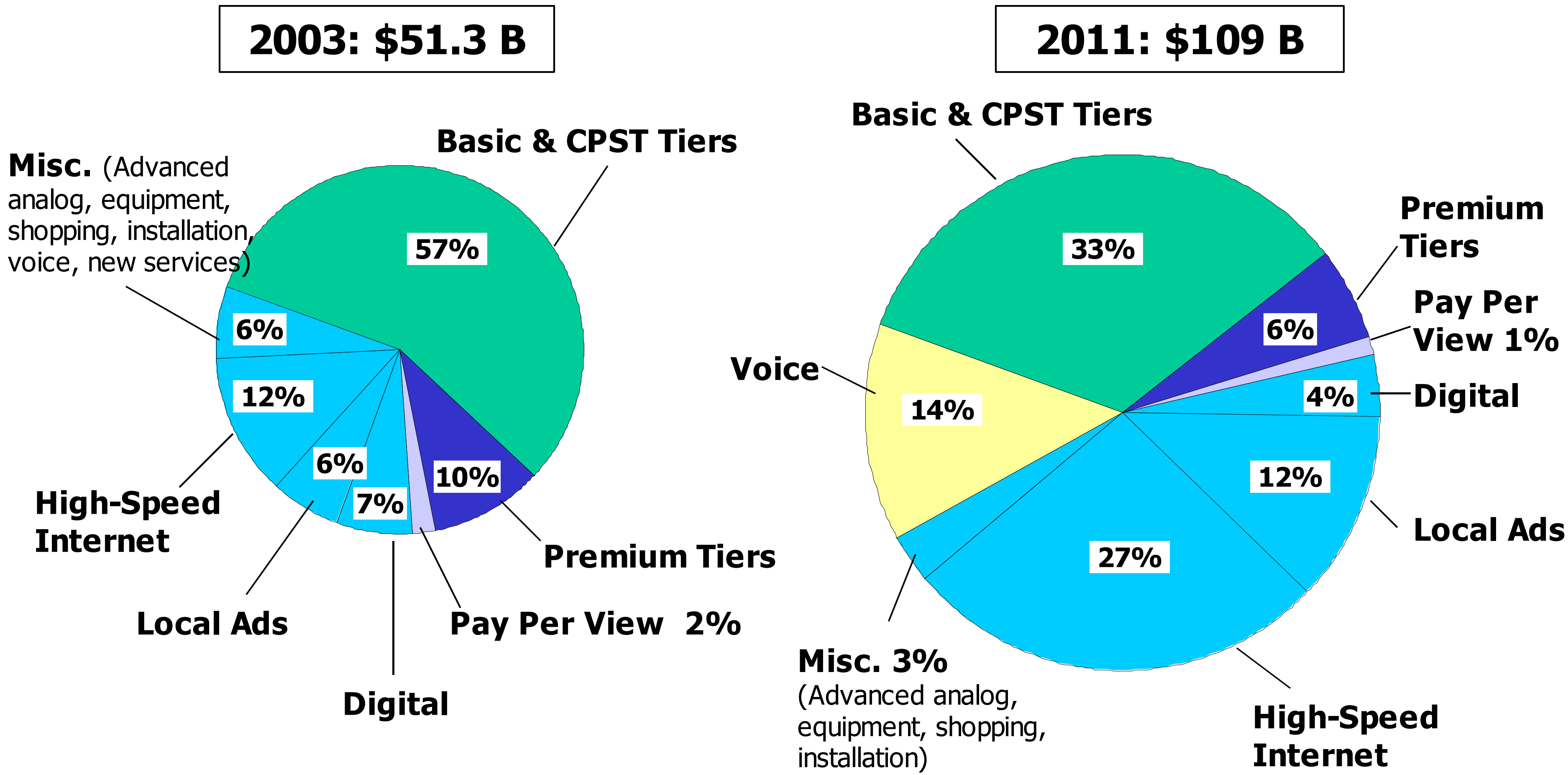
Comcast-AT&T Broadband merger	
Brian Roberts, CEO	$1.8 M bonus, plus regular $6 M bonus, $1.2 M salary and 5.5 M stock options
C. Michael Armstrong Chairman	Performance bonus of no less than $2.7 M, plus salary of $1.8 M
Steven Burke, Exec VP Lawrence Smith and John Alchin, co-CFOs	Eligible for additional bonuses of at least $375,000 to $495,500
Ralph Roberts, Finance Cmte. Chairman	Up to $600,000 bonus in addition to $1.2 M salary, regular $1.6 M bonus, 1.9 M stock options

Adelphia reorganization following bankruptcy and accounting scandal	
William Schleyer, CEO & Chairman	Up to $24.6 million over three years in salary, bonuses, stock and options. (Only on request of the bankruptcy judge's did Adelphia back off a guaranteed $7.6 M payout if the board removes Schleyer for "good reason.")
Ron Cooper, COO & Pres.	Up to $16.2 M

Annual compensation for directors up 43% at Comcast, 67% at Cablevision, and 150% at Cox

Sources: "Changes At the Top," CableWorld, June 9, 2003; "Rewarding Comcast Officers," Philadelphia Inquirer, May 6, 2003

Cable Co.'s Sources of Revenue: 2003 & 2011



Note on revenue sources: Cable companies also collect "franchise fees" from their customers as revenue. They do not generally report these, but Comcast's figure for 2003 was 3%.

Sources: FCC, 10th Annual Report on Competition in Video Markets, Table 4, Jan. 2004 (6/03 data); CWA forecast

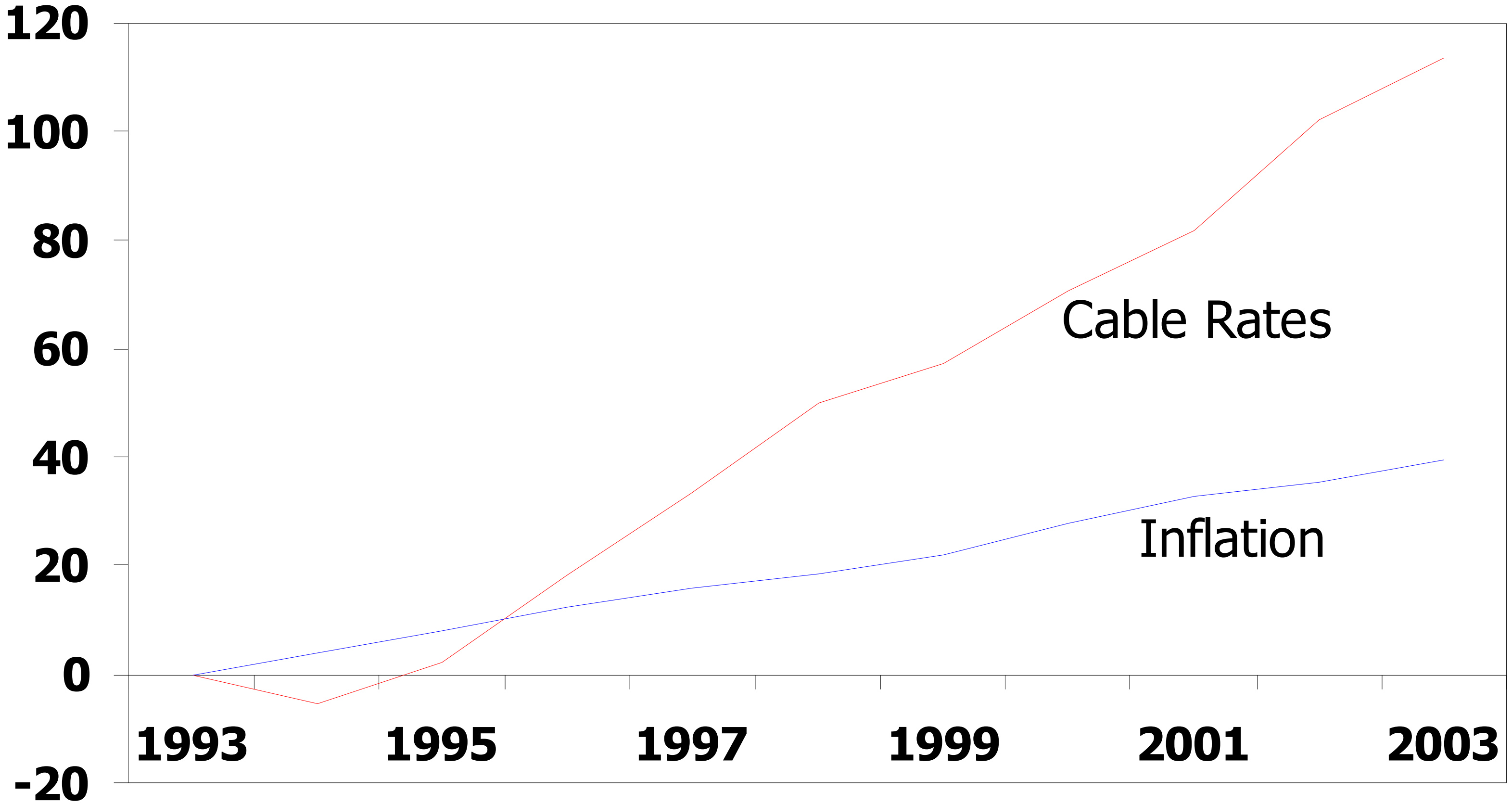
Less Revenue Will Be Captured by Franchise Fees

	1994	2003	2011
Subscribers (millions)	57.2	65.7	76.2
Video revenue subject to franchise fee	$20.3	$35.0	$49.0
% subject to franchise fee	90%	73%	45%
Revenue not subject to franchise fee (e.g., high-speed internet, voice)	$2.2	$12.9	$60.3
% not subject to franchise fee	10%	27%	55%

Currently, Comcast takes in $815 per subscriber annually and pays franchise fees of $28 per subscriber (or 3.48%).

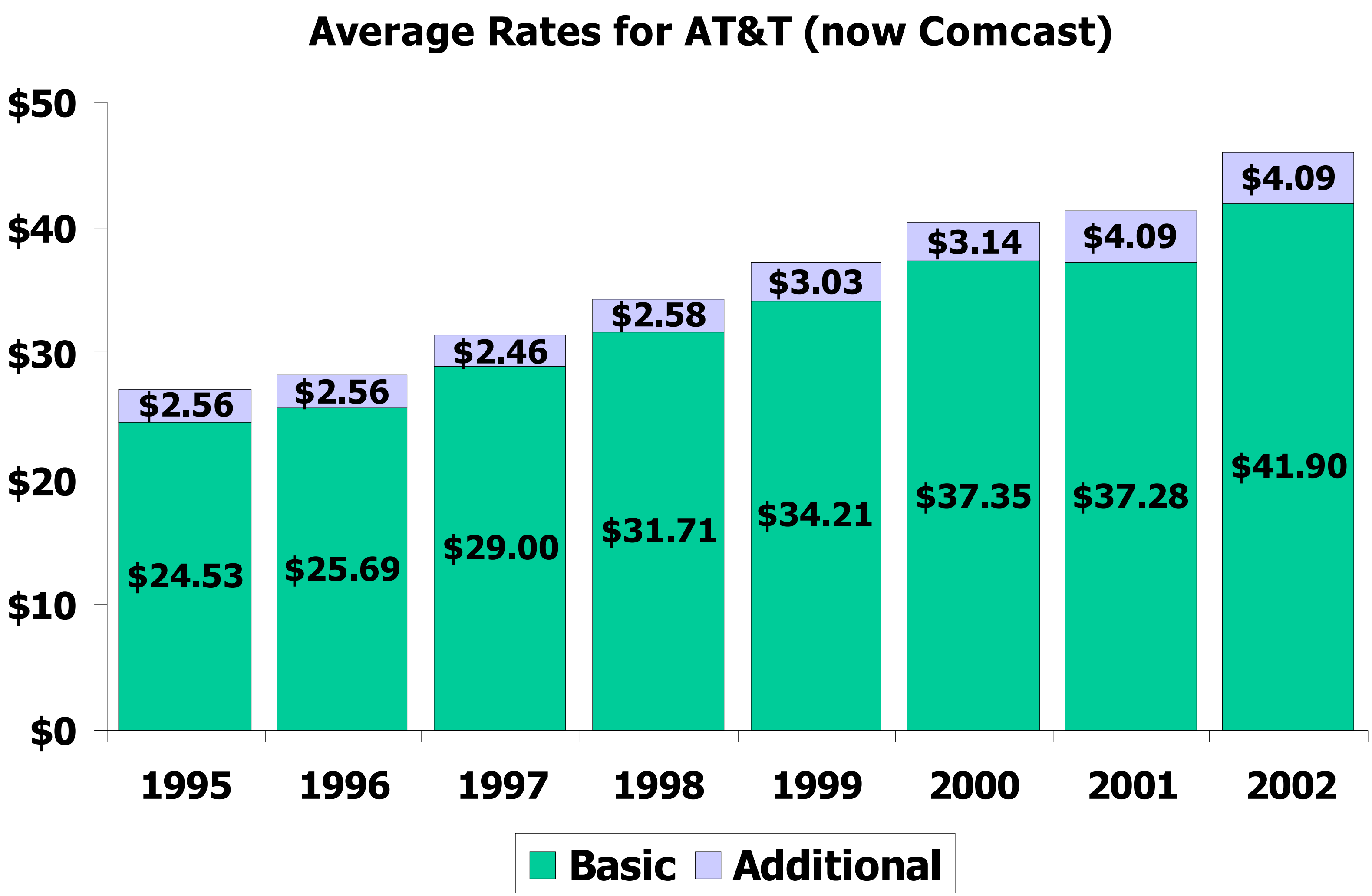
Sources: FCC, 10th Annual Report on Competition in Video Markets, Table 4, Jan. 2004 (6/03 data); CWA forecast

Cable Prices Skyrocket



Source: U.S. Bureau of Labor Statistics

Cable Prices in L.A. Up 71%



Source: Cable Television Rates for Los Angeles (1995-2002)—averages for AT&T local franchise areas B,D, I, J, K, and M. Basic cable charges include tiers 1 and 2. Additional chargers include standard remote and converter box. Fees and taxes are not included.

Value of Monopoly Power

- Cable prices are 15% lower where there's a wireline overbuild
- Satellite competes with high-end digital programming, not basic and enhanced services
- "FCC [data] also confirm that DBS, while growing in subscribers . . . is unable to restrain cable's prices."
- In markets where 98% of Americans live, a single cable operator has market share of more than 80%
- Programming bundles used to force consumers to pay for higher tiers

•Average consumer watches 17 channels regularly
•Bundles have 4 times that number
•The top 20 shows account for ¾ of all viewing
•80% wouldn't pay for ESPN given a choice

Sources: GAO, p. 7; Source: CU & CFA, p. iv; U.S. PIRG, p. 1.

Cable Operators Own Significant Content

	Vertical Integration
Most popular programming	40%
Top 26 channels (based on subscribers and prime-time ratings)	96%
"Must have" regional sports programming	86%

- Cable operators are 64% more likely to carry the programming in which they have a majority ownership stake
- To launch a new channel, programmers need distribution on MVPDs that cover 40-60% of subscribers
- Proposed Comcast-Disney merger devastating to media diversity and will disadvantage other cable companies (see www.comcastwatch.com)

Sources: FCC, 10th Annual Report on Competition in Video Markets, Jan. 2004 (6/03 data); U.S. PIRG, Failure of Cable Deregulation, Aug. 2003, pp. 3-4; CU & CFA, Continuing Abuse of Market Power by the Cable Industry, Feb. 2004, p. 8. Statement of Chairman Pitofsky, and Commissioners Steiger and Varney, In the Matter of Time Warner Inc./Turner Broadcasting System Inc., Docket No. C-3709, Feb 3, 1997, before the Federal Trade Commission

Franchise Rights Are Companies' Most Valuable Asset

Distribution of Cable Company Assets	
Franchise rights	43%
Goodwill & intangibles	21%
Plant, property & equipment	17%
Cash, current assets, other investments	20%
Total	100%

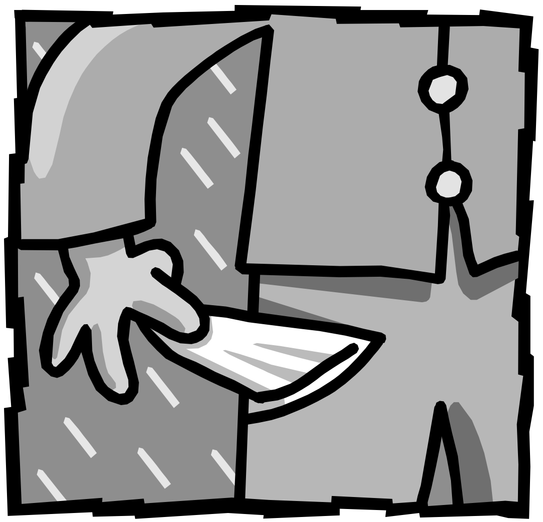
Source: Comcast financial statements, as of 12/31/03.

Monopoly Premiums in Cable

Year	System Sale Price	Cost to Reproduce System	Monopoly Premium
1983	$1,000	$645	$355
1986	1,300	550	750
1988	2,000	550	1,450
1992	1,700	700	1,000
1994	1,900	650	1,250
1998	2,900	N.A.	N.A.
1999	4,000	600 (basic) or 2,000 (interactive)	3,400 (basic) or 2,000 (interactive)
2000	5,900	1,400 (interactive)	4,400 (interactive)
2001	4,300	N.A.	N.A.

Source: Mark Cooper, Cable Mergers and Monopolies, Economic Policy Institute, 2002, Table 2.1.

“There’s No Money in the System”



"We Spent $75 Billion on Upgrades"

- Cable industry accounting rules allow maintenance, set-top boxes, and some programming to be listed as capital investment not expenses. (Policy currently being re-examined.)
- Revenues from Internet services alone are already almost equal to the increased depreciation expense of the cable plant upgrade

"Capital" Investment	
Maintenance	25%
Build Out, Rebuild & Upgrade	27%
Set-Tops, Modems, etc.	34%
Support	12%
Commercial (i.e., non-residential)	2%
Source: FCC p. 29	

- Redlining of underserved communities
- Service and safety violations continue throughout the systems

Source: U.S. PIRG, p. 20; GAO.

Cutting Corners on Service and Safety

- A 2002 technical study of L.A.'s cable systems found that **40% of service drops were** deficient.
- "Many of the deficiencies raise significant safety concerns. For example, in numerous cases, the drop cables were not adequately grounded, presenting an **electrical hazard to subscribers, as well as Operator personnel."**
- "In many cases, the problems were plainly visible from City streets, and **should have been corrected by the Operators as part of routine maintenance** of their cable systems."
- Cable operators have not addressed similar deficiencies in other areas (e.g., Detroit, Baltimore, Prince Georges Co., MD)

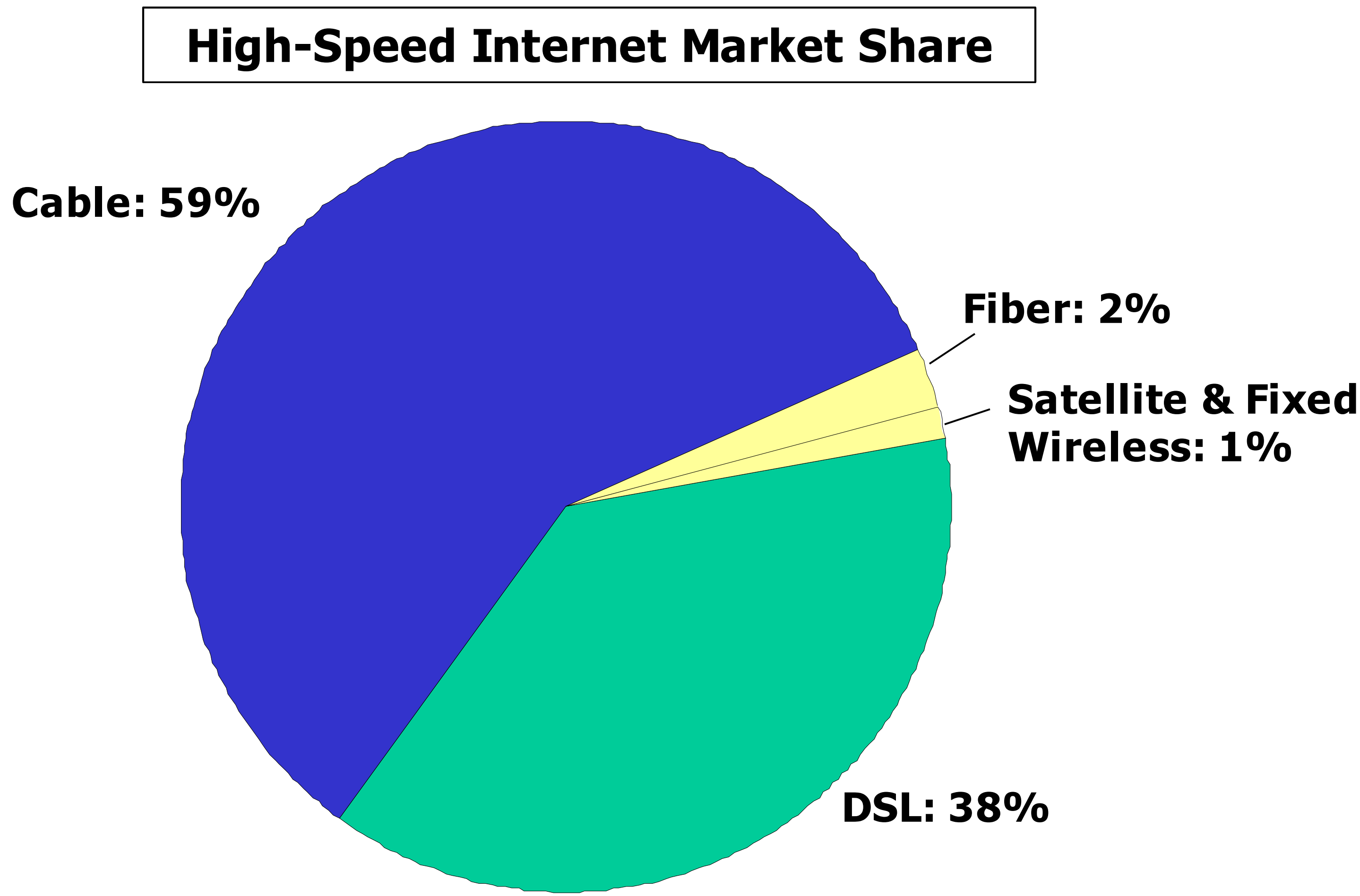
Sources: Columbia Telecommunications Corporation (CTC), Technical Inspection of Physical Plant, City of Los Angeles Cable Television Systems, March 6, 2002; Kramer Firm, Inc., Plant Safety Evaluation of Comcast Cable in the City of Detroit, Michigan, Dec. 10-12, 2003; CTC, Prince Georges County, MD Cable Television Subscriber Network and Testing Report, July–Sept. 2003; William Pohts, Technical Audit of Comcast Cable Television System Serving Baltimore, MD, March 2003. All reports available at www.comcastwatch.com.

“Programming Costs Keep Rising”

- Programming costs have risen, but increases in ad revenues have outpaced programming cost increases by $2.6 billion

Increased Revenues Outpaces Costs		
	Programming Costs	**Cable Ad Revenue**
1996	$5.66	$6.79
2002	$10.99	$14.71
Change	+94%	+117%
Source: U.S. PIRG, Table 4, citing NCTA industry statistics		

New Sources of Revenue



Source: FCC, High-Speed Services for Internet Access, Dec. 2003, Table 1.

Cross Subsidies: Cable Has Advantages in VOIP

"When discussing the obvious technological change that is spurring real, market-based competition for voice services, VoIP (Voice over Internet Protocol) is the largest near-term driver of such forces. **Once again the cable provider, with plant already deployed and an embedded customer base to market the service towards, appears to have an advantage.** The cable operators have the financial resources, economic justification, and expertise to pull-off mass-market offerings that should spur competition and new services."

Frank Louthan, Equity Research, Testimony to House Subcommittee on Telecom & the Internet, Feb. 4, 2004

Cable Operators Not Addressing the Digital Divide

Broadband Penetration Rates	
South Korea	75%
Canada	36%
Japan	27%
U.S.	18%

"[W]e need to invest in a modern infrastructure in remote and poor areas. While lower wages in India and China may be a fact of life, why should we ever be outpaced because there is better broadband in Bangalore than Buffalo?"

Gene Sperling, "A New Consensus on Free Trade," Washington Post, March 1, 2004

Percentage of U.S. Households with Internet Access by	
Less than $15,000/year	25.0%
$15,000-$24,999	33.4%
$25,000-$34,999	44.1%
$35,000-$49,999	57.1%
$50,000-$74,999	67.3%
$75,000 & above	78.9%

Percentage of U.S. Households with Internet Access by Race	
White	55.4%
African-American	30.8%
Hispanic	32.0%
Asian-American	68.1%

Remedies

- Negotiate hard and be as litigious as Comcast if necessary
- Join movement to re-regulate cable prices
- Capture growth areas: high-speed internet, voice
- Insist on universal deployment
  - Build-out/deployment timetables for low-income areas
- High service quality and safety standards and funds to audit
- Community wage standards
  - E.g., St. Paul cable franchise renewal agreement: "The wages and benefits paid to the occupational groups utilized by the company or its contractors or subcontractors in the construction, operation, or maintenance of the cable system shall not be less than the wages or fringe benefits paid to comparable positions in the classified civil service system."