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MANAGEMENT DISCUSSION SECTION

Analyst, Goldman Sachs

Okay, we're about ready to start the 11 o' clock session. We're really pleased to have Comcast joining us today, it's Michael Angelakis, who is the Chief Financial Officer of Comcast. He joined Comcast in 2007. Before that most recently he was a Managing Director at Providence Equity Partners from 1999 to 2007. So, Michael welcome to Communacopia.

Michael J. Angelakis, Chief Financial Officer

Thank you.

QUESTION AND ANSWER SECTION

<Q>: Maybe, we'll startup with how we've been setting a lot of these discussions up, which is just wrapping some macro context around, what pattern through the cycle and then we'll get into potentially what happens coming out of the cycle, but if you can sort of set us up with what you think sort of broadly the impact has been on sub-growth in ARPU?

<A – Michael Angelakis>: Yeah, if you actually go back and you think about the economy right now, and actually I think there is optimism. Clearly, unemployment is challenged, housing is challenged, local advertising continues to have some issues, although, we're cautiously optimistic.

But I think if you go back to the early part of 2007 and you look at our company and if you look at some of the metrics and actually if you painted a scenario, that said, we were going to go into one of the deepest recession since the great depression. We were going to have two large competitors overbuild us to roughly 30%. How would we have performed, and since that time, we've lost about a million video customers. We really don't like it, but that's been an impact related to clearly the economy and certainly additional competition.

It actually put on though, about eight million voice and data customers, so net-net we're up about seven million customers since the beginning of 2007. We've also grown revenue, cash flow, free cash flow considerably, EPS, we've also had an impact on advertising, which has been negative. So I feel pretty good that we have navigated this cycle in a pretty positive way and if that scenario has played out, I look at execution and say execution has been pretty good during a really difficult cycle.

<Q>: And if you think about the ARPU component through this cycle, obviously there is sort of dueling headwinds here, competitive and cyclical, how would you sort of disaggregate the two?

<A – Michael Angelakis>: Well, I think the way one out of four of our customers take off three products. You have to think about it that way. And we really look at total ARPU and we've grown ARPU considerably, we've grown it 7% year-to-date. If you take out advertising, which is not done as well as we had hoped, we've grown about 9%, I think is the number. So we are super-focused on ARPU. It's a really important element and there is a natural balance between what our financial results and what our customer growth and that balance we are obviously trying to manage very, very – in a granular way.

<Q>: As we start to think about the other side, I mean certainly at this conference, the media side at least has been bullish and started to talk about inflections and trends, wondering as you start to think about the cyclical uptick, it's – maybe if we can sort of attack both segments on the volume side and the pricing side, what do you think, what sort of pickup should we expect?

<A – Michael Angelakis>: Well, I think in the rebound, part of a big correlation for us is housing growth. So if housing formation comes back, we undertake ample share of that. Secondly, if the consumer gets healthy, I think we're going to see growth in ARPU related to more services and also I think that our advertising will do better. We have lost roughly one to two percentage points of cash flow related just to advertising. So I think we are positioned, both internally with regards to how we've taken cost out of the business, but also externally with our products that when the market comes back, whether it's housing growth or consumer confidence or advertising, I think we're pretty well positioned.

<Q>: I think the latest data points out of the company, you certainly said this on the second quarter call and then sort of reiterated more recently, the – talking about sort of trend rates exiting the second quarter positioning people for 3Q and sort of giving a message that 3Q looks more like 1Q, in particular I think on the broadband side. I'm wondering, I guess couple of questions attached to

that a) is that still the view, but b) I think more importantly, is it far enough into the quarter to sort of make that claim, I think Time Warner Cable actually was saying that September is the big month within the quarter, so that's where the inflections really occur, it's too early to call. Maybe just some comments on that and then I'll be sort of have a couple follow ups?

<A – Michael Angelakis>: Yeah. First of all, I think quarter-to-quarter is a terrible measurement period. I think we look at the company and manage the enterprise on an annual basis and certainly longer than that in terms of how we create value. In the second quarter, I think we had an aberration with particularly high-speed data. I think we of course corrected that and I think we feel very good about how our net adds are performing with regards to the third quarter.

So I just go back to the comment I made earlier, we are in a very granular fashion managing unit growth and financial metrics and I think they sometimes will swing quarter-to-quarter depending on we're in the back-to-school season now, depending on seasonality, depending on a whole number of factors. But I think that the third quarter from the unit perspective is shaping up just fine.

<Q>: And those comments have been mostly attached to the HSD numbers, I'm wondering are we to assume that there is sort of pull through attached to that voice and video?

<A – Michael Angelakis>: I don't want to say too much, but I feel pretty comfortable. I mean we are in almost the middle of September that our performance on the unit side, we're pretty pleased with so far. We've got two or three more release left.

<Q>: Yeah, great. Obviously, another big topic recently given the news flows ownership limitation, wondering if you can step us through the recent removal of the ownership caps, and whether it really has a meaningful impact to your outlook for consolidation.

<A – Michael Angelakis>: I really don't think it has any meaningful impact. It is a really nice win. We thought the law was from a regulatory perspective inappropriate and unfair. We're delighted we've won. We really don't see a major impact. And that clearly begs a question with regards to further consolidation in the cable industry. From our standpoint, we believe we have a lot of scale. So any kind of cable acquisition is going to be far more analytical from a financial perspective in terms it has to be compelling financially, so I don't see the rule change having much of an impact at all.

<Q>: And in terms of making a compelling financially, IRR is it – what type of synergies they are attached and when you look at sort of the cost elements with a lot of people focusing on programming, how would you think about programming relative to incremental scale, are there really big benefits there?

<A – Michael Angelakis>: Well you mean in terms of more cable?

<Q>: Yeah.

<A – Michael Angelakis>: Yeah, I don't particularly think so. I think that we are the low cost provider on the programming side. I think when the company did the AT&T broadband deal, they were very meaningful benefits of scale. I think we've benefited from that and I really don't see us going from 24 million to 27 million really having material benefits of further scale. What is a good transaction for us would be we're going to generate a terrific risk-adjusted return on any type of cable or other acquisitions and I think we are pretty disciplined about that.

<Q>: Great. As we think about the M&A path from here. I think part of it ties into what the corporate mentality actually is right now. As I talk to investors we launched a coverage last weekend. What I consistently hear is you're somewhere between growth value there's not – there is an income component that potentially could be bigger, and so people think about placement of this company

and a lot of it obviously would tie into the M&A trajectory. It seems like cable deals would be about cost cutting IRRs and sort of driving the value component versus those other things you could actually do on the growth side, whether it's augmenting, the SME business and sort of the franchise there, or augmenting I have to say on the content side, how should we think through this in sort of a corporate mentality and corporate approach here?

<A – Michael Angelakis>: We are in eight lines of business. We have eight revenue streams in the company. And I think our goal is to reinforce our competitive advantages in every one of those revenue streams, whether we do it through organic investment or whether we do it from acquisition, really the goal and how – we talked about this last week or Steve did, we get up every morning thinking about how do we reinforce that competitive advantage and we have many.

Each of those eight businesses, by the way, are in different levels of maturity of growth, have different opportunity sets and we explore every single one in a great level of that. We are pretty financially disciplined whatever we do, whether it's an organic investment or an acquisition, to me, have to go through both the strategic filter and the financial filter. We've talked about this before. And our goal is to generate great strategic and financial returns as we move and grow those eight businesses.

So you brought up SME. SME, we think is a terrific opportunity. We have line of sight on revenues. it proves growing 51%, the market that we're attacking today, 51% year-over-year. The market we're attacking today is approximately $15 billion. We're now only roughly a $1 billion of that, and we have real momentum in that business and we've focused on that business.

By the way, we've done a 100% of that growth all organic. And even when our team and Bill Stanford come to us for capital for that which we've invested in, we put it through the same filter whether we bought a company or investing organically. When we think about business services and cell backhaul, which is another area, which we size at roughly $1 billion that's a same financial analysis, because we think that's a real opportunity for us to extend our network.

There's clearly another opportunity in terms of moving up to scale in terms of the enterprise market. Right now, the market we're focused on is really companies with 20 or less employees. That's a relatively small marketplace in terms of $15 billion, but there are lot of companies probably double that size that are in that sort of second tier of market. And we are preparing thinking and I want to say too much about going into that business pretty aggressively.

<Q>: Great. Maybe we can switch to article favorite topic, return of cash to shareholders, I'm sure you've left about a lot. Can you step us through, I guess, the current balance sheet framework and maybe layering under that, you're on a deleveraging path right now, but you've eliminated most of the near-term maturities, you guys have done a great job of sort of taking the tower risks off the table in the coming years, it seems like we're close to a level where you probably should feel very, very comfortable about the business, when do we sort of slowdown the deleveraging path and think about other avenues?

<A – Michael Angelakis>: Okay. Let's just go back a couple of years and this is a metric that doesn't get talked about a lot. But at the end of 2007, our debt to free cash flow was about 13.5 times. Okay, that's a number that doesn't necessarily get a lot of attention, but certainly a number that when you say your free cash flow is really the amount of dollars you're going to have to service that debt and it's at 13.5 times, strong company, but not as strong as we'd like it to be.

I think we will end this year 2009, where we have retired roughly $3.3 billion of debt this year and we'll be roughly 6.5 times maybe a notch or two lower than that. I feel pretty comfortable with the progress we've made over the last two years of doing two things, one is growing free cash flow,

and two is modestly deleveraging from roughly a $32 billion balance sheet to around a $29 billion debt level. So I feel pretty good about that.

With regards to return of capital and we do look at a dollar of debt repayment, a dollar buyback and a dollar dividend that's all returning capital and accretive to equity. And if you think this year, we'll probably retire roughly 3.3 billion. We have an $800 million dividend. We've already bought back 200 plus billion of stock and we'll continue that. We are at $4.1 billion of return of capital, actually, $4.3 billion of return of capital through roughly the first six months in the year. And I think that we have a real focus on how do we return capital in a smart intelligent way.

<Q>: And just, I guess, a followup there is, if you think about the dividend payout ratio sitting – hovering right around 20% depending on the quarter, is that the right ratio over time to sort of preserve the opportunities that you see whether it's on the M&A front or deleveraging front, or do you think you could move that ratio up meaningfully and still preserve the type of flexibility you want in the company?

<A – Michael Angelakis>: There's a real balance between those three elements of a dividend, a buyback and debt repayment. I think we're pretty comfortable that we've done a solid job of de-risking some of the balance sheet, adding more liquidity, and bringing our cost of capital down a bit, particularly given the macro economic environment, we've lived through over the last 12 or 18 or 24 months. When we think about a 20% payout ratio, we don't want to be pigeonholed in that. If you look at net income it's slightly higher than that, the payout ratio in the sort of 23, 25%. If you look at free cash flow, it's hovering around that number. So I think the key for us is what's the right balance between buybacks and debt repayment and dividend and our hope is that as the company progresses, we'll continue to increase the dividends.

<Q>: Great, maybe we'll switch over to wireless, real quickly. One logistical reminder, if you do have questions remember there's people that will walk up and down and get your questions. We'd love to have this to be sort of 25 minutes of my questions, 15 minutes of yours, so definitely don't hesitate. On wireless, out of the range of options right now what – can you sort of address why Clearwire remains the right partnering strategy --

<A – Michael Angelakis>: There has been a lot of discussion about this, but let's – again it's kind of funny we're going back, let's look at a couple of years ago. A couple of years ago, when we started to look at wireless as how do we extend our three products, our core three products for our customer base. To us it's not necessarily about a quad play in terms of handset and bundles. It's much more of we have a robust data business, which is a terrific premium business. We have a very good phone business, which is growing nicely. And we have a terrific video business.

How do we take those three products and add mobility to them to enhance the product set? We started looking at it in great depth and you come to sort of three options. We are a holder of some AWS spectrum, so we could actually build a network. The conclusion was we have 20 megahertz of spectrum, clearly not enough to do what we really want to do. We don't want to be the seventh competitor in a market that we think is mature from the voice side. And it's a huge economic investment, which we're uncomfortable there's a real return for.

So you take that option you say analyzed it, looked at it, pushed it off to the side. The other option is do you want to purchase a company. And I don't think we have any desire to purchase a wireless company. And then, you look at, can you partner and where is the best partnership that you can actually have. And if you go back to what our goal and objective was of adding mobility to our three core products, you need a hell of a lot of spectrum, and you need a hell of a lot of nationwide spectrum. And Clearwire with the merger with Sprint is uniquely positioned to have a lot of spectrum across the country and clearly in our core markets.

And it was a real opportunity for us to invest. We're part owner of the network. We also have a founder's preference on wholesale access to that network and to-date, we've been pretty satisfied with how that's gone. We've launched in two markets. We're launching in a number of markets, about – important in itself for which was our first launch, about 30 to 35% of the customers that are taking the Clearwire products are brand new customers to Comcast. That in itself is pretty compelling. So we like the partnership and we think it was when you look at what the options are it was I think the right choice.

<Q>: Can you help us think through funding for Clearwire, from your perspective, it's an entity, which probably will need additional capital infusions at some point. You had obviously two paths, get diluted or contribute, keep the existing stake or potentially even bump it up. How would you approach that?

<A – Michael Angelakis>: Well, we don't have any obligations to fund any further dollars into Clearwire. We're about a little bit more than an 8% shareholder. The question really lies I think and I'm not ducking the question relies with Sprint who is a 51% shareholder as well as with Clearwire. I think that they will be funding. I think the company will build out its network like it's doing now and from our perspective, we will evaluate whatever financing it does we have preemptive rights, but again we're only an 8.5% shareholder. We didn't have a Board too.

<Q>: As we think about the strategy in wireless data you had a couple market launches that seem to be going incredibly well. How do we think about where you sit in terms of the product stack over time in wireless? As the carriers would think about it, if they think about wireless as sort of disaggregating the products, you have text messaging which is credibly high margin subsidizing the ratio of voice which sort of sits in the middle and then you have data which is at the bottom at this point quite frankly laptop card data that probably put us at very bottom in terms of the margin opportunity. So why is that sort of the right products that's solely to be attaching yourself to in the wireless market at this point?

<A – Michael Angelakis>: Well I think two things. Clearwire isn't a telco. It has all virgin spectrum. So I think when you look at that product stack, it is – it can be quite profitable just on the data side with the differentiated product. I think the telcos have different constraints including their own issues around spectrum management.

I think from our side why we are leading with broadband is we think that our broadband product is absolutely a terrific product. We have more headroom to grow that business. It's a high margin product. We've put a lot of money into increasing speed and things like DOCSIS 3.0. So we thought it was a natural extension to bundle our in-home product which has say 20 megabits in the home within out of the home product, which will be between three, four, five megabits.

So we looked at it as a natural extension. As you know, we are launching – we're testing today a service called On Demand Online, I can envision at some point in the future, that having a wireless component. And there's been lots of discussion about voice clients at some point and I don't want to say much more than that, but I think that data is really an important product for us to lead in the wireless side.

<Q>: Maybe if we could switch gears to video, you guys are obviously in the process of transitioning through to All-Digital, what are the key things as we come out near the size that allows you to deal with the company.

<A – Michael Angelakis>: A really good snapshot, and that one, this is a huge initiative for us. We are spending between four and $500 million this year and next year on both the All-Digital and DOCSIS 3.0 effort. A snapshot of what it looks like on the other end is probably Portland, Oregon where that was our first market, which is now complete. We have launched over a 100 high-definition channels. We have launched many ethnic channels, so I think we're probably now the

leader in that market with regards to ethnic channels. We have DOCSIS 3.0, so we have really high-speed.

In addition, we are working on Project Infinity, which is our VOD platform. So I think the product leapfrog some of our competitors in that particular market and we've seen great reception with the product, particularly in the markets that have been completed. So, this is very important to us and we think that the results in terms of when a market is complete from a whole number of areas in terms of product positioning, customer satisfaction, and operations to the real improvement.

<Q>: A lot of your investors seem to focusing on video ARPU, we touched to some extent video coming out of the cycle, but I wonder if you could just isolate ARPU, are you optimistic that we can sort of get back to historical trend growth rate, or is the competitive environment sort of changed that?

<A – Michael Angelakis>: I think the economic environment has changed, and clearly the competitive environment has changed. We're not completely focused on video ARPU, we're more focused on gross ARPU, given that one out of four customers takes all three services. I do think the days of implementing five, six, 7% rate increases are not – on the video side, certainly won't be there for us this year and next year. And I think that's a result of really just the economy – the economy and to some degree competition. But I think we'll continue to grow total ARPU and you just look at, we are laser focused on ARPU and if you look at through the year, if you take out advertising, we're sort of 9% year-on-year up, which I think is pretty good performance.

<Q>: If we take the – as of the cost side of the equation, I would say everybody sort of focused on programming costs. Over the last couple of days we've got a number of channel operators, media companies in here, sort of taking the other side of this and saying what we've seen over the last couple of years with our data programming cost is the new norm and if anything goes up from here. What's your view in terms of '09, which looks like a relatively elevated year? Is this the new norm or do we sort of move that down from here?

<A – Michael Angelakis>: Well, first I think the radar continues. Secondly, I think we are the low cost provider. So if you look at our competitors, you look at even our peers, we are the low cost provider on programming. I think we are seeing a period this year where it's a bit higher than it has been historically. Our goal is to bring that number down next year, but it is an issue and I think that we are fighting in the trenches everyday related to that issue. And I think it has an impact. I think what you're going to do will have an impact on video margins, it does. But we are taking cost out of the business as well and I think we've been able to keep margins steady to even a little bit up over the last five years. I think the benefits we have in terms of cost savings and product mix with high-speed data to less new business services and as advertising comes back, I think we have a good shot at having our margins continue to be stable and maybe increase a little bit, not a lot.

<Q>: So do you think even beyond the very near term that you're just playing out, is that kind of a medium term view where we should expect maybe gross margin declines but operating margins yet still relatively flat given the cost that you are taking out?

<A – Michael Angelakis>: Again you're isolating on the video business. I think when you look at the other two businesses, I think you see margins obviously increase. We've taken a tremendous amount of cost out of our voice and out of our data business, and I think SME is generating absolutely terrific margins as well. And we are focused on getting into more higher margin business and as I mentioned advertising which is a high-margin business, one that has high operating leverage, we've actually took a hit from because of what's happened in the economy and we're hoping that's going to come back some time next year.

Now, on advertising third quarter, fourth quarter, we have tough comps, but I think that next year we're hopeful that that business returns well.

<Q>: If we could talk about data that seems to be potentially the other side where you actually do have pricing leverage now clearly you've got an infrastructure already build out, All-Digital will help that, DOCSIS 3.0 will help that. I guess that the both cases there is pricing leverage and we can see ARPU increases in data. I'm wondering what we've seen in the industry recently even you guys doubled speed without a price hike attached to it. So how does this sort of all fit into the potential for ARPU increases?

<A – Michael Angelakis>: Well, I think there is a press release today that we have taken some rate adjustments on high-speed data, in the High-Speed Data business. So we do think we have some pricing power there. We have done a terrific job of increasing speeds and increasing customer satisfaction. We think we are clearly the leader in that business and we've also seen our competitors actually take price increases with regard to that data business.

So we love the business. I think we will see a bit of an increase in that business, a bit of an increase in the video business as well, but we're being very careful and conscious with the tough economy we're dealing with.

<Q>: If we think about the potential for future ARPU increases, is it more driven by the step up of the cost of different tiers or is it migration within the tiers where people are moving from lower tiers to mid or upper?

<A – Michael Angelakis>: I don't know the answer to that. I think that we have – we are seeing tiers, we have a Blast service. We've actually been selling that higher price, higher speed service, roughly three to one to the lower price service. So I think indeed for speed and as video becomes more relevant with regards to people looking at sports clips in the morning, I know my kids every morning get up early and go online, and look at sports clips, and our service is geared to providing a great experience for that.

<Q>: We've got a couple of questions sort of following up on SME, which you touched on earlier. $15 billion opportunity, obviously a huge opportunity and Neilson's covering the telcos that's obviously a big margin opportunity as well, I think you reference that...

<A – Michael Angelakis>: Provided you actually given your – such a long telco history. I'm actually delighted that you recommended us. We have more education to do. We really have a lot more education to do. But all I can say is I take my hat, great job.

<Q>: All right, thanks for the thoughts. How do you think about the pricing strategy versus an RBOC maybe just sort of there is two path here, there is a big margin opportunity in that, yeah, there is probably ample penetration opportunity. You've got most of the telco versus an opportunity that really drives share gains versus an incumbent that aids pseudo-monopoly market in many areas, at least has the chance right now. How do you sort of balance the two?

<A – Michael Angelakis>: We have grown the SME business year-over-year 51%. Now, it's still roughly a $1 billion of run rate revenue. So I think you're going to continue to see us push that business. We're going to expand that business in other areas. We think we have terrific momentum. We think there is a real balance between market share and making sure our growth is profitable and that's a really important point. I think that we should talk about is we are very focused. We want to grow the business. We want to grow it really profitably.

We don't necessarily believe in market share that forfeits profitability. Our view is we think we can balance both appropriately and both the consumer as well as in the business side. And I think you'll see us continue to grow the SME in other areas of commercial services as aggressively as we can.

<Q>: As we think about the capabilities you can and will offer over time, clearly there is an enormous opportunity in the sub 20 markets. What point does it make sense to the extent – to extend the capabilities, to try to tackle something bigger and what exactly are the capabilities that you need to move upstream?

<A – Michael Angelakis>: I mean we just launched yesterday or the other day in Minneapolis a 100 megabits commercial service. So I think you will see us increase our sophistication level in terms of going after those customers. I think when we think about Metro Ethernet and we think about other areas of growth, those are areas we are clearly pursuing. It took us time to build the infrastructure, the sale force for the SME business and I think we've done that well and we have momentum in that business and – but we don't want to distract that momentum. But I think we will layer on top of it other areas of growth that we think are real opportunities for us and I can tell you that we are heavily looking at that right now.

<Q>: We'll switch to some audience questions. There is one, sort of going back to capital allocation, but it ties into existing assets and you obviously mentioned that AWS spectrum you have SpectrumCo. How does shareholders get comfortable that over time these are productive assets working for them?

<A – Michael Angelakis>: The AW – I would say the AWS spectrum actually increased in value pretty considerably over time and I think that there's a real goal to make sure that the Clearwire partnership is successful and works well for us and meets the goal objectives we have. I think I've said this before, when Clearwire has met the objectives and it's hard to say exactly what that is. I think we will evaluate what to do with that AWS spectrum. But right now we – I think it's an appreciating asset and from our standpoint, we will continue to hold it and make sure Clearwire is successful.

<Q>: Another question on, if you think about the structure of the video market and look at some of the leading edge at least offerings out there whether it's whole home DVR that you've seen or the DTV sports package, sports offerings, how are you competing against that higher-end segment of the market?

<A – Michael Angelakis>: I think on the multi-room DVR, we have launched a number of services. We just launched iPhone App for different service. So there is a – there is certainly product development where we'll leapfrog one, somebody will leapfrog us there, they don't move. But I think that we're competing pretty effectively. We have a meaningful product development team that is always looking at, how do we improve and enhance meaningfully, not just a press release, a product or a feature for our customers.

So, on the NFL which I think that is SUNDAY TICKET, that is a level of frustration for us, but it is what it is and I think we are doing a good job. We just launched RedZone and we're marketing RedZone which is we're trying to find a way to provide more sports to our customers. That one does sort of [inaudible] little bit.

<Q>: I think the capital spending for the company there is identified on one-year term?

<A – Michael Angelakis>: Your question or somebody else's question?

<Q>: This is back to my question--

<A – Michael Angelakis>: Okay.

<Q>: Certainly open and honest here, but once we get through All-Digital, DOCSIS 3.0, two pretty big projects and I realize one heck a lot more expense than the other, but the – as we get through these near-term projects, are there any other things from the horizon you could think that would

keep CapEx sort of where it is now or should we expect level the CapEx to continue trending down over time?

<A – Michael Angelakis>: I think the goal for us is to be really smart about how we invest CapEx. I think the outcome of that is that intensity will continue to decline. I think the projects related to All-Digital and DOCSIS 3.0 are finite. I think we are investing in interactive advertising. I think we're investing in Wi-Fi. I think we're investing in Business Services, we just spent some time talking about adding investment to Business Services. We're trying to be very focused on how we allocate CapEx. But I think the outcome is that the intensity will continue to come down. And that we will continue to fund those projects, which we think has attractive profitable growth characteristics.

<Q>: As we think about longer-term capital intensity, I had to pin you down, I think but just how would you think – do you think in CapEx to rev turns, is that how you like to get investors thinking about it?

<A – Michael Angelakis>: I'm in different. I look at it as a whole number. I think that if you look at 2007, it was roughly six billion plus dollars, it was, 5.7. I think we'll come in at – I'm not going to give you guidance, but I think we'll bring it down. And I think next year, we have a chance of bringing it down in absolute dollars as well.

<Q>: Okay. Another one of my questions, cost cuts, how should we think about opportunities for additional cost-cutting in the business?

<A – Michael Angelakis>: I think we are laser focused on cost cuts. I mean the business – this is no secret, the business has slowed down, both in terms of economic issues as well to advertising or housing growth, it's slowed down. And as it slows down we will take more cost out of the business. So I think we have more continued opportunity this year, next year to take more cost out of the business. We took cost out of the business last year. We're not the type of company that issues a press release and says we are laying off x number of people. We did do that, but we did not do a press release last year, but we did on one of our calls, articulate exactly what our plans were. I think you'll see us take more cost out of the business this year and next year.

<Q>: So we'll end with a couple audience questions. We've had a number of focus on maybe more a function of geography, and where you are, but a number focused on FiOS and how you compete against FiOS. How do we get confident that this is sort of a – can be a constructive situation as opposed to aggressive situation. I think there has been some pricing action recently, which speaks to that wonder if you could walk us through that.

<A – Michael Angelakis>: I don't want to – they're a fine company. They can speak for themselves. I think we're competing effectively with FiOS. I think they have a good product. I think we have a good if not better product. By the way, they're overlapped to us as roughly 15% today. So the other 85% is not FiOS over built, but I think we're starting to even see some win backs from them, where they've come into a market, people want to try the service, it's not as great as it's advertised or a bit more expensive and we're getting some customers back, but – and they've done rate increases recently that I think are pretty aggressive. So I think that we're competing well against them.

<Q>: Do you do win-back surveys to determine when you actually get some back from FiOS which I realize it's very early on, but I'm wondering if you can pinpoint why exactly they're coming back, what are they frustrated with?

<A – Michael Angelakis>: Well, I think it's all of the above. I think that unfortunately we do sub or two every once in a while and if we miss an appointment or VOD product didn't come through, that could be a trigger to move to somewhere else. By the way, no one is perfect and that happens to them as well. I think that their ARPUs are higher than ours. So I think that there are some pricing

aspects there. Actually they are – I'm not going to go into too much, but I think we're competing well against them. We are very focused on win backs not just on FiOS by the way, but on U-Verse and DIRECTV and Dish and there's a real goal for us to try to keep our video customers, whether we're retaining them or taking them from our competitors.

<Q>: Okay. Last question which is an audience question that actually overlap with one of mine so balance here but online video and just how to think about relationships you have with the programmers and the opportunity versus the risk over time?

<A – Michael Angelakis>: In a very short time, by the way, we created Fancast. We've also help to create TV Everywhere with our friends at Time Warner. TV Everywhere is a service that we think is complementary to our core service. People are watching more TV today than they ever have. Also in order to watch TV Everywhere or Fancast, we think you need a really high-speed modem or a high-speed access, which again I think we are terrific at. So we just don't see the threat as significant in terms of online. We think it as relatively complementary. And frankly, we're leading the charge with regards to developing products whether it be Fancast or On Demand Online and we think the cable programming group, in particular I think is endorsing On Demand Online and [inaudible] a very good utilization for people who want to watch TV on a PC or a laptop.

<Q>: Great, we're about out of time. Michael, thanks so much for joining us today.

Michael J. Angelakis, Chief Financial Officer

Pleasure.

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Seeking Alpha α

Time Warner Cable's CEO Discusses Q4 2010 Results - Earnings Call Transcript

Executives

Glenn Britt - Chairman and Chief Executive Officer

Tom Robey - IR

Robert Marcus - President, Chief Operating Officer and Chief Financial Officer

Analysts

John Hodulik - UBS Investment Bank

Jessica Cohen - BofA Merrill Lynch

Laura Martin - Needham & Company, LLC

Benjamin Swinburne - Morgan Stanley

Richard Greenfield - BTIG, LLC

Stefan Anninger - Crédit Suisse AG

Jason Bazinet - Citigroup Inc

Douglas Mitchelson - Deutsche Bank AG

Jason Armstrong - Goldman Sachs Group Inc.

Craig Moffett - Bernstein Research

Time Warner Cable (TWC) Q4 2010 Earnings Call January 27, 2011 8:30 AM ET

Operator

Hello, and welcome to the Time Warner Cable Fourth Quarter and Full Year 2010 Earnings. [Operator Instructions] Now I will turn the call over to Mr. Tom Robey, Senior Vice President of Time Warner Cable, Investor Relations. Thank you. You may begin.

Tom Robey

Thanks, Candy, and good morning, everyone. Welcome to Time Warner Cable's 2010 Fourth Quarter and Full-year Earnings Conference Call. This morning, we issued two press releases, one detailing our 2010 fourth quarter and full-year results, and the other announcing an increase in and the declaration of our regular quarterly dividend.

Before we begin, there are several items I need to cover. First, we refer to certain non-GAAP measures, including

operating income before depreciation and amortization or OIBDA. In addition, we refer to adjusted OIBDA and adjusted OIBDA less capital expenditures. Definitions and schedules setting out reconciliations of these historical non-GAAP financial measures to the most directly comparable GAAP financial measures are included in our trending schedules and earnings release.

Second, today's announcements includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are based on management's current expectations and beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein due to various factors, including economic, business, competitive, technological, strategic and/or regulatory changes that could affect our business.

These factors are discussed in detail in our SEC filings, including our most recent annual report on Form 10-K and quarterly reports on Form 10-Q. Time Warner Cable is under no obligation to, and in fact, expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

And finally, today's press releases, trending schedules, presentation slides and related reconciliation schedules are available on our company's website at timewarnercable.com/investors. A replay of today's call will be available beginning approximately two hours after the call has ended and will run through midnight Eastern Time, February 1.

With that covered, I'll thank you and turn the call over to Glenn. Glenn?

Glenn Britt

Good morning, and thanks for joining us today. 2010 was a year of significant accomplishment for Time Warner Cable. We achieved healthy growth on the top line and delivered record free cash flow. At the same time, we enhanced our products and services, increased the sophistication of our marketing and accelerated the growth of our Commercial business.

We also delivered on our shareholder-oriented capital allocation strategy. We returned more than $570 million through our dividend in 2010, and we have spent roughly $0.75 billion on a repurchase of our own shares since November. In addition, this morning, we announced an increase of 20% to our quarterly dividend. This increase is yet another signal of our confidence in our business, and reinforces our focus on returning capital to our shareholders while continuing to invest in long-term growth.

We also made a lot of progress in our product offerings. We completed the deployment of video switches, enabling a dramatic increase in the availability of HD channels across our footprint. We launched Look Back, providing our digital customers with on-demand access to three days of programming on 59 networks using our network DVR technology.

At the same time, we made our Movies On Demand offering even more attractive by doubling the day and date availability of new titles. We invested in a wireless broadband offering in 2010. The investment is providing us with key insights into the operation of a wireless business and how it fits with our Wireline business.

In 2010, we continued our ongoing efforts to build a more vast marketing tools and additional analytical capabilities. Specifically, last year, we introduced a more sophisticated product pricing regime and our first products targeted at specific customer segments. We launched Signature Home broadly across our footprint in December, and we're currently engaged in trials of TV Essentials in New York City and Northeast Ohio. We expect this to be but the first in a series of products designed to more closely fit the individual needs of our customers.

Now turning to 2011, we entered the new year with aggressive plans, and we're optimistic about our prospects, although weakness in employment and occupied housing will continue to provide a headwind. Competition isn't new to our business, and we expect continuing competitive pressures from the telephone and satellite companies in 2011. But with better products and better marketing than we've ever had before, we're ready.

On the regulatory front, we'll continue to press for reform and retransmission consent where 20-year-old statutes effectively tipped the competitive scales of the broadcasters' favor. Regarding broadband regulation, we're pleased that we've avoided Title II Reclassification. However, many parties at both ends of the political spectrum remain unsatisfied, and we expect this issue to remain in the news.

I'm really excited about our rapid progress in harnessing the power of consumer electronics devices to give our

customers a better experience and more control as they use our services. Earlier this month, at the Consumer Electronics Show, we demonstrated our ability to deliver video directly to IP-connected devices, such a Smart TVs, tablets and Blu-ray players, all without the need for set-top boxes. This ability to deliver TV to virtually any device in the home is a logical extension of our video product. We expect to launch this capability in the coming months.

For years, our video user interfaces have been constrained by the limited capabilities of set-top boxes. By taking advantage of more powerful consumer electronics devices, we can offer a much more compelling navigation experience, one that offers more functionality and is more aesthetically pleasing than anything we've done in the past. Perhaps most important, we're building processes that will enable us to rapidly update the user interface and response to customer feedback. We believe the ability to deliver video to all the screens in the home, a much improved user interface and all that, coupled with TV Everywhere capability, will address many of the perceived advantages of over-the-top video offerings.

There is tremendous value in our broadband network. Our customers continue to use it for new applications, and they're demonstrating that they're willing to pay more as this utility in their lives expand. In the year ahead, we'll continue to invest in the network's capabilities in a variety of ways, including expansion of our DOCSIS 3.0 footprint, so that we can continue to be the best-in-class broadband provider.

Our broadband network is also a flexible platform for new products, coupled with our installation and call center expertise, it provides us with an opportunity to enter the Home Monitoring and Security business. We've actually been in the Security business in parts of our footprint for many years. But recent advancements in technology have made the application much more interesting. We've trained installers in several cities, and this week, we began taking orders for our Smart Home Security product as part of a soft launch. We used the feedback we get from the early customers to fine-tune our product and processes, and we expect to launch this product broadly across our footprint later this year.

In the commercial space, we're pleased that we grew revenues by more than 20%, breaking through the $1 billion level for the first time in 2010. However, we're not resting on our laurels, and we think we have the opportunity to create a lot more growth, both through the sale of existing products and by exploring new products and new segments.

In summary, 2010 was a year of new products, accelerated growth and record free cash flow. We look forward to the challenges and opportunities of the new year, as we strive to better serve our customers and continue our quest to be the open, transparent, shareholder-friendly company that our owners expect.

I want to acknowledge the terrific job that Rob has done as our CFO in the past three years. I have full confidence in him as he takes on the role of President and Chief Operating Officer. For the next several months, as we conduct the search for his successor as CFO, Rob will do double duty.

So now let me turn it over to Rob, who will give you some additional details on the financial performance.

Robert Marcus

Thanks, Glenn, and good morning, everyone. We've got a lot to cover, so let's jump right into our 2010 highlights on Slide 3. As Glenn said, 2010 was a really good year for Time Warner Cable. We grew full year revenues by over 5.5%, as residential subscription revenues increased nearly 4%, while commercial and advertising revenues each jumped over 20%. Adjusted OIBDA growth accelerated to nearly 6% in 2010, reflecting our strong revenue growth and slightly higher margins. Operating income was up over 11%. Adjusted OIBDA less CapEx increased 21%, and free cash flow was up over 19% to $2.3 billion or $6.35 per diluted share.

Diluted EPS increased over 19% to $3.64, exceeding what we projected at the beginning of the year. True to our commitment, we continued to actively manage our balance sheet. We returned $1.1 billion of capital to our shareholders during 2010, paying cash dividends of $576 million and repurchasing $515 million of our common stock. And demonstrating our confidence in our business, this morning, we announced a 20% increase in our quarterly dividend to $0.48 per share or $1.92 on an annualized basis.

Let's move on to Q4 subscriber trends in the next slide. Before I get into the numbers, let me say a few words about the environment in which we're operating. While we've seen some modest improvement in certain macroeconomic indicators in several of our regions, overall, we continue to feel the effects of weak housing and high unemployment across our footprint. The competitive landscape also remained pretty much the same in Q4. The telcos continued their fiber build-outs, but probably at the slowest pace we've seen since they began.

We estimate that U-verse is now marketing video to about 24% of our footprint and FiOS to about 10%. Marketing and promotional intensity among our telco and satellite competitors was pretty consistent with what we've seen in recent quarters. For our part, we broadly executed on our $33 x 3 Triple Play marketing program, targeting both new and existing customers.

So let's turn to our sub performance. We added 94,000 high-speed data subscribers in the quarter, bringing total HSD subscriber base to over 9.8 million or 35.8% of passings. That's a five 5.5% year-over-year increase in our HSD sub base. Our residential HSD subscriber mix continued to improve, as customers continue to choose our higher-speed tiers. We added 147,000 Turbo and 5,000 Wideband or DOCSIS 3.0 customers. And for the first time this quarter, our total Turbo and Wideband subs combined exceeded our aggregate basic and light tier customers. Commercial HSD net adds were 11,000, which was more than 5x year-ago net adds.

As I've previewed on our third quarter call, Digital Phone net adds rebounded strongly in the fourth quarter, as we more aggressively marketed the Triple Play bundle. Total Digital Phone net adds were 72,000, and we ended the quarter with almost 4.5 million total voice subscribers, 16.7% of homes passed and a 6.5% increase from the end of 2009. We had 11,000 Business Class Phone net adds in the quarter for a total of 111,000. That's more than double the number of subs we had 18 months ago.

Video subscriber performance continued to be impacted by the challenging competitive and economic environment. For the quarter, we had a net decline of 141,000 video subscribers. The video sub declines were once again driven by losses in analog Single Play video customers. Actually, net additions for both digital video subscribers and bundled video subscribers were positive during the quarter. In addition, there were some signs of life in the Pay TV category, as we added 77,000 pay units. That's the first growth in pay units we've experienced in 10 quarters. Demand for DVR has also picked up in Q4. Net adds of 47,000 were significantly better than in Q3.

Primary Service unit net adds were a positive 25,000 for the quarter, an improvement from the third quarter loss. PSU churn was flat year-over-year. As I mentioned, we continue to focus on getting customers into bundles and had 72,000 Triple Play net adds during Q4, up from 64,000 in last year's fourth quarter. At quarter end, just under 60% of our customers were either Double or Triple Plays. Once again, we fared much better with our more affluent customers, our highest income segments drove the net gains in Triple Plays, while our lower-income segments accounted for most of the declines in singles and doubles.

Despite the challenging economic and competitive environment, full year 2010 PS unit additions were 344,000, with 515,000 HSD net adds and 278,000 Digital Phone net adds, offset by 449,000 video net losses. So far, this January's sub-performance looks a lot like January of 2010. But remember that the bulk of the net adds last year occurred in February and March, so it's still really early to project Q1 subs.

Let's turn to our financial results and start with revenue on the next slide. Fourth quarter revenue increased 5.9% year-over-year to $4.8 billion, and full year revenue increased 5.6% to $18.9 billion. During the fourth quarter, total subscription revenue, that's residential and commercial combined, grew 4.6%, driven by increased PSUs and a 3.1% increase in subscription ARPU per PSU. Advertising revenue increased nearly 34%. In dollar terms, total revenues was $269 million higher than in Q4 '09, with $145 million of that growth coming from our Residential Subscription business, $68 million coming from Advertising and $56 million coming from Commercial.

Let's first focus on residential subscription revenue on Slide 6. Fourth quarter residential subscription revenue grew 3.5%, and full-year residential subscription revenue grew nearly 4% year-over-year with both driven by a combination of subscriber growth, improved subscriber mix and price increases. Of the $145 million of year-over-year residential subscription revenue growth in Q4, HSD contributed 60% or $87 million, with video and Digital Phone contributing 25% and 15%, respectively.

Year-over-year residential HSD revenue growth accelerated throughout the year, culminating in Q4 growth of 8.7% over last year's fourth quarter. The growth was driven by subscriber increases, as well as a year-over-year increase of close to 3% in residential HSD ARPU. This is the seventh consecutive quarter of year-over-year residential HSD ARPU improvement, as we benefited from price increases and the improved subscriber mix I talked about earlier. Residential video revenue increased as a result of price increases and higher digital video and DVR revenues, partially offset by the decline in video subs. Residential video ARPU increased nearly 5% from Q4 '09. Residential voice revenue grew 4.5% due to continued subscriber growth. Year-over-year ARPU declined just 1.2%, which was the smallest decline in the last couple of years. On a sequential basis, residential voice ARPU was pretty much flat.

Now let's flip to commercial revenue on the next slide. We're very pleased with the progress we made in our Commercial business in 2010. We set out to deliver commercial subscription revenue growth of more than 20% for the

year, and we did just that. Fourth quarter commercial revenue was just under $300 million, a 23% increase over Q4 '09, marking the highest-growth quarter of the year. Full year commercial revenue was more than $1.1 billion, up 21.1% versus 2009. Each of commercial data, Business Class Phone and cell tower backhaul contributed about 30% of the $56 million year-over-year revenue improvement in the fourth quarter, with video revenue accounting for the balance. Commercial data revenue increased almost 13%, driven by growth in shared and dedicated Internet access and Metro Ethernet revenue. Business Class Phone revenue increased nearly 73%, driven by subscriber growth, and cell tower backhaul revenue in the fourth quarter was $26 million. That's as much cell backhaul revenue as we generated for all of 2009. As of quarter end, our total installed base was 6,100 radios, and we had a meaningful backlog of radios under contract.

We continue to make investments in our commercial capabilities throughout the year. And in 2011, we are focused on continuing to improve sales productivity and increasing service ability to expand the number of commercial establishments we reach. We expect these investments to enable us to continue to drive commercial revenue growth in 2011 at a rate similar to what we achieved in 2010.

Moving to the next slide. We had a terrific year in advertising, topped off by a fourth quarter in which we generated an all-time high $269 million in ad revenue, up 33.8% over Q4 of 2009 and up 39% on a per video subscriber basis. Full year ad revenues of $881 million were 25.5% greater than in 2009.

Strong political advertising certainly helped the cause. We generated $42 million in political advertising in the fourth quarter and $74 million for the full year. Political accounted for half the growth in the quarter and about 30% of the growth for the full year. That said, non-political advertising revenues grew strongly in their own right, up around 18% for the fourth quarter and the full year. In the fourth quarter, the automotive category generated a little over $50 million, and media advertising added about $45 million, both jumping well over 30% versus the fourth quarter of 2009.

During the quarter, we they began to benefit from our new ad-rep deal with FiOS, under which we sell regional advertising on behalf of FiOS TV in the New York City, Los Angeles and Dallas markets in exchange for a percentage of the revenue generated. We expect that the FiOS deal and others like it will increasingly contribute to ad revenues in 2011. As we look forward, given strength in our core Advertising business and our new ad-rep deals, we do expect that we'll be able to grow ad revenues in 2011, despite the usual non-election year fall-off in political advertising.

Let's turn to adjusted OIBDA on Slide 9. Fourth quarter adjusted OIBDA grew 1.6% to $1.7 billion, and full year adjusted OIBDA increased 5.9% to $6.9 billion, right in line with what we projected on our last earnings call. Full year margins improved 10 basis points.

Total fourth quarter operating expenses grew 8.5% compared to the fourth quarter of 2009. The growth in OpEx and the resulting margin contraction and slowdown in adjusted OIBDA growth in the fourth quarter were driven by a number of items that I'll walk you through, several of which I've mentioned previously. First, bad debt expense was up in the quarter due to the reversal of a reserve in Q4 '09, which significantly lowered bad debt in that quarter. Similarly, casualty insurance expense increased year-over-year due to a favorable adjustment to casualty insurance expense in the fourth quarter of 2009.

Next, fourth quarter employee expense was increased by an executive severance charge. Additionally, fourth quarter cost of revenues increased due to the reclassification of certain amounts previously recorded as depreciation. And finally, as expected, wireless losses and programming expenses grew faster in the fourth quarter than they did in prior quarters. In aggregate, these items accounted for a $90 million swing in year-over-year adjusted OIBDA.

Programming expense increased 7.2% for the quarter, as video subscriber declines only partially offset contractual rate increases and incremental retrans costs. Remember that Q4 was the first full quarter under our new Disney contract. For the full year, programming costs increased 5.4% in aggregate and 8.2% on a per subscriber basis. We expect total programming cost growth will be in the same ballpark in 2011.

Employee costs were up 3.9% year-over-year in Q4, reflecting higher commercial headcount and compensation expenses and the executive severance cost I mentioned earlier. Fourth quarter marketing expense of $166 million was $11 million higher than last year. Marketing spending for the fourth quarter and the full-year remained fairly constant at about 3.5% of revenues. Voice costs were up 5.5% due to growth in Digital Phone subscribers. As you may recall, during the fourth quarter, we began the process of in-sourcing various voice support functions. The financial benefits of this process will flow in as our Digital Phone subscribers are migrated to the new platform over the next several years. When we're all done, we expect to see our voice costs cut roughly in half.

We continued to invest in wireless in Q4. As of today, we're offering our wireless data service in almost 3/4 of our

footprint, and we have almost 15,000 subscribers. Still early days, but as Glenn mentioned, we're gaining key insights into the Wireless business, as well as the wireless needs and desires of our customers. Q4 wireless losses were approximately $20 million, and full-year losses were around $50 million. In 2011, we plan to continue investing in wireless, as well as several other new initiatives, including, as Glenn mentioned, our Smart Home Security offering. We expect our total 2011 startup losses from wireless, home security and other new business projects to be in the $75 million range.

Before I move on to CapEx, I should note that operating income for the quarter increased 11.6% to $994 million, driven by higher adjusted OIBDA and decreases in depreciation and amortization expense. For the full year, operating income grew 11.2% to $3.7 billion. Looking forward to 2011, we expect once again to generate double-digit operating income growth.

Turning to capital spending on Slide 10. As Glenn mentioned earlier, we continue to make great strides in enhancing our products and services in 2010. We completed the rollout of Switch Digital, launched Look Back across our footprint, deployed over 1.5 million HD set-top boxes, added to our DOCSIS 3.0 passings, continued the rollout of wireless data and invested heavily in our Commercial business, and we accomplished all this while still reducing the overall capital intensity of our business for the full year by 260 basis points to 15.5% of revenue. Our capital spending in the fourth quarter was $782 million, bringing our full-year CapEx to $2.9 billion, consistent with our full-year guidance and down approximately 9% from the full year 2009.

Full year residential capital expenditures were 14.6% of residential revenue, and were down nearly 15% year-over-year to $2.5 billion, driven by declines in CPE, support capital and scalable infrastructure. Commercial CapEx was $470 million, up nearly 34%, with about 40% of the commercial CapEx attributable to expanding our cell tower backhaul footprint. Looking forward to 2011, we'll continue to spend more on our Commercial business as the residential capital intensity continues to decline. And once again, we expect that full year capital spending will be less than $3 billion.

Onto cash flow on the next slide. Adjusted OIBDA less capital expenditures for the fourth quarter was $956 million, resulting in adjusted OIBDA less CapEx of $3.9 billion for the full-year 2010, a 21% year-over-year increase. Free cash flow for the quarter was $665 million, driving our full-year free cash flow to $2.3 billion or $6.35 per diluted share. Full-year free cash flow increased 19% over 2009, as higher adjusted OIBDA less CapEx and lower pension contributions and working capital requirements more than compensated for a jump in cash taxes of $351 million and an increase in cash interest of $138 million. Remarkably, for the full year, we converted more than 95% of incremental adjusted OIBDA into free cash flow. For 2011, including the benefit of the bonus depreciation, we're expecting another year of double-digit free cash flow growth.

Turning to the next slide. Full year diluted earnings per share of $3.64 increased 19% from $3.05 in 2009 and exceeded the high end of the range we provided at the beginning of 2010. Looking forward, we expect that 2011 full-year diluted EPS will be in the $4.25 to $4.50 per share range.

Moving to the balance sheet. During 2010, we returned $1.1 billion to shareholders through our dividend and share repurchase programs. We paid out $576 million or $1.60 per share in dividends, and bought back $515 million of common stock during November and December alone. Through yesterday, we repurchased almost $750 million worth of TWC common stock. Even after returning capital to shareholders, our year-end net debt and preferred equity totaled $20.4 billion, a reduction of $1.2 billion from year-end 2009. Our leverage ratio at year end was 2.96x.

And last, but certainly not least, as Glenn discussed, we're very pleased to have announced this morning a 20% increase in our quarterly dividend to $0.48 per share. That's $1.92 per share on an annualized basis, which at yesterday's closing stock price represents a 2.8% dividend yield.

So to summarize. We performed very well in 2010 from an operational and financial perspective. We generated substantial free cash flow, invested in our business for future growth and returned a significant amount of capital to shareholders. And we entered 2011 well-positioned to compete and to deliver strong growth in operating income, free cash flow and EPS.

Thank you. And with that, I'll turn it over to Tom for the Q&A portion of the call.

Tom Robey

Thanks, Rob. Candy, we're ready for Q&A. We would ask that each caller ask just a single question so that we can accommodate as many callers as time permits. First question, please?

Question-and-Answer Session

Operator

Our first question is from Craig Moffett, Sanford Bernstein.

Craig Moffett - Bernstein Research

I'm going to break the rule and see if I can ask two. One is, I just wanted to see if you could update us on your thinking about usage-based pricing with the SEC having expressly validated usage-based pricing as a strategy. And then if you could also update us on your thinking about Clearwire and your own holdings in the AWS spectrum.

Glenn Britt

Craig, this is Glenn. I'll take both of those. First of all, on usage-based pricing, I think I've been pretty consistent over several years on that. The good thing about broadband is that the usage is growing very rapidly as it has ever since we started the business in 1996. So people are finding it more useful. They're doing different things that make their lives better. That has, and will over time, require incremental investment by all of the infrastructure providers. And I think that implies that over time, as speeds get faster and faster and what have you, that there'll be upwards pressure on prices. I think a corollary of that is there is clearly a distribution in how people use the Internet. Some use it a lot more, some use it a lot less. And I think you're going to see over time that people who use it less will desire and expect to pay less than people who use it more. For our part, obviously, we paid attention to the announcements by the SEC. We're watching the market, and you are seeing in the wireless space, the beginnings of volume-based pricing. So we'll keep touching that and stay tuned. On wireless, again, I think we've been pretty consistent. We are basically exploring whether packaging wireless data with our Wireline offerings is something that consumers want and if there's a formula that people want. So we're trying different models, different products, what have you. And to date, I would say our results are not very impressive and pretty inconclusive. So we're going to stick with that for a while. We're trying to spend not too much money while we're doing it. So that's basically what we're up to.

Robert Marcus

Craig, on the AWS spectrum, we have no current plans to divest of the spectrum or otherwise monetize it. And at this moment in time, we don't have specific plans to utilize it either. What I will say is that notwithstanding all that, we're always keeping our eye on what the market for spectrum is, and I would note the recent AT&T acquisition of the media flow spectrum from QUALCOMM, and I think the price was somewhere in the mid-$0.80 per megahertz pop, which is a pretty healthy number and certainly, more than what we paid for the AWS spectrum. And I would concede it's not exactly comparable spectrum, but I think it certainly bodes well for the value of what we're holding.

Operator

Next question, Jason Bazinet, Citi.

Jason Bazinet - Citigroup Inc

I just have one question for anyone that would like to answer it. As far back as I can remember, the mix of sort of bundled customers versus Single Play has been pretty consistent with bundling rising and Single Play subs falling. This seems to be the first quarter where we saw sort of an inflection point where the Single Play subs actually increased. And I was just wondering, do you view that as an inflection point and indicative of broader trends? And if so, what trend are you seeing?

Robert Marcus

Yes, Jason, I think that what you're reacting to are some adjustments we made to our subscriber metrics in the quarter. In fact, bundled subs increased in the quarter and Single Play subs declined. The reason in the trending schedule as you might see that the percentage didn't increase is that we adjusted our sub-numbers, and this doesn't flow through the net add calculation, just affects the pending subs. But we decreased the number of Triple Play subs and increased our customer relationships, so both the numerator and denominator resulted in a lower-bundled percentage. But that's not reflective of activity in the quarter. As part of our consolidation into two regions, we're doing some work to standardize our subscriber counting methodologies and work to standardize across various instances of our billing systems, and that resulted in the adjustments to the sub counts . But it's really not reflective of what's going on

organically in the business. Bundles continue to increase.

Operator

Next, Richard Greenfield, BTIG.

Richard Greenfield - BTIG, LLC

Question on the broadband side of the equation. Could you comment on whether you get paid right now by CDNs like Level 3 and Akamai, and whether as more and more video traffic gets dropped off at your door, whether charging for it or charging more for it is actually an opportunity, Netflix commented on this issue last time in their conference call, and so I was curious for your thoughts on the matter. And then just in terms of housekeeping, Rob, did you say that free cash flow would be up double digits from the $2,284 that was reported this year? And then you also just stopped reporting digital videos subs, I assume that was on purpose?

Glenn Britt

Well, let me deal with the first one, and then Rob can answer the second. There's been a lot of reading about Internet backbone economics recently in CDNs. And I think there's a lot of confusion about it. And quite frankly, the way that the economics of the money back and fourth is pretty arcane. But I think to simplify it, just start with the idea of the Internet is a collection of a bunch of privately-owned networks that are interconnected using standards. That's all it is, there's nothing -- the Internet per se doesn't exist. It's a collection of things. So each of these private networks generates traffic and receives traffic, and has different negotiated relationships with the people that it interconnects with. In general, if somebody is handing off and receiving roughly equivalent amounts of traffic, there's also an agreement not to charge because the bookkeeping is more expensive than what it's worth. But usually, if the traffic is out of balance, then whoever is delivering more traffic pays the other party. Again, I'm making broad generalizations. So that's how it works. And in the world of telecom, that's quite common, and that's how it's worked for many, many years. So there's nothing really new here other than people were delving into it in public more than they have before.

Richard Greenfield - BTIG, LLC

Well, but Glenn, it seems like there's an opportunity where the incoming traffic is a lot larger than the outgoing traffic, just given the explosion of video. And so is it fair to say that the opportunity to start getting paid more for that imbalance on your end is a substantial opportunity over the next couple of years?

Glenn Britt

I don't know if it's substantial. Again, the other interesting thing about it is the amounts of money that change hands in this whole space are pretty small. So it's something, but I would not say it's material or a big deal. And quite frankly, the fuss that's been made about it in the press is way overblown relative to the dollars involved.

Robert Marcus

Rich, on the two other questions you asked, the answer is yes, we're talking about double-digit free cash flow growth over the $2,284 that we disclosed for 2010. And as for Digital Video subscribers, while we haven't been proactively placing as much emphasis on digital recently, we added 6,000 digital customers. So we're not trying to be secretive about it in any way. It's just with certain markets becoming all-digital, it's just a less relevant number.

Operator

Next, John Hodulik, UBS.

John Hodulik - UBS Investment Bank

First, quickly, on the buyback, I may have missed it. But is this a good rate going forward for us to sort of factor that into the numbers? Then Glenn, you talked a little bit at the beginning about the move to use more consumer electronics in the home as opposed to a set-top boxes. Could you talk a little bit more about that initiative and maybe what the benefits you might see from both the financial and operational standpoint?

Glenn Britt

Sure, let me take the second one, and I'll refer the first one back to Rob. If you step way back from all of this, the only reason we have set-top boxes is that there are a vast array of TV receivers in place in people's homes. And most of them, historically, can't receive and display all of our services because they don't really have any intelligence. They're just display devices. And they receive all different -- they use all different standards and they have different kinds of input places and what have you. So the only reason we have set-top boxes is to make sure that our services can be displayed. So the set-top boxes have intelligence, they can do things like display program guides, and they can also decrypt signals that are encrypted for piracy protection. What we are seeing is a new generation of consumer electronics devices that have intelligence in them. And I think that's just going to get more and more as we go forward. That's number one. And number two, they are standardizing around a series of hardware inputs and around Internet Protocol, which is nothing but a bunch of standards. So that means that we can deliver television to those devices and deliver new innovative user interfaces that can be changed rapidly using these standards, so in effect, you get rid of the need for a set-top box, which we would just as soon not have in the first place. I think that we demonstrated this at CES. So couple of consumer benefits. One is, all of these devices, and there's an array of them, it's not just TVs, but it's tablets like the iPad and the Galaxy Tablet and so on. Blu-ray players now have this intelligence in them. So you're beginning to see, you can see video on any video display in the home. And all we have to do is simulcast using IP standards, just like we simulcast on analog and paid digital today. And then, we need to be able to redo our user interface very rapidly, which we can using our IP Internet kind of standard. So I think this is a win-win for the consumer. And for us, over a very long time period, as these devices replace all of the TVs that are in people's homes today, which is obviously a couple of decades at the minimum. But over a very long time period, we may be able to not have set-tops at all. And that means a less capital-intensive business, fewer service goals and happier consumers. So I think this is all good.

Robert Marcus

John, on the buyback question, I'm going to more or less say what I said on the third quarter call, when we announced the original authorization. We're going to disclose what we bought in each quarter in hindsight, but we're really not going to say much about going forward purchasing plans, except to say that the guiding principle here is managing the balance sheet to 3.25x, and that continues to be the driver.

Operator

Next, Ben Swinburne of Morgan Stanley.

Benjamin Swinburne - Morgan Stanley

Glenn, I wanted to ask you about -- you made a lot of comments over the years about sort of arguing why the media companies should behave in a way that protects the broader ecosystem. And I think all those arguments make a lot of sense. And so when you sit here today and look at where we are, and shortly after you did your Disney deal, they did a deal with Netflix, I think Netflix added like 5 million, 5.5 million gross adds last quarter, over 1/3 were streaming only. And so I'm just wondering if you think that the industry is becoming more or less aligned? There is also an article in the Journal about Hulu launching a sort of virtual cable operator product if they can convince their owners to do it. And actually, when you think about your IP-delivered video service you were just talking about in the last question, and certainly, a lot of people could probably do that who don't necessarily own a network to sort of play the string out. So just curious, when you think about where the media companies are in your negotiations and you think about the contracts you're signing, are we in a better place or worse place than we were six, nine months ago? And what do you think is happening at the customer level as we get all these internet-connected TVs sold? And obviously, your product development path is aimed at trying to address a lot of that. I just wanted to get your thoughts on that big topic?

Glenn Britt

Sure. I think as whenever there's a lot of new technology running around, there's always a lot of confusion on all sides. So I think everybody in this space is a little confused about what's going to happen including consumers and companies, investors, et cetera. I actually think -- and we go through waves of this and we certainly went through one in the late '90s, and everybody gets enamored with new things. I think it is useful to step back and think about it all on a common sense way. So if you think about all forms of media, they are delivered in some physical way, going back to movies and movie theaters. And historically, those two -- the retailer sort of bundled together the content and the physicality. You don't go to a movie theater and pay one price to rent the seat and another one to buy the movie. You buy a ticket and you get both. So all of the things you're talking about are really attempts to separate the sale of content from the sale of the physical infrastructure. You need both. You can't survive without both. And really, what's happening

is you're creating new middleman in a business that if you start at the production level, there's already a whole lot of middlemen. And I think the question is whether there is any real value added there by creating yet a new group of middlemen. And maybe all they have is better user interfaces, which is why we're addressing that. So I think it's all very alluring, but I think when you step back and say what's really going on here? Is there any real value being created? And therefore, is it sustainable? I think it's pretty questionable. So we'll see how it plays out, again, uses our infrastructure. So it's not a horrible thing for us at the end of today.

Operator

Next, Doug Mitchelson, Deutsche Bank.

Douglas Mitchelson - Deutsche Bank AG

I guess, first, Rob, if I aggregate your comments, it seems EBITDA margins in 2011 should be at least flat. Is that accurate? And sort of given the timing around Sprint and ESPN and political advertising throughout the quarters, are margins stable year-over-year throughout the year, or is there some volatility? And then not to take the over-the-top discussion too far, Glenn, but relative to the comments you just made, I would say Netflix certainly has created some value or new product in that. They're offering consumers content that they haven't been able to readily get at a price point that's pretty attractive. So, again, relative to your commentary, would you look at the content that Netflix has and think there's a business model for Time Warner Cable to acquire that content as well and offer to subscribers? Or do you think that maybe there will be some middlemen that create some incremental value?

Glenn Britt

Let me do the Netflix thing, and then Rob can do the margin question. I think it's dangerous to be too specific about a given company. But since you drove me into this, yes, Netflix started with a very clever model built on the first-sale doctrine. So I think most of you are familiar with that. But essentially, if you buy a DVD under the first-sale doctrine, you can rent it as many times as you physically can without paying for it again. So they're using a very clever interface on the web and the first-sale doctrine and the power of subscriptions, which we all know about. They built a wonderful business, which they now are trying to extend into online. And then the online part of that, what I said before, they have a wonderful interface, which anybody can hire a bunch of web designers and do that. I question what the ultimate value of that, what's the value add of what they're doing. So I'll stop with that.

Robert Marcus

Doug, on margins, I'm not going to be too specific about 2011 margins, I think you shouldn't expect any material deviation from what we have experienced over the last couple of years, and I'm certainly not going to get into quarter-by-quarter margins. I think you know the puts and takes and what flows in when and can probably draw the right conclusions.

Operator

We have Jessica Reif Cohen, BofA Merrill Lynch.

Jessica Cohen - BofA Merrill Lynch

Two questions, first, I was wondering if you could put a little more -- be more specific on TV Everywhere? What rights do you have for streaming outside of the home? And generally, just talk about your plans, your specific plans. And then on the subtrends, data was obviously a little bit soft in the fourth quarter. Do you think that's the overall market or is there a share shift going on between competitors? And Bob, you specifically -- you know, you said on the Q1 subtrends that -- I just wondering if your comment was across all product categories? Because if so, it seems like there'll be healthy sequential improvement at least in data and voice. So if you could just give a little more color on that, that would be great.

Glenn Britt

Jessica, I'll start with the TV Everywhere question. We have launched with the ESPN product, and I think I see TV Everywhere from the distributor view point as just a piece of offering services that are more flexible and give consumers more control. Meaning, that they get to see their video on every device and whenever they want and they have access to ever broader announced material. TV Everywhere is really directed at viewing over the Internet outside of the home.

And in order to do that, we need to negotiate with all the rights holders. So we're engaged in doing that. I think there's been a lot of confusion about it. And there'll be more to come. And I know other distributors have made deals with different people than we have. So it's underway, but it's not quite there yet. The technology is not an issue, by the way. Rob, do you want to...

Robert Marcus

Yes, on data subs, I'm not sure I would agree, Jessica, with the characterization of the data net adds as soft. We did add another 94,000 units, comparing them to Verizon's HSD net adds yesterday, I think we were about twice as many on a footprint-adjusted basis, haven't had a chance to digest the AT&T numbers yet, but at least with respect to what we had through yesterday, performing comparatively well. And we did that well improving the mix and improving the ARPU. So we feel pretty good about HSD. In terms of your comment about extrapolating from my comments on January, I would counsel against that. While the comment I made about January looking like January of last year applies to all of the PSUs. Again, I would mention that, really, most of the net add activity last year was in February and March. So I think we have to wait for the months to play out.

Operator

Next, Laura Martin, Needham.

Laura Martin - Needham & Company, LLC

I want to look at capital spending here for a little bit. Lot of these capital spending numbers down 17% in the quarter and down 9% for the full year. And it occurred to me when we were talking about the commercial revenue, with commercial revenue at $300 million and $1.1 billion for the year. That capital spending, not only is going down, but is becoming more efficient. It feels like the capital efficiency is getting better. So, I'm interested, you said full year CapEx will be below $3 billion. I'm actually interested in you guys talking about the return on that capital, feels like it's going up as the mix shift away from residential and towards commercial. So if you could give us guidance on that, that would be interesting. And then, Glenn, when you we're going into your answer when you're talking about CES stuff, one of the questions that raised to my mind is, is there some reason you're constrained to your own footprint in this over-the-top solution that you were talking about at CES? Can you actually deliver this through the CE devices to a Comcast home, to their iTablet? Or is there some reason that this new technology to the CE continues to limit you to your existing cable footprint?

Glenn Britt

Let me deal with the last one, and then on the capital spending issue, there is a lot of moving pieces there, so I'm going to let Rob deal with that one. The answer to the question about the CE devices is that right now, we purchase the rights from the content companies to distribute programming inside our cable footprint. So that's what we're talking about doing. Clearly, as I think a couple of people pointed out earlier, this technology allows you to distribute beyond somebody's footprint over the public Internet. But that's quite different than what we're doing. We're using Internet standards, but we're using it within our cable system, and it's not the public Internet.

Robert Marcus

Laura, on the CapEx point, I agree with your takeaway. Not surprisingly, we've been investing in the Commercial business for the last couple of years fairly heavily, and we're now really starting to see the benefits of that investment. And as with any business that sort of has been an investment cycle. Once you start to generate revenue from the investments that you've made, you see a more favorable relationship between returns in the capital you're spending. So I think your takeaway is 100% spot on.

Laura Martin - Needham & Company, LLC

So with dollar invested in commercial, does it have twice the return on capital than residential or 50% better return?

Robert Marcus

I actually thought you were talking relatively speaking commercial against commercial. The returns on commercial, I've mentioned this before, the margins on the Commercial business are better. The capital profile is a little bit different. But on balance, I think your second point, which is that commercial returns on capital are better than residential are also

accurate. I'm not going to give you a multiple.

Operator

Next, Stefan Anninger, Credit Suisse.

Stefan Anninger - Crédit Suisse AG

So you've seen very nice ARPU growth in HSD, and I believe you mentioned 3% growth as 4Q's residential growth. Can you talk a little bit about your continued ability to take price increases on your HSD products in 2011 and beyond? And then just a quick follow-up and you may be hesitant to do this given your discussion earlier about margins, but could you provide a bit of guidance as to how to think about the long-term potential for voice margin improvement as you move away from your agreement with Sprint?

Robert Marcus

Okay, so on HSD price increases, first of all, I would mention that the ARPU improvement in residential HSD in particular is the product of two phenomena, one is the price increases, the other is that we are seeing improved mix in our HSD subscriber base towards the higher speed tiers, which generate more revenue dollars. On price increases, I think Glenn hit this in various of his comments. But as customers continue to use HSD for more bandwidth-intensive applications and require more and more speed and place a greater value in short on what it is we're offering, it stands to reason that, that value will correlate with their willingness to pay more for the service. So we feel that, that should drive an ability to increase prices going forward. With respect to voice, the process by which we migrate away from the Sprint contract and onto our own platform for providing support functions will occur over really the next four years through 2014. So the first year where we'll see the full run rate, full year benefit of the entire project is 2015. And what I've said is that when we get to that point in time, we'll see our voice costs essentially cut in half. It's probably best to speak of it in those terms because margins carry with it some assumptions about revenue, and I don't think we're prepared to make those assumptions over a five-year time horizon.

Operator

Jason Armstrong, Goldman Sachs.

Jason Armstrong - Goldman Sachs Group Inc.

Can you comment on early uptake you're seeing in the TV Essentials package, and maybe help us think through the path here in terms of the push into other markets. And then, does it make sense to evolve it into maybe a package essentials with low-end broadband or look for different varieties that maybe have a bit more category depth in terms of video content?

Glenn Britt

Those are all good questions, and it's really too early to address -- it's not too early to address them, but it's really too early to talk about it. We're testing this in two markets, in New York and in Northeast Ohio. The tests are not that old at this point, so stay tuned. We'll report back when we have more data.

Tom Robey

Candy, I think that's probably all we have time for this morning. Thanks, gentlemen, for joining us.

Operator

Thank you. That does conclude today's conference. You may disconnect at this time.

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