

FINAL TRANSCRIPT

Thomson StreetEventsSM

CMCSA - Comcast Corporation at Merrill Lynch Media Fall Preview

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CORPORATE PARTICIPANTS

Steve Burke

Comcast Cable - President & COO

QUESTIONS AND ANSWERS

Unidentified Participant

We will now move from the second largest US subscriber-based entertainment company to the largest, Comcast. The company has definitely done a great job this year in returning capital to shareholders and driving its businesses in a difficult environment -- in a difficult economy.

There are multiple initiatives that we are eager to explore with Steve Burke, one of the most talented executives in our media and entertain universe. Steve is President and COO of Comcast Cable and will join me for a Q&A. Thank you, Steve, for coming up.

So, thank you for coming. I guess the biggest topic these days for investors is competition, so if we could just start off with that and talk a little about what the current number of Verizon and AT&T passings are in your footprint now. And what sort of ramp up would you expect from I guess both but more importantly Verizon in the short term?

Steve Burke - Comcast Cable - President & COO

Well, it's interesting. If you look at the cable industry, I think traditionally if you go back 15 or 20 years ago, people said, "Cable's a great business. People want the product, and there's no real competition." And then satellite came along, and we've been competing head to head with satellite for about 15 years. And along the way we had overbuilders that overbuilt 10%, 15%, 20% of our company depending on which period of time. So, when you make the point that the world is more competitive, it's clearly more competitive, but it has been competitive for a while. And we've been dealing with competition for a while.

If you put Verizon and AT&T into context, whereas in 100% of the United States we compete for video with DirecTV and EchoStar, right now about 10% of our passings are overbuilt by Verizon. AT&T it's harder for us to tell. There are places where AT&T says they're marketing and we don't really see the impact and other places where we clearly see the impact. But I think AT&T is probably around 10% or 15%, so something like 25% of our footprint right now has RBOC overbuild competition.

Unidentified Participant

And how would that number change at the end of 2009?

Steve Burke - Comcast Cable - President & COO

I think Verizon's about halfway done. I think they're going to build another maybe 10% of our footprint, so we'll have FiOS eventually, and it will probably take a few years to get there in about 20%. And AT&T I'm not really sure, but the interesting thing, on one hand you can look at that and you can say, "Oh my gosh, you've got FiOS in 10%." The fact of the matter is we don't have FiOS. We don't have fiber high-speed Internet service in 90% of our footprint. So in 90% of our footprint, we have a significantly superior data product. I think our video product is as good as Verizon's. We've got to get more high-def channels and be more competitive with DirecTV, and then our phone product is very competitive.

So, we actually -- the majority of our company, like most cable companies, is still video, but we're in seven different lines of business, and a lot of those lines of businesses still have a lot more growth. And video is a churning, struggling, competitive-type business. Thank goodness we have data and phone and small and medium size, etc.

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Unidentified Participant

Right. Just to stay in the competitive area for just a second, the areas where they overlap with you, what is your competitive response? Can you talk about it? Is it more HD? Is it some kind of price lock guarantee like Time Warner has introduced? Like what are the things that you specifically are doing?

Steve Burke - Comcast Cable - President & COO

By and large, and we've been doing this for a long time, the key to dealing with an overbuild situation is to be very local, and that means more feet on the street. That means more tailored promotions. That means more knocking on doors and doing all of those type of tactics and not dealing with an entire market as if it was overbuilt. So in the places where we're competing against FiOS, we're actually doing better this year than we were last year or the year before. They clearly get a surge when they come in, as do we in the telephone business when -- the world likes an alternative, so when Verizon comes into a market, their year one, their real first year of marketing, they tend to do better, we think, than year two or year three.

But the key is really local. The key is not to take an entire market and treat it all the same but rather to go into pockets, try to shore up your subscribers before competition gets there, try to be even more aggressive with the triple or double play before they get there, and then once they get there it's just fighting in the trenches.

Unidentified Participant

Right. Switching gears to interactive advertising. Project Canoe, whatever it's going to be, Canoe Ventures, it seems to be -- have the potential to dramatically transform television-advertising business, I mean at least on the surface. And I'm just wondering if you could give us some of the milestones to look for. Is the management team in place? What should we look for? What's the timeframe for roll out?

Steve Burke - Comcast Cable - President & COO

Okay, so for those of you who don't know, we created a venture called Project Canoe, which has become Canoe Ventures. The sort of project name became the permanent name, and it's really -- Landel Hobbs is or was here. Landel and I really pushed for the creation of it, and Pat Esser came in with Cox, and we also have Cablevision and Charter and Bright House. So really six, six of the big cable companies all got together, and we basically said the key to the future of our advertising business is to bring Internet functionality to the television set.

In our view the vast majority of people are going to watch video content, long-form video content, on a television set, and so as great as all of the ad targeting is on the Internet, you're missing a lot of that if you can't bring it to the television set. And to bring it to the television set, the cable companies really need to work together, because advertisers want a national footprint, and they want the same technology delivered ubiquitously across the United States. And even more so, one of the real upsides is not just taking the two minutes per hour that we all have in local ad time but going to ESPN or CNN or USA network and enabling them to take their very big advertising businesses and make that targeted or to go to the local ABC, NBC, or CBS affiliate.

So, we started Project Canoe -- I see Landel just walked in -- about I'd say a year ago just getting it going and getting the cadence and rhythm. We heard a very senior well-known executive named David Verkin out of the advertising business. He ran Carat in the United States, and he has hired a CTO. He's hired sort of maybe a dozen people at this point, and we have already started. I think what you're seeing now is you're starting to see individual cable companies announcing things and doing things. We did a combined effort to allow the campaigns to do VOD advertising ubiquitously or essentially ubiquitously across the United

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States, so if the Obama or McCain campaign wants to put an ad out as to what their tax policy is in a long-from VOD thing, they can do so with one call, affidavits, and a minimal hassle effect.

And I think what you're going to see in the next 6 to 12 months is more and more of those announcements, and then it someday is going to be, I think, a very substantial business for us. And I'll contrast it with what other people are doing with interactive TV advertising. There was a Google NBC announcement you may have seen in the Wall Street Journal, and obviously you can't but have a lot of respect for what Google does and their technology and everything else. But the fact of the matter is if you want to target a specific television spot to a specific television set, the only real way to do that is through the cable infrastructure. You can't do it through the Internet. You can't do it through the broadcast infrastructure. You can't do it through satellite.

So, by and large what Google's doing is taking a certain amount of NBC ad avails and applying whatever technology they want to, to the sales process, but to actually target those ads you have to go through a two-way infrastructure, and right now we're the two-way infrastructure that gets the most television sets. So if you look at the history of our advertising business, on one hand you say, "Okay, when is interactive advertising going to get here?" On the other hand, ten years ago, just ten years ago the cable industry really had no large functioning interconnect. So, if you were an advertiser and you wanted to buy the Philadelphia DMA, you probably had to deal with 15 or 20 different advertisers.

And starting seven or eight years ago, the industry really starting doing all these interconnects. Now virtually something like 22 out of the top 25 DMAs in America have interconnects, and that business is becoming a many hundred million dollar business. And I look at interactive advertising as sort of the next version of what we all did with the interconnects, and we have a tremendous sense of urgency, because our advertising business isn't what it used to be. It used to be accretive to our growth rate. If we were growing at 10%, advertising was growing at 15%. That's no longer the case, and so all of us --

Unidentified Participant

That's no longer the case because it's cyclical or a secular --?

Steve Burke - Comcast Cable - President & COO

You know, I think it's cyclical and secular. I think there's no question that in this kind of economy, home retailers, local home retailers, are going to spend less money buying ads, so clearly the economy has an effect. I think there's a part of it that also is a secular trend. I think there are parts of our cable advertising business that those advertisers are now using the Internet more than they did before.

Automotive is a great example. Automotive traditionally has been about a third of a cable company's ad sales. Now a lot of -- General Motors, Ford, Chrysler -- a lot of the big automotive spending, they'll still spend nationally because you've got to launch the new brands, but they won't spend as much, relatively speaking, locally because after you've driven the sort of aggregate demand on the national level, the way you service that demand increasingly is by somebody going on the Internet and figuring out what kind of car they want.

I bought a car the other day, and I knew exactly what I wanted, and I knew exactly what the fair price was. And the negotiation with the dealer was about five minutes long, and that was really because the Internet helped me make that purchase. So I think in some categories like automotive, that business has gone, and it's gone from anybody who lives in the spot television pool, a portion of it, not all of it, whether you're a broadcast advertiser or a local cable group or somebody else.

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Unidentified Participant

And then one other question on interactive advertising before we move on to a host of other subjects, to make this work you really need several other industries to be a big part of it. So, can you talk about the conversations that you've had and the support or lack of by broadcasting cable networks and advertising agencies.

Steve Burke - Comcast Cable - President & COO

Well, we're just starting to have those. One of the things you've got to be very careful about, advertisers are by definition very conservative and very careful with how they spend their money. And there have been a lot of instances -- when I was at the Walt Disney Company, the ABC radio group reported up through me, and Mel lives through this. In the beginning, network radio got ahead of itself, and the affidavits weren't there, and people would make buys, and they weren't sure the buys were actually going to get placed. And we want to make sure that before we go and run a big campaign with ESPN or anybody else on a national basis, one of the reasons why we chose to aid the political campaign with the Election '08 VOD process was that we weren't charging for it. You really want to make sure you walk before you run.

So David Verklin and his team are just starting those discussions, but the interesting feedback we've gotten so far is whether it's big cable content channels or broadcasters, they're as excited, if not more excited, about this than we are, because all of them are confronting, to a greater or a lesser degree, the competition that the Internet is providing for eyeballs. And to the degree you can take the best -- the world still hasn't come up with a better way to change your opinion about something than broadcast, the delivery of television commercials to lots of eyeballs, and if you can then combine that with greater targetability, everybody wins. So if you're a cable channel, if you really think about it, you ought to be very excited about this, assuming our technology can enable them, and assuming we can sit down and work together to try to create a business model that works for everybody.

Unidentified Participant

Do you have any sense of the size of the market?

Steve Burke - Comcast Cable - President & COO

You know, the numbers are so enormous that you almost hate to say them. I think the cable advertising business now is \$5 or \$6 billion-ish, and I think the total pool, if you define it broadly enough, is \$300 billion. And we did a study with McKinsey maybe 12 or 18 months ago. It is many, many billions of dollars. It is not inconceivable that the cable advertising pie could double or triple, but that takes time. You've got to get the technology stood up.

The other thing is when you say interactive advertising, we have so many different ways to go on our plans. You can have addressable one-to-one advertising where different people in a different neighborhood get a different spot. That addressable advertising can be powered by renting outside lists or behavioral targeting. You can have requests for information, RFI, where someone sees a spot and they request a brochure. You can have online -- you can have immediate ordering.

So I think interactive advertising will be something where it just keeps on going and going and going, and we get better, and more and more technologies get rolled out. And that really takes our advertising business, which used to be a nice growth engine for us, and gets it -- turbocharges it and gets it back.

Unidentified Participant

Right, okay. DOCSIS 3.0, this is something that you said you'd roll out to 20% of your footprint by the end of this year and a big increase next year. Can you talk about the difference in cost from DOCSIS 2.0, what it does for you, what the pricing plans are?

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Steve Burke - Comcast Cable - President & COO

So, DOCSIS 3.0, for those of you who don't know, allows you to have vastly greater speeds than we have traditionally been able to offer in our footprint. And one of the ways it does that is through a technology called channel bonding where amazingly our high-speed data by, 15 million -- in our case, about 15 million subscribers, something like a \$6 billion business, is really powered by one 6 MHz channel. So out of 750 MHz, we're devoting 6 out of 750, or less than 1% of our capacity, to build this gigantic business.

What DOCSIS 3.0 allows you to do is to take an extra channel or an extra two or three channels and bond them together and take your top-end speeds up from 15 or 20 meg to 100 or even higher. One of the great things about DOCSIS 3.0 is per byte it's about half as expensive as the old DOCSIS equipment. So, it's very efficient. You need to buy new equipment in the head ends. You need to get new cable modems to take advantage of it, but the actual throughput of the bits and bytes is about half as expensive.

And when you look at a company like ours that spends a lot of money on CapEx -- we spend about \$5-\$6 billion on CapEx, every year we've been spending multiple hundreds of millions of dollars improving and augmenting our infrastructure for high-speed data. So more CMTS is in the head end, more cable modems, etc., and what's going to happen as we start to roll out DOCSIS 3.0 is right around now we're not buying anymore of the old DOCSIS equipment. Everything we buy now go forward is 3.0, and so you'll see a lot of the investment for DOCSIS 3.0 is really just taking the investment we would have made in the old DOCSIS infrastructure and making it with the new DOCSIS infrastructure.

I think one of the things to me that people may be underestimating when you look at the cable industry is just how important more speed and DOCSIS 3.0 could be for us. And if you look at our business now, I think anyone who follows cable and telco high-speed data share shifting was surprised by what happened in the second quarter, and our read of it is that the reason why cable did a lot better in the second quarter than the telcos is that the relative advantage that we have by having a better product, higher speeds, more reliable better product for all the various new applications, is really, really catching up with the telephone companies.

They competed on the basis of price for a while, but right now, I was telling Jessica this morning at breakfast, I have a daughter who went to college a week ago, and we played phone tag for a few days. I was concerned to see how she was doing in her first week of school, and when she finally caught up with me, another one of our kids brought a Macintosh laptop, an iMac I think it was, and put it on my lap one night when I was watching television, and all of a sudden I'm having a video chat with my daughter who I hadn't seen for a week. And the picture wasn't perfect, but it was pretty darn good, and it was a way for me to connect with my daughter.

And when the session was over, I gave the laptop back to my other daughter, and I thought, "You probably couldn't do this with DSL." If you're the typical DSL customer and you're not getting the kind of capacity that you get when you have a good 6- or 8-meg cable modem service, and for me to save \$10 or \$20 or \$30 a month and not be able to have the kind of experience I had with that video chat with my wife would be a terrible bargain. So, even though somebody may say, "Look, you can get AT&T DSL for \$19.95. Why pay \$45 for a Comcast cable modem?" I think there are a lot of people who would say, "You could give me DSL for free, and I would still rather pay \$45 for a service that's more robust."

And the good news for us is right now in 90% of our footprint we're competing against DSL, not FiOS, and we have a significantly better product at a time when things like iPhones and YouTube and the tremendous growth of streaming video makes speed even more important. So a logical question, so the elephant in the room is what are the telephone companies going to do now that we're getting 75% share or whatever the share was last quarter? I think the answer is there's nothing they can do, because the problem isn't price. They're clearly underpricing us already. If they take the price from \$15 down to \$10 or to \$5, it's not going to make somebody who wants to do a good video chat on a high-speed data connection. They're not going to shift no matter what the price is.

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So I think you're at a point in the market right now where overall high-speed data growth is probably going to start to plateau. But cable companies have a real opportunity to continue to grow by taking DSL customers. There's about 15 million DSL customers in our footprint, and I would love to see us, through DOCSIS 3.0 and continuing to be aggressive, take 5 or 7 or more million DSL customers away from the RBOCs and back, back to cable over the next few years.

Unidentified Participant

And the difference in the cost of the modem for --?

Steve Burke - Comcast Cable - President & COO

Initially the 3.0 modems might be twice as much, so you're talking \$25 going to \$50 or \$60, but that price difference is going to shrink very quickly. And when you think about it, a \$60 modem for a product that has very low churn in our pool of \$40 or \$50 or even more per month, it's really not much of an (inaudible).

Unidentified Participant

Okay. The commercial business, you've started to ramp that, and can you -- if you could size it now, how much within that is commercial voice? And you've given guidance. The company has given guidance of \$2.5 million in revenue in the next four years --

Steve Burke - Comcast Cable - President & COO

Three years.

Unidentified Participant

Three years, better yet. So, how confident are you that you'll get there?

Steve Burke - Comcast Cable - President & COO

Well, our small and medium-sized footprint, in our market we've said that we ought to be able to get 20% or 25% of the small and medium-size business in our footprint I think we initially said within a five-year period, and we're a couple of years into it. Right now our business is bigger than a half a billion business, and it's growing at about 40% per annum. So you take that business and extrapolate it out, we're right on track to hit that \$2.5 billion within a few years.

Traditionally that business, and still the majority of that business, is a data business. We didn't really offer phone to small and medium-size businesses, and a lot of that initial data business kind of came in through residential channels. And we would write the business in. Over the last year, we have pretty much ubiquitously rolled out a hardened small and medium-size phone product. So we have an eight-line modem in most parts of the country, so you can get, in effect, a double or a triple play. And the way most businesses operate, if you think about it, you don't want to get data from one provider and phone from another if you can possibly avoid it.

So, if you look at the business, the data business is still -- is bigger, but the thing that's really powering the growth right now is phone. We have about 2,500 employees. About 1,000 of those employees are sales people, and if you look at all the run rates, despite the fact that a year or 18 months ago I was frustrated that we were not moving more quickly -- you know, we're a big company. It takes a while for the engine to get moving. The engine is moving really nicely now, and I think you're going to see

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not only we're going to hit that \$2.5 billion, but I don't think we stop there. I mean, I think you keep going, and as long as you have a product, a phone product and a data product and a video product that's as good or better than your competition, and your price is lower than theirs, you should be able to get significant shares.

Unidentified Participant

How does your pricing compare to the telephone companies?

Steve Burke - Comcast Cable - President & COO

Well, it depends on the market, and we don't want to be known as primarily competing on price. And we're not trying to encourage any kind of price cutting, but generally we offer a slight discount to the incumbent RBOCs. By the way 5%, 10%, 15% of customers would buy our service even if we're more expensive, because they want an alternative to their incumbent RBOC. So particularly initially, you don't want to be seen as competing only on the basis of price. You want to be a reliable alternative that, oh, by the way, is also a good price value.

Unidentified Participant

How much of an opportunity is wireless backhaul? I mean, the demand for wireless, the mobile data is quickly exhausting, and it just seems like if anything it's accelerating. So --

Steve Burke - Comcast Cable - President & COO

Well, it is a huge opportunity, I think, for the cable industry in general, and I know Time Warner and Cox have done a lot of work on wireless backhauling. What's interesting, when you first look at it you may say, "Well, you're never going to get Verizon or AT&T to allow you to do the backhaul from their wireless station to the PSTN because they're arch rivals." The reality is if you take a market like Chicago where the incumbent telephone company is AT&T, Verizon wireless -- first of all, it's the wireless division of Verizon, not the landline division of Verizon. They're very different. But Verizon wireless is just looking for backhaul that makes financial sense for them, and we don't really compete with Verizon on the ground in the city of Chicago.

So whether it's Verizon or AT&T or Sprint or T-Mobile, I think there's a huge market there. And the advantage of that market, it's very similar to what we've done with small and medium-size business or high-speed data or any of the other businesses. The fiber is already out there, and so in a lot of instances it's fairly short fiber runs. And that's a business that we're targeting. We've put a half-dozen people on it. We got some recent sales in Philadelphia and I think Detroit, and that business will gain some momentum over time. It's a fairly long lead-time business. It's sort of a business-to-business fairly substantial sale, so it's nothing that we won't see well in advance, but there's a real opportunity.

Unidentified Participant

And can you talk about the kinds of costs [to dig up for and] cost for this? What do you think the margins ultimately are in this business?

Steve Burke - Comcast Cable - President & COO

Yes, it's a fiber-based investment, so it's connectivity, but once that investment is there -- we have fairly high hurdles for making that investment. The other nice thing is you'll do a contract that's a multi-year contract, so you get a pretty attractive ROI. And

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we can do it more cheaply than the typical alternatives, you know, because our fiber is already there, and putting more capacity over the fiber is fairly efficient.

Unidentified Participant

Moving on to the digital -- the broadcast digital transition in February of '09, you've said that there are 6 to 8 million homes in your footprint that are not subscribing to cable, and there's a substantial of those who will not be able to get digital reception and will have to convert to some paid TV service -- paid TV provider. Can you talk about the opportunity for you and the marketing? How will you market? How will you market video versus the opportunity to get higher margin voice and data subscribers?

Steve Burke - Comcast Cable - President & COO

So everybody's footprint is different, but if you look at ours, we pass 50 million homes, and we think somewhere between 6 and 8 million of those 50 million homes that we pass currently get over-the-air signals. So 6 to 8 million is the universe that we're talking about. Depending on who you talk to, somewhere between 20% and 40% of those 6 to 8 million will not be able to get over-the-air digital signals, the grade B contours and the fall off and the sort of the on/off nature of a digital signal will make it very, very hard for somewhere around 2 or 3 million people in our footprint to get an over-the-air signal.

So for those 2 or 3 million people, they have three alternatives -- stop watching television, which I don't think many of those 2 or 3 million people are going to do, or go to a cable or telco provider or satellite. And if you look at it, in theory our variable cost for delivering basic video service should be a lot less than satellite. And as those 2 or 3 million subs are up for grabs, we ought to get a chunk of that. If you then go to the other 4 or 5 million people who can get an over-the-air signal, the interesting thing is of that universe, about 90% of them have a landline phone, and about 60% of them have Internet -- some form of Internet access.

So we have sort of a three-pronged strategy. The first prong is assure our existing customers that February 17th doesn't change their life. If you're a cable customer, we have you covered. You don't need to worry about it at all. The second prong is for people who just want television connectivity at a very low price broadcast-only service and either send a self-install kit or get a truck out efficiently and quickly into those person's home. And then the third thing which may financially be our biggest opportunity is use the digital transition as a way to get into that home with telephone or high-speed Internet in addition to television, and our idea there is we will come out and connect you and give you video service if you subscribe to our high-speed data service or our telephone service at no additional charge.

So, you're going to see us -- and we've waited until now, because I think human nature being what it is, a lot of the action will happen immediately before and then in the month after February 17th. You'll see us be pretty aggressive, telling our existing customers they have nothing to worry about, and telling over-the-air customers that if they want video only or they want a combination product, we'll be there.

The \$64,000 question inside our company and really the whole industry is how many new video subscribers will we get? How many high-speed data? And I was talking with Landel walking in. I don't think anybody knows, but it ought to be positive. I think to a degree it's a little bit positive now we're starting to feel in certain markets and call centers. People are calling, but it's not out of the question that we could gain a substantial number of new customers through the transition.

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Unidentified Participant

A segue and moving on and definitely changing topics, on to wireless, you've announced this venture with Clearwire. They're starting to collapse. So I was wondering if you could talk about have your expectations changed at all. What do you think the timing of the close is? And when should we expect some kind of roll out? And what will the product look like?

Steve Burke - Comcast Cable - President & COO

We're hoping the deal closes by the end of this year, and I remember, and it was probably eight or nine years ago, when we were launching high-speed Internet in a lot of markets where Verizon and AT&T -- it wasn't AT&T at the time -- but where the telephone companies didn't have DSL and what a marvelous feeling it was to have high-speed Internet when we were the only game in town. And I think WiMAX offers us -- and most people will say it's going to be a two- or three-year period, but I'd be willing to bet there's a chance it's longer than a two- or three-year period.

WiMAX offers us the chance to have wireless data speeds that Verizon and AT&T can't match, and maybe as importantly the ability to have a bundle that says, "In your home, we're going to offer you much higher data speeds and reliability than you can get from your telephone company. And we're going to do the same thing out of your home, and we're going to charge you one bundled price, and you're going to have one email account and one portal. And it's going to be very easy and seamless." So if you're at home or you're on the train or you're in a park or you're at your office, you will get the fastest data speeds available on the market through the same company. I think that's a very powerful proposition.

So, what we're trying to do is make sure that Clearwire, once the deal closes -- it's complicated prior to the close in terms of the kind of discussions you can have and the cooperation between Sprint and Clearwire and all of us, but our goal is to make sure that once the deal closes, that they're appropriately funded and that they move quickly and that we take advantage of the time-to-market advantage for data, which I just talked about a little bit, but beyond data, wireless telephone, the ability to go to somebody and say, "You have a Comcast digital voice at home, but when you're on the road, if you get this package, not only can you have very fast data speeds, but you can have a wireless, all-you-can-eat wireless product bundled in."

And the ability to do that and for the telephone companies not to react I think is really powerful. And so I'm very bullish on the opportunity, and I don't want to -- I want to get that time-to-market advantage as opposed to letting it fly by.

Unidentified Participant

You just mentioned that they need to be appropriately funded, so just talk a little bit about that. How would you raise the funding? Is it from the cable companies, outside financing?

Steve Burke - Comcast Cable - President & COO

You know, I think I'm better off letting Clearwire speak for their own funding plans, but the initial business plan called for a certain speed of roll out that is very aggressive. If you look at the number of pops, it's really one of the most aggressive rollouts possible, and we just want to do everything we can to encourage that rollout to go quickly. One of the concerns you have when you have a joint venture with so many different partners is that people would have a tendency to move more slowly. It's clear to us that the Clearwire management team is really aggressive, really entrepreneurial, and I think has the funding to get going once the deal closes that they need. And we want to be supportive of that and not sit around saying, "Well, why don't we test two markets?" Our feeling is, "Let's go."

Unidentified Participant

And do you have any sense of the pricing, your pricing to consumers?

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Steve Burke - Comcast Cable - President & COO

You know, I think it's too early for that except to say that one of the things that excites us the most is the idea of putting it in a bundle of other products, that basically we're not necessarily getting into WiMAX so that we can offer somebody a standalone cell phone on an a la carte basis. It's more in the house and out of the house. Whether it's your data, your phone, and eventually your video, we can provide sort of one-stop shopping in a bundle. And that would be an attractive bundle. I mean, that's basically our philosophy.

Unidentified Participant

Moving on to your online business, you've made some acquisitions recently, DailyCandy, and just what kinds of acquisitions are you looking for? And would you like to take that same platform?

Steve Burke - Comcast Cable - President & COO

Well, I mentioned that our high-speed Internet business is about a \$6-billion-ish -- billion-dollar business. Embedded in that we have an online portal called Comcast.net that we really started almost as a placeholder. We thought it was a mistake to do as AT&T did and have the portal -- have our portal be someone else's content or someone else's page. In the case of AT&T they chose Yahoo!. We looked at it and said, "Well, that's potentially dangerous because the first point of contact from a marketing point of view should be us and should be our homepage."

So, we started that and then over the years have invested more and more in it, and I think over the seven or eight years we've invested something like \$150 million in making sure that when our customers who want email or want to get on our service and use our homepage it's ours. And along the way we started to build a pretty sizeable web presence. We're one of the -- not one of the top five, but we're one of the major web presences just because our high-speed data universe is so big.

And about a year ago we did deals, we did a full-scale auction for the search business and ended up selecting Google and did the same thing on the advertising side and ended up selecting Yahoo!. And in the process of that, over a six- or seven-year period, we have a billion dollars in guaranteed search and advertising revenue. That's a floor. It could be higher, and we stood back and said, "Oh, my God. This is a very substantial business for us." And with our position in the video space and our position with 15 million high-speed data customers, shame on us if we don't lean forward and get more aggressive trying to build more web content.

So, what we've tried to do is define our sort of bulls eye as Internet content that is either very video or entertainment-based, hence Fandango, the movie-ticketing company that we bought, hence our investment in Fancast, which is a site which helps you figure out what kind of video you want to consume, whether it's in your home or on a DVR or on the Internet and then helps you consume it, whether you want to consume it on the Internet or at home. That's an area that we're very interested in, and then increasingly we're also interested in the notion of communities which tie in to Comcast.net and tie in to the rest of our business.

And that notion of the stickiness of communities is the reason why we bought a company called Plaxo and a company called DailyCandy which has an online newsletter. In the case of DailyCandy, DailyCandy is actually a wonderful business. When we were reviewing their business results, we all remarked that if we're going to make a personal investment outside of the company that DailyCandy was a wonderful business model, a very loyal customer base, advertising-driven business, generates real cash flow, nice growth, tremendous loyalty. And the same is true with Fandango. Fandango makes real money. It's growing nicely. It makes money both on the movie-ticketing side and on the advertising side.

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So we all have been sort of students of what Liberty has done and John Malone and the ability when you're a very big cable company and a very big Internet provider to see things before other people see things or to invest in things that you can help get more distribution or more advertising. We think that's one of the unique things you get when you're in the kind of position we're in. So we're interested in continuing to grow our Internet presence as we are interested in growing our interactive advertising presence.

It's interesting. I think if you say to people what business our cable company is in, most people would say, "Well, they're in the TV business." The reality is we're in seven different businesses when you add them all up, and what we're trying to do is provide a very disciplined way of analyzing businesses that are synergistic and complementary but also meet our investment thresholds, and that's what we're doing inside our interactive media group.

Unidentified Participant

Those seven business lines are all based on penetration of video, voice, and data. What do you think the ultimate penetration for those businesses will be? Do you think you'll ever get to a Cablevision-type penetration rate?

Steve Burke - Comcast Cable - President & COO

Well, you know, video, voice, and data, you've got three very different businesses. Our video business, we have about a 50% penetration. I don't see that going up. The tantalizing thing is you say, "Well, you pass 50 million homes. Only 24 or 25 million of them take video. What about the other 25 million?" the fact of the matter is that most of that, most of that other 25 million has decided that they want to be with satellite, that they want to be with an RBOC, or that they're comfortable with their overall signal.

It's very hard to move penetration, and those of you who have followed us, whenever we acquired -- when we acquired the AT&T systems, we changed a lot of their metrics. We took their operating margins from 18% to 40% in two or three years. One of the metrics we didn't change was penetration. We didn't materially increase the penetration, because once someone has gone to satellite, they're very hard to get back. So I would be surprised if you look our five or ten years if our video penetration is much different than it is right now, much higher than it is right now, with the exception of I would not be surprised if we got a blip for the broadcast transition that would change video.

In the case of phone, phone we're really in the early innings. We're, at this point, something like 12.5% of our 50 million homes have phone, and I see no reason why that number can't double and maybe even go beyond. There will be a fair amount of wireless substitution, but ultimately, if our bundles are appropriately priced and our quality is good, and eventually as we start to have more converged services, which we're working on, I don't see any reason why that number doesn't go to 20%, 25% , or even beyond.

High-speed Internet is a very interesting one, because if you look at it as a percentage of total homes, we're about 30%. The RBOCs are about 30% in our footprint, and I think most people would that 60% should go up. Whether it ends at 80% of the homes in America having broadband or 75%, it's hard to tell.

But I think the interesting game there is can we share shift and take some of the 30% that the RBOCs have? So I would say phone ought to go up dramatically. High-speed data should have some more good growth, and video's going to be a try to tread water and hold your

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Unidentified Participant

We're going to segue into the video side, but you -- it seems like you're on a pass to go all digital or at least in some markets, can you talk about your specific plans for going all digital, what the costs are, and what the opportunities are in terms of enhanced services or increased services?

Steve Burke - Comcast Cable - President & COO

Okay, so if you look at our universe, 24 million video customers, of those 24 million a little over 15 million are digital customers. Of the remaining nine, about half of those are analog-only, expanded basic. So call that five million just to keep the math easy, and then four or five million are lifeline, analog only, which those people might get 15 channels. So our idea is to take back 70 or 80 analog channels, the expanded analog channels. Each channel is 6 MHz, so you're taking back 4- or 500 MHz worth of capacity, which is substantial. In a 750 MHz or 860 MHz system, you're taking back 60%-65% of the capacity.

And the way we plan to do that is to take the five million analog expanded customers and give them two or three set top boxes, the majority of which are very inexpensive converters, which are two times the size of a BlackBerry, very small, basically take a digital signal in and turn into an analog signal for the set. And then we need to go to the 15 million digital customers who on average have between one and two digital sets per home, and in a lot of those homes, the second, third, or fourth set will need a converter as well.

When you boil it down for a company our size it could be on the order of 25 million incremental set top boxes to take the whole company all digital, which we sort of said that we think that the devices can get in the \$30-\$35 range, so on the order of \$800 million worth of capital, which is a lot of capital, but for a company that spends \$5 or \$6 billion a year, we spent about a billion dollars on DVR boxes last year. And some of that capital would have been spent on other set top boxes, so it's not anything that's going to change the long-term free cash flow or capital dynamic of the company.

And it's going to take us -- I think it will be a multi-year process. We hope to get the majority of the company done. We've started some systems this year. We hope to get the majority of the company done in the next 12 to 18 months. When you come out on the other side, just as the investment in DOCSIS 3.0 allows you to have a product which really leapfrogs the competition, once you go all digital, you get as much high-def capacity as you want.

We're very excited about the idea of significant ethnic programming and the ability to offer -- one of the advantages of our footprint, the ethnic population differs by cities obviously. But if you're running Dish and you want to offer Portuguese programming or Cuban programming, you have to do it nationally, and we have the ability, once we get more capacity, to offer tons and tons of Portuguese programming in Boston and Chinese programming in San Francisco and Hispanic programming in Houston. And our feeling is if DirecTV or Dish have 30 or 35 Hispanic channels in Houston, if we have 60 or 70, we should be able to get a lot of share.

So, this whole digital transition is something you're going to be -- our digital transition, not the country's -- talking a lot about. The interesting thing about it, we're doing obviously to get capacity, because we have all these ideas for ways to make our product more competitive. Our financial team, and this is based on very early results, feels that it's worth going all digital even if you didn't get more capacity back, which was sort of a staggering thing to us when we first looked at it.

And that argument is premised on the fact that in the initial markets in Chicago and Detroit where we've gone all digital, you have a very significant reduction in truck rolls. When someone wants to be turned off in an analog world, you have to roll a truck. You don't need to do that in a digital world, and so in the markets that have gone, we see a margin improvement, because you reduce some of the technical costs. In addition, you tend to get a bounce in terms of theft reduction. Now, no one's really ever hacked the cable digital plant, and despite our best efforts, we know a lot of people are stealing analog cable. So in some markets, we've seen a 3%, 4%, 5% increase in basic subscribers. All of a sudden we go digital and people feel that they can't keep stealing cable, so they have to subscribe.

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So I think the economic analysis for going all digital is pretty attractive. Obviously there's an upfront investment in terms of capital. There's some operating costs. There's some kind of confusion and pain that you have to go through when you make that transition. Interestingly, we don't think that pain is any worse than a rebuild. We actually think it should be less painful than a rebuild, because it really, really only hyper effects 20% of your universe or less. In a lot of the places where we're -- the early markets we're taking all digital, we might have penetration, digital penetration, at 85% or even higher percentages. And once you do that, you, I think, are able to offer a much more competitive video product that you had before.

Unidentified Participant

We're basically out of time, but I want to get one last question in, and that is given all these initiatives, I'm just wondering if you can discuss your CapEx as a percent of revenue. The company is sort of committed to it coming down. Is that really true in light of all these initiatives? And what do you think the free cash flow conversion can be?

Steve Burke - Comcast Cable - President & COO

Well, what happened to us is 18 months or 24 months ago our triple play business and our phone business did much better than we thought it would and DVRs and everything else. And so our CapEx last year grew faster than we thought it would, which we thought was fine because we looked at that incremental CapEx. It all had very high returns on investment, and if you can get more customers and the cost of getting more customers is more CapEx, so be it.

Our business now -- I wish our business would grow more quickly than it is but the CDV business is in a real predictable groove. The small and medium-size business is in a predictable groove. Our high-def and DVR businesses are in a predictable groove. So what we've said is our CapEx is a percent of revenue, which got up to 20% last year. It's going to be better than 18% this year, and the glide path is down and that we can't see anything on the horizon that could change that glide path next year or any year thereafter, including DOCSIS 3.0 or the D-Day conversion or small and medium-size business or cell backhaul.

The growth rates of all these businesses, the bad news is they're not growing faster than we had anticipated. The good news is they're all in a very predictable place right now. And I think you're going to see our CapEx as a percentage of revenue come down, and as that happens, assuming we can continue to grow EBITDA, which we think we can, and CapEx as a percentage of revenue goes down, what you start to get is the nice multiplication or acceleration or leveraging of free cash flow you're getting when you look at our business this year. And there will always be, I think, in a competitive business there will always be new initiatives and new things that you can look at, but I think really what happened last year, you had the confluence of three or four things all bunching up together, and we don't see that happening with any of the lines of business that we're in right now.

Unidentified Participant

Okay. With that, thank you so much, Steve.

Steve Burke - Comcast Cable - President & COO

Sure.

Unidentified Participant

It's great.

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