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TELECOMMUNICATIONS

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Comcast Posts Strong Growth In Cable-Modem Subscribers

By **PETER GRANT**
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In another signal that broadband is finally catching on with consumers, **Comcast Corp.** added 169,800 new cable-modem subscribers for a total of more than 1.3 million, its best quarterly growth in broadband users ever.

Comcast, which will become the country's largest cable company when it completes its acquisition of AT&T Broadband later this year, said revenue at its cable division rose 12% from the third quarter of last year to \$1.55 billion.

After a disappointingly slow start that staggered an expectant Internet industry salivating to serve customers with high-speed connections, broadband usage has been accelerating to the point where it is reaching critical mass. For the past 18 months, households signing up for broadband connections, mostly through cable modems or telephone digital-subscriber-line service, have more than doubled to reach 16 million, or 13% of U.S. homes.

Last week, AT&T Broadband, now the country's largest cable company, and **Insight Communications Co.**, the ninth largest, also reported strong cable-modem sales. AT&T added 172,000 new subscribers in the third quarter and Insight gained 21,000, its best modem growth quarter ever.

"These things are flying off the shelves," John Alchin, Comcast's treasurer, says.

BROADLY SUCCESSFUL

Comcast reported a 12.7% increase in operating revenue for the third quarter, over the same period in 2001. Below, cable-division revenue, in millions.

\$1,200

With more than 100,000 households a week signing up, there should be 20 million homes with broadband by the end of next year. That is close to the magic number

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- **Join the Discussion:**⁵ Do you trust the earnings numbers reported by companies? Are you examining those figures more carefully than in previous years? And is there any one company that you're watching for signs that the stock market and/or economy will grow stronger or weaker in the coming months?
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COMPANIES

Dow Jones, Reuters

| | |
|----------------------------|-----------|
| Comcast Corp. CI A (CMCSA) | |
| PRICE | 26.00 |
| CHANGE | -0.78 |
| U.S. dollars | 2:20 p.m. |

Insight Communications Co. Inc. CI

entertainment and telecommunications companies have been awaiting to begin developing content targeted at high-speed users more aggressively. Dozens of content providers are now working on programs for the high-speed user, with many of them likely to charge fees.

It comes at a time when many telecommunications companies hoping to profit from an Internet boom are either under bankruptcy protection or have such low stock valuations that their survival is in question. Scores of programming businesses that were established to provide content to broadband have long since closed their doors. Scores of competitive phone companies hoping to offer DSL services have been shuttered.

Indeed, the strength of demand for high-speed modems has surprised some industry analysts because, so far, most of the content on the Internet is limited to e-mail, text and pictures that is targeted at subscribers of low-speed dial-up services. Not a lot of content has yet been developed for the broadband user alone.

BROADBAND ARRIVES

Discuss:¹ Do you have high-speed Internet access at home or work? How do you like it? Would you recommend your service?

But millions of households are disconnecting second phone lines and ditching dial-up services such as **AOL Time Warner Inc.**'s America Online and paying \$45 a month just for the convenience of always-on e-mail, surfing the Web and file sharing, such as downloading

photographs. Broadband also gives them faster access to online shopping, travel sites and electronic newspapers.

Once households have high speed, they are reluctant to slow down. Cable companies report that modem subscribers disconnect much less frequently than they do for, say, digital television.

How did broadband reach the point of gaining traction?

With modems representing the cable industry's greatest growth potential, cable companies have emerged as the principal driver of broadband expansion. After a \$65 billion upgrade, cable-modem service is available to 75 million homes and cable-modem subscribers are outpacing users of digital-subscriber-line, or DSL, services by almost two-to-one. Cable is expected to end this year with 10.6 million subscribers, while DSL will have 5.1 million, according to Yankee Group. DSL is available to 60% to 70% of U.S. homes, according to a Morgan Stanley estimate.

Price is one factor in broadband adoption. Broadband only costs a few dollars a month more than the cost of most online services plus a second phone line. And cable companies are making plans to roll out tiered-broadband services -- fast, faster and fastest -- so they can begin lowering prices and attracting Internet users who aren't willing to pay \$45 a month. Once the price gets down to the \$30 range, the cost of a cable modem will be little more than the cost of an Internet service.

Jason Bazinet, an analyst with J.P. Morgan, calls that price range "the AOL killer" because once people have given up America Online and possibly their second phone line, cable modem isn't costing them extra. Clearly aware of this threat, America Online is developing its own brand of broadband content.

A (ICCI)
PRICE 12.60
CHANGE 0.88
U.S. dollars 2:20 p.m.

AOL Time Warner Inc. (AOL)
PRICE 16.03
CHANGE 0.26
U.S. dollars 2:16 p.m.

* At Market Close

The DSL business is less robust and isn't yet profitable, partly because it has proved to be technically more difficult to ramp up telephone wires for high-speed. But some DSL providers clearly recognize its growth potential and are exploring ways to capture market share, such as the high-speed Internet service that **SBC Communications** Inc. recently announced with **Yahoo** Inc., that offers a number of entertainment features and easier access to e-mail. One big question: Will cable programmers offer their content to DSL or give it exclusively to cable companies to help them continue winning the broadband competition?

A huge volume of high-speed content is coming, to add to the smattering of offerings already in the market. Indeed, content providers are using a business model for broadband that closely mirrors content for regular cable: The customer pays for broadband programming. Cable-TV programmers such as ESPN, CNN, Cartoon Network and numerous others are working on broadband Internet content such as clips from their newscasts or packages of sports highlights that aren't viewed elsewhere. They see this as a way to strengthen their relationships with the cable companies. While not everyone is charging extra for this content now, they plan to in the future.

RealNetworks Inc., an Internet-content company, has signed up 850,000 subscribers, most of whom pay \$9.95 a month for an assortment of games, music, sports and news clips all targeted at the broadband user. CNN, a unit of AOL Time Warner, and **Walt Disney** Co.'s ABC unit are both charging fees to Internet users who want to watch news videos. Major League Baseball, Nascar and other sports organizations have either launched high-speed Internet products or are planning to do so.

ESPN is talking about putting together packages of paid programming for broadband users, complete with premium channels that would give subscribers access to hundreds of hours of sports highlights.

The Cartoon Network just rolled out an online trading-card game called G-Toons. "One year ago, I don't think we would have green lit this," says Paul Condolora, the network's general manager. "We think the timing is right in the evolution of broadband."

America Online, a unit of AOL Time Warner, also is cranking up its efforts to deliver high-speed content, like video and music that subscribers can watch on their computer. America Online also has developed a new piece of software, called the AOL companion, that sits on a computer screen with always-available information like news, stock prices, the dictionary and the yellow pages.

For years, many at the country's largest online service resisted moving in that direction, not wishing to trade the thinner margins of broadband for the fat profit margins of its dial-up subscription business. But America Online execs along with many others in the Internet industry are beginning to recognize that broadband will likely be the dominant form of Web access before the end of the decade. "In the past, some may have looked at [broadband] as if it was threatening," says Lisa Hook, the head of America Online's broadband division. "Actually, it's a huge opportunity for us."

To be sure, the big question about broadband lingers: is it possible to make money off more than the hardware? Who is going to start funding Internet projects again? Indeed, executives say they are proceeding much more cautiously this time.

"We're right now at a point where our thought process is shifting and we're beginning to look at this in a manner that we can cost efficiently develop and offer [broadband] content to consumers,"

says Elisabeth Sami, vice president of business development for NBC.

Overall, Comcast revenue grew 13% from last year to \$2.7 billion thanks also to strong sales by its QVC online retail division. The company reported net income of \$75.6 million, or eight cents a share, compared with a loss of \$106.8 million in the third quarter of 2001.

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