FINAL TRANSCRIPT

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CMCSA - Q2 2007 Comcast Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning ladies and gentlemen welcome to the Comcast second-quarter 2007 earnings conference call. At this time, all participants are in a listen-only mode. Please note that this call is being recorded. I will now turn the call over to Executive Vice President and Co-CFO, Mr. John Alchin. Please go ahead.

John Alchin - *Comcast Corporation*

Thanks, operator, and welcome everybody to our second quarter 2007 earnings call. If we sound like we're not all in one place this morning, it's because we're not. Brian and Steve are at the NCTA executive retreat in Washington, while Ralph, Michael, David, Marlene and I are here in Philly. This is also the last call that I will be hosting as Michael has agreed that he will do the third quarter call in October.

I've done almost 70 of these calls since 1990, a year in which we reported $657 million in revenue, about $270 million in operating cash flow, and we had 2.4 million subscribers. Our entire team has contributed to deliver 14.4% compound annual growth in our stock price since the beginning of 1990, over 330 basis points ahead of the S&P. That's amazing growth, but as I've said before, the best is yet to come.

Before we start, I again need to refer everybody to slide number two, which contains our Safe Harbor disclaimer and remind you that this conference call may include forward-looking statements subject to certain risks and uncertainties. In addition, in this call, we will refer to certain non-GAAP financial measures. Please refer to our press release for a reconciliation of non-GAAP financial measures back to GAAP.

And now for opening remarks, I will pass to our CEO, Brian Roberts, for his comments. Brian?

Brian Roberts - *Comcast Corporation*

Thank you, John. You are indeed one-of-a-kind. You're not going anywhere, so we won't say any more than thank you today. I'm excited that this is your 70th call.

This is a continuation this quarter, an execution of our strategy that seems to really be working. We're providing customers with superior products in a compelling Triple Play package that is clearly driving growth. That strategy continues to deliver real and sustainable momentum and I believe strong results.

For the second quarter, we're reporting double-digit growth in Cable revenue and operating cash flow, marking our 28th consecutive quarter, seven full years of double-digit quarterly OCF growth. We're now generating in excess of $100, actually $101, in average monthly revenue per video subscriber, up $10.00 since this time in '06. With CDV, high-speed data and digital contributing $9.00 of the $10.00 of that growth, you can see why we are so focused on RGUs.

This is our fourth consecutive quarter of record-breaking RGUs additions. We added 1.6 million in the quarter, we're up 94% over the prior year. At the same time, we completed the immense operational task, and Steve will talk more about it, of deploying an unprecedented 2.1 million digital cable set-top boxes in advance of the July 1 regulatory deadline, and we reached nearly 60% digital penetration.

Our momentum in CDV continues. We now serve more than 3 million customers with CDV, having done that in really only two years. The growth will continue. With digital video penetration at 60%, 26% for high-speed data and only 8% for CDV, we believe we have lots of room for growth.

Today, we're able to deliver our three services and scale to more than 38 million homes in our markets, and that's a competitive timing advantage that we believe we can continue to leverage. To do that, we're reinvesting capital to drive new services faster and build new businesses like small and medium-size business, and those investments all are generating returns in excess of 25%. At the same time, we're reinvesting in the Company by consistently buying back our stock. In the second quarter alone, we bought back $752 million, or 27.9 million shares. Year-to-date in '07, that's $1.3 billion, or 46.6 million shares. Absent anything else happening, we expect to do that in the rest of the year.

We are on track to achieve all of our goals this year as Cable growth accelerates in the second half of 2007. We continue to be very bullish about the future and expect the strength and momentum of our business to continue to deliver this kind of growth for years to come. John?

John Alchin - *Comcast Corporation*

Thanks, Brian. We're really excited about the results of this quarter. The consolidated results are driven by particularly strong results at Comcast Cable and the impact of the Cable Systems acquisitions. Consolidated revenue for the quarter increased 31% to $7.7 billion, while consolidated operating cash flow grew 30% to $3 billion. Consolidated operating income increased 25%

to $1.5 billion, driven by our strong operating results at Cable, including record-setting RGUs additions. Operating income was offset in part by increased depreciation and amortization of $1.5 billion, a 36% increase from the prior year. This increase is primarily the result of the effects of higher CapEx and the D&A associated with our newly acquired systems. This level of D&A should recur for the remaining quarters of 2007.

Net income increased 28% to $588 million, or $0.19 a share, up from $0.15 a share in the second quarter of 2006. In addition to strong operating results at Comcast Cable, the current quarter also includes $126 million investment income driven by an increase in the fair market value of our investment portfolio and income related to the sale of certain investments.

Our Programming division revenue increased 22% in the second quarter to $334 million. Programming division operating cash flow increased 27% to $75 million. These increases reflect higher viewership, higher advertising and increased distribution revenue. Year-to-date, Programming revenue increased 24% from the first half of 2006 and operating cash flow increased 28% to $140 million.

Corporate and Other revenue increased to $48 million from $37 million in the second quarter of 2006. The revenue increase was primarily due to acquisitions at Comcast Interactive Media. Corporate and Other operating cash flow loss for the second quarter was $94 million compared to a loss of $74 million a year ago.

Now let's review our Cable division results, beginning with the revenue highlight slide, slide number 5. Record-setting RGU net additions led to revenue increases across all product categories. As always, we are presenting cable results on a pro forma basis. Pro forma cable results include the results of Adelphia-Time Warner transactions, the Susquehanna acquisition and the Houston Systems as if these transactions were effective on January 1, 2006. I would ask you to refer to the press release and specifically to note number one and table 7-A for the details of that adjustment.

Pro forma Cable revenue for the second quarter increased 12% to $7.3 billion with Cable operating cash flow increasing the 13% to $3 billion. Year-to-date, pro forma Cable revenue increased 12% to $14.3 billion while year-to-date Cable operating cash flow increased 14% to $5.8 billion. We added 1.6 million RGUs in the second quarter, the highest level of second quarter net additions in the Company's history. Year-to-date, we have added a total of 3.4 million RGUs, 77% above last year's pace of 1.9 million.

Total Video revenue increased 7% to $4.5 billion. The increase reflects growth in Digital Cable customers and increased demand for new Digital features, including OnDemand, digital videorecorders and high-definition television, as well as higher basic cable pricing. As expected, basic cable subscribers decreased 95,000 to $24.1 million during the second quarter in what is historically a weak quarter for basic subscriber additions. Year-to-date, basic subscribers decreased 20,000 compared to a decrease of 40,000 in the same period last year.

We added a record 823,000 digital cable subscribers in the second quarter, almost 2.5 (technical difficulty) to 337,000 customers that were added in the second quarter of 2006, and up almost 30% from the first quarter of this year. We accelerated our deployment of digital cable service in the second quarter in advance of the July 1 regulatory deadline. At the same time, we installed a record 2.1 million digital boxes, that is 2.5 boxes per net add this quarter, and two times the number of boxes installed in the first quarter of this year.

I'll comment on the impact on operating cash flow from this activity on the next slide and you will see more from Steve about the success of our digital strategy. We now have nearly 60%, or 14 million of our video customers, taking our digital product. The 823,000 subscriber additions for the quarter are made up of 202,000 digital cable customers taking full-service, or digital cable with advanced features, and 621,000 taking the digital starter service.

During the quarter, 441,000 digital cable customers added advanced services, such as high-definition and DVRs, to their digital service, either by upgrading or as new customers. This is a 50% increase compared to the 294,000 additions in the same quarter a year ago.

So as you look at the overall mix of our digital cable customer profile, 20% of our 14 million digital customers take the digital starter service, 40% take full digital and another 40% take our advanced digital service. What this means is that 80% of our digital customers pay us at least $65 or more a month. The incremental revenue generated by our digital tiers is a key driver and represents half of the increase in video revenue. All of our digital customers have access to OnDemand and we've continued to see strong increases in movie purchases through this service.

As a result, pay-per-view revenues increased 25% to $211 million in the second quarter. This is the 10th consecutive quarter that pay-per-view revenue has increased more than 20% on average.

We're also really pleased this morning with the continued strength of our High-speed Data business. High-speed data revenues grew 20% to $1.6 billion, reflecting the addition of 330,000 subscribers. For this quarter, average revenue per High-speed Data subscriber continues to be stable at approximately $43, in line with prior periods. High-speed Data customers, like basic subscribers, are impacted by seasonality, but we remain on track to meet our 2007 targets. Year-to-date, High-speed Data net adds are up 6% to 893,000 compared to 844,000 in the first half of 2006. We ended the quarter which 12.4 million High-speed Data customers and High-speed Data penetration now exceeds 26% compared to 23% a year earlier. We continue to believe that there's really significant growth potential in High-speed Data as our sell-in rate continues to be strong at north of 55%.

Our Phone business had another record quarter as well. Total Phone revenue almost doubled to over $420 million in the second quarter, driven by a record 671,000 net adds. Almost 85% of our total Phone revenue now comes from our Comcast Digital Voice service. The $208 million increase in Phone revenue includes a $56 million decline in circuit-switch Phone revenue as we focus on marketing CDV service in most of our markets.

As we exit 2007, the drag on revenue growth from the wind-down of our circuit-switch business will decrease significantly. Excluding the decline in circuit-switch Phone revenue in the second quarter, Cable revenue for the second quarter would have increased 13% as opposed to the 12% that we are reporting.

Moving on to advertising revenue, this decreased 1% to $399 million in the second quarter, reflecting the continued weakness in regional advertising, specifically in key categories like domestic auto.

We reported approximately one-third the political advertising revenue in the current quarter compared to a year ago as 2006 included political revenues from state primaries, notably in Florida and California.

As we enter the third and fourth quarters of this year, the absence of political revenue will continue to result in difficult comparisons to the prior year. Even with the relative absence of political advertising in the current year, we expect full-year advertising revenue to be in line with that of last year.

Moving on to operating cash flow growth and margin -- this is slide number 6 -- we are reporting strong second quarter and year-to-date Cable operating cash flow growth. Cable operating cash flow increased 13% this quarter to $3 billion, delivering margins of 41.3%, 40 basis points above the second quarter 2006 number. Margin improvement reflects strong double-digit revenue growth and our continuing success in controlling the growth of operating costs. Even as we experience increases in call center and installation activity as well as increased headcount and other costs to support the higher residential RGUs and new businesses, such as commercial services.

With record RGUs and digital acceleration in a second quarter, customer service call volumes are up, were up almost 40%, and our headcount is up about 15% from second quarter 2006 primarily in areas of customer care and technicians. We estimate that the abnormal level of activity in the second quarter created a drag of approximately 1% on operating cash flow growth. Despite this extraordinary level of activity, our margins continued to improve due to solid revenue growth and the benefits of scale, including declining network and other costs as we scale our High-speed Data business and Comcast Digital Voice.

Cable capital expenditures for the quarter were $1.6 billion, up 52% compared to the $1 billion of last year, driven by a 94% increase in RGUs and a 50% increase in the number of advanced set-top boxes that were deployed in the second quarter. CapEx continues to be predominantly variable and revenue driven. For the second quarter, as has been the case in the past, capital spent on new service offerings represents nearly three-quarters of total Cable capital expenditures and is directly associated with new product deployment and consumer demand for new services.

As you can see in slide number 7, 78% of the increase in residential Cable CapEx in the second quarter was related to new service offerings with 61% of that increase alone in the form of customer premise equipment. In addition to the increase in capital expenditures related to new service offerings, support capital increased $100 million. The increase relates to upfront purchases of equipment and vehicles to support the increase and employees necessary to install and maintain the growing number of RGUs. The commercial services impact on capital spending in the second quarter was $26 million. We continue to build the team and the infrastructure for the small- to medium-size business that we're building and we expect our activity in this sector will increase as the year progresses.

Year-to-date, Cable capital expenditures totaled approximately $3 billion. Three factors are driving higher CapEx spending in the first half of the year. They are -- first, accelerated digital box rollout in advance of the July 1 regulatory date; secondly, the integration and improvements to the acquired systems that are now almost complete; and thirdly, purchases of vehicles and equipment to support the increased product growth. We expect a decline in Cable CapEx in the second half of 2007 due to a decrease in variable capital expenditures. Spending in digital net adds will moderate and we expect a significant decline in investments in the acquired systems, vehicles and other equipment.

We expect Cable CapEx as a percentage of revenue in the second half of the year to decline.

In the second quarter. we generated $368 million of consolidated free cash flow compared to $462 million a year ago. Year-to-date, free cash flow is $810 million, compared to $1.3 billion year-to-date in 2006. Free cash flow reflects, first of all, growth in consolidated operating cash flow, offset by increased CapEx, driven by record-setting RGU additions, and the significant increase in the number of digital customers added with advanced services; and secondly, higher cash paid for intangibles driven primarily by software licenses related to CDV additions.

The reconciliation that we show on slide number 8 to calculate free cash flow also includes certain nonoperating items net of tax. The 2007 year-to-date amount primarily includes proceeds from sales of trading securities. As we move into the second half of the year, we expect growth in operating cash flow and a reduction in CapEx in the last six months of the year to result in increased free cash flow in the remaining two quarters of 2007, and we are reaffirming that 2007 free cash flow will approximate that of 2006. We are continuing to reinvest well in excess of our free cash flow in-stock repurchases. As Brian mentioned in his opening comments, during the second quarter, we bought back $752 million, or 27.9 million shares. Year-to-date, we have bought back 46.6 million shares for a total of $1.3 billion in investment, reducing our shares outstanding by a further 1.5%.

Since inception of the buyback program in 2003, we have repurchased approximately 421 million shares, including the redemption of certain Comcast exchangeables for a total investment of about $8.6 billion at an average price of approximately $20 a share, reducing total shares outstanding by more than 12%, and we still have remaining availability under our stock repurchase program of approximately $1.8 billion. Since inception of our buyback program, we have used more than 100% of our free cash flow to buy back stock.

In the second quarter, we announced and closed the acquisition of Fandango, as well as acquiring ownership stakes in two regional sports networks serving the Bay Area and New England for a combined investment of approximately $760 million. Our debt balance remained relatively unchanged from the first quarter, but you should expect debt to increase approximately $31 billion by year end with the closing of previously announced acquisitions of Patriot Media and [Insight] in the second half of the year. We will continue to make investments to support our already strong business at the same time as remaining focused on returning capital to shareholders. Steve will now give you more insight into the operational strength of our business. Steve?

Steve Burke - *Comcast Corporation*

Thank you, John, and good morning everybody. As those of you follow our Company know, traditionally the second quarter has been our slowest quarter of the year due to seasonality. However this year was an exception. We actually had a very busy second quarter and the activity levels measured in terms of RGUs were almost twice what they were a year ago, and in terms of just the pace of change in activity in our systems, it was a very, very busy time. The reason for this increased activity is that going into the second quarter this year, we had two priorities that were not quite as paramount as they were when you compare them to last year. The first, which we've talked about, was accelerating our digital rollout due to the FCC's July 1 deadline; and the second was to continue ramping our Phone business at a dramatic pace despite the normal seasonality that we experienced during the second quarter.

Starting off with our digital rollout, about six month, we decided to buy out the production runs of low-end and advanced set-top boxes so we could install as many boxes as possible before the July 1 deadline when separable security makes boxes over $50 more expensive per box.

So, as a result, we stepped up our digital marketing, our sales and our installation and added 823,000 new digital subscribers during the quarter, as John mentioned, about 2.5 times as many as we added during the same quarter a year ago. It's easy to say we did 2.5 times as many boxes, but that equates to hundreds of thousands of truck rolls, lots of activity getting those boxes installed. When you take into account additional outlets, we actually installed roughly 2.1 million digital boxes during a 13-week period, which is a huge amount of activity.

Our digital penetration has frown to about 58.5% which we think is important for a variety of reasons. Digital customers get better picture quality, are able to use video on demand and churn less than analog-only customers. While this digital acceleration cost us during the quarter both in terms of capital and increased operating cost, we can expect a good return on this investment in the future.

The second big priority for the quarter was our Phone rollout. During the second quarter of 2007, we added 671,000 CDV phone customers, an 18% increase in net adds from the first quarter and double the net adds we had in the second quarter last year. Increased phone net adds this quarter were partly due to expanding our footprint, but importantly, we also increased our penetration gain in our existing footprint and this is something that we keep a very close eye on and will become increasingly important in the future.

During the quarter, we gained 14 basis point of penetration per week, up from 10 basis point of penetration per week a year ago. 14 basis points of penetration annualizes to about a 7.1% annual penetration gain per year. The good news is that as markets mature from being CDV marketable for six months to 12 months to 18 months, that annual penetration gain increases mathematically. So what is going to happen is, as we going to the third and fourth quarter and into 2008, the percentage of our markets that are mature are going to increase and our weekly penetration gains should go up as well.

Despite the fact that we really got going less than two years ago, today, we have a fairly sizable Phone business with about 3.1 million CDV subscribers and 3.5 million total Phone subscribers at quarter's end. This means that, as of today, 12.8% of all of our basic video customers now have Phone, a percentage that will climb quickly in the future as we continue our rollout.

The metrics that we look at inside of our Phone business continue to be very solid. During the quarter 88%, of our new Phone customers took all three products, up about 10 full percentage points from the second quarter of 2006. Our average Triple Play ARPU was just under $125 per sub per month for the new customers that we put on. Finally, we're now starting to see fairly small numbers during this quarter, but the numbers will get bigger in the third and fourth quarter and in 2008. We're now starting to see people roll off their initial 12-month promotional plans, and the good news is both in terms of revenue and churn, we're right where we expected to be.

Last but not least, as our phone business grows, we're also seeing unit cost decline nicely due to the economics of the business as we scale getting better and better.

Moving onto basic subscribers, we lost 95,000 subscribers during the quarter. If you have the slides, as slide 12 shows, we traditionally lose subscribers in the second quarter, and this year was no exception. While we may have done slightly better had we prioritized basic ahead of digital and telephone, we think our market makeup and normal seasonality makes most of this swing inevitable.

Moving onto the next slide, high-speed data net adds were about equal to 2006 during the same quarter. Acquired systems did worse than last year because we had a lot of network conversions getting people onto our e-mail and onto our platform. During these conversions, we typically take our foot off the gas in terms of marketing. In the classic Comcast systems, we did slightly better than last year for the quarter. We expect the high-speed data business will increase significantly in the second half of 2007.

As a final point to just show where we stand as we're halfway through 2007, slide 14 shows how many of our basic video customers now have more than one service. Due to our RGU acceleration, almost 60% of our video customers have digital, over half of our basic video customers have high-speed data and over 12% have Phone. We think this is a very strong competitive position which is only going to get stronger and there is also plenty of headroom for future growth.

So looking forward to the second half of 2007, we expect to see continued ramping of our telephone business, a drop actually in quarterly net adds for digital as our business normalizes in the third and fourth quarter, accelerating high-speed data and basic subscriber trends and continued strong financial performance, leading to what we think is going to be another great year in 2007 for Comcast Cable. John?

John Alchin - *Comcast Corporation*

Thanks a lot, Steve. Operator, could we now open up the line please for Q&A?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Spencer Wang, Bear Stearns.

Spencer Wang - *Bear Stearns - Analyst*

I just want to go back to basic sub number. So, John, you guys lost 95,000 this quarter, which is a little bit worse than what you guys saw last year in the second quarter. And so one would have thought with that broader Triple Play rollout, you would have seen the impact of the seasonality, but maybe an improvement. Can you just talk about what was driving that? Was that the prioritization issue that Steve talked about, vis-a-vis some of the other initiatives? And how much of that was just a compensation? And if you can just update us on the competitive landscape, that would be great.

John Alchin - *Comcast Corporation*

Very much so, Spencer. I think I'll ask Steve to really give a lit of color around that.

Operator

(OPERATOR INSTRUCTIONS)

John Alchin - *Comcast Corporation*

Spencer, I'm sorry, but I thought because Brian and Steve are in Washington that they would just connect right in there but.

Steve Burke - *Comcast Corporation*

John, I'm here. I think there's no question that when you prioritize digital and have as much activity as we did, that prioritization takes your eye off of other things. That having been said, our businesses, our systems are structured so that there is a certain amount of move activity in places in the South, college towns, etc., that no matter whether you have the Triple Play or increase your marketing, people are leaving town. And so we don't think -- it's interesting if you look at last year, each of the four quarters last year we felt we had very good quarters and yet we lost 90,000 subs in the second quarter and came right back in the third and fourth. So we don't consider it a cause for concern. Some of it is just the normal seasonality of the business which is very hard to market against.

Spencer Wang - *Bear Stearns - Analyst*

Okay, thank you.

Operator

Jessica Reif-Cohen.

Jessica Reif-Cohen - *Merrill Lynch - Analyst*

Thank you. The other I guess area of disappointment, for us at least, was the high-speed data subs. Is there something going on in the industry in light of AT&T's DSL subs? And can you talk about why you are so confident that second half high-speed data subs will pick up?

Steve Burke - *Comcast Corporation*

For us, one of the reasons why our high-speed data subs were about the same as last year is in the Adelphia and Time Warner systems, we're doing a lot of systems conversions. And during those conversions, we actually add a lot less subs than the year before. So if you look at the trends in the Comcast, the classic, what we call classic Comcast systems, they're actually pretty good. And it's always difficult to tell when you have competitors cutting prices and other source of dynamics. I think the second half of the year is going to look a lot like the second half of last year and maybe an even a little bit better. We certainly don't see the sort of macro trends changing too dramatically in the business. We have an inkling of what the third quarter is going to look like because we're done with the month of July, or almost, and the trends look pretty strong.

Jessica Reif-Cohen - *Merrill Lynch - Analyst*

Well maybe just one follow-up. You talk about priorities and what your priorities were first half, second half. What about some of the other initiatives that you've discussed, the EPG online and interactive advertising and commercial rollout? Is that all 2008?

Steve Burke - *Comcast Corporation*

In terms of a material impact on EBITDA, most of those are 2008 and 2009. That having been said, I think if you look at the fundamental strength of the base business, the kind of operating cash flow that we are guiding people to in the second half of the year, we think we're doing pretty well.

Jessica Reif-Cohen - *Merrill Lynch - Analyst*

Thank you.

Operator

Craig Moffett, Sanford Bernstein.

Craig Moffett - *Sanford Bernstein - Analyst*

Brian, going into -- in the preface of the call, you said as Cable growth accelerates in the second half, and despite the tremendous amount of activity and the activity levels that Steve described, you still put up terrific margins in the second quarter. So I guess I'm wondering if you could just reflect a little bit on the fact that your guidance, you're guiding to 12% revenue growth, you're already at 12% revenue growth and you're talking about acceleration in the second half. Should we read into that, that you're optimistic that the second half is going to look stronger than the guidance that you've already given?

Brian Roberts - *Comcast Corporation*

Let me talk about the business and I will defer to John or Steve on how it adds up. I think we're -- and I think Steve just answered that -- that we feel we've put a lot of emphasis on the July 1 cutoff. I think 2 million boxes have to get moved, one way or another. Every one of them gets plugged in and somebody makes a phone call X percentage of the time, Y percentage of the time they call with some other issue. And it creates a lot of truck rolls, a lot of phone calls and a lot of cost, a lot of things in the system. That may not go off like a spigot on July 1, but it sure changes the emphasis. There was a hard cut, we were very respectful of it and we had an opportunity to buy out the inventory runs, and we did that for some of the low end boxes because they were useless anywhere else, almost in the world, that particular box.

So we think that we can -- the third quarter has always been better for high-speed data than the second quarter, and I think that is what Steve's referring to. And I think when we talk about growth in the second half of the year, I think we think a traditional third and fourth quarter in different products being great, and of course CDV continues to ramp. We consider and feel that it's going to get bigger than it was in any prior quarter. So we're still going up the mountain.

I also -- I think from an RGU standpoint, is probably what I'm referring to. That said, we have also added thousands and thousands and thousands of employees to handle all of this work. Jessica's question about ramping up for new businesses, all of those costs are baked in. We have hired -- I think there's 500 sales people to get ready for commercial business. We are training them, we're getting the voice product ready to go really in '08 to complement the data offering. And so, again, margins are able to expand. So I think we have the business really operating very strongly. You would not trade our position. We're questioning 12% of revenue, whether we can make it more. I think John points out that the CDP, the circuit business, cost us a point. Really, it's more likely 13% on an apples-to-apples basis, and I think you're going to see an acceleration, a slowdown as we have said, of the capital as a percentage of revenues. And I think we are on track for the full year as a big picture. So I think we've basically left all of the guidance unchanged because at the macro level, that's how we see things. John, you want to comment?

John Alchin - *Comcast Corporation*

That is absolutely right, Brian. And Craig, one thing I would draw your attention to, and you can see this to -- actually, you don't really see it on slide number six, but what we're highlighting there is the comparison year-to-year for the last three years of the operating margins in the second quarter. Second-quarter margin is historically the high point of the year. There is a lot of activity, as Brian just indicated, in the third quarter with the ramp-up of high-speed data, continuing to ramp of the Phone business. So expect to see the seasonal peak in the second quarter of operating margins. We come back from there, but year-over-year, full year, you will continue to see the slight uptake in margin for the full year.

Craig Moffett - *Sanford Bernstein - Analyst*

And, John, if I could ask one follow-up question. You had so many digital additions at your digital starter at level. Can you just walk through again for us how we think about the return on invested capital for those additions, sort of what does the pricing look like and the usage of pay-per-view and the like?

John Alchin - *Comcast Corporation*

Really, no change on that, Craig. The pricing, there is very little in the way of subscription revenue. We're talking about $1 or $2 of subscription revenue. But on average, those customers are generally generating somewhere of the neighborhood of about $4 of incremental revenue per subscriber per month, the bulk of that coming from additional pay-per-view buys because all of our digital customers have access to the Video OnDemand product. As we look at (MULTIPLE SPEAKERS).

Brian Roberts - *Comcast Corporation*

Boxes sub $100.

Craig Moffett - *Sanford Bernstein - Analyst*

And is there a set-top box leasing fee associated with those customers also?

John Alchin - *Comcast Corporation*

Yes. It depends on what promotion is going on in what area. There is sort of a nominal amount usually that's included in the bill. And then just as we showed on Investor Day, the RGUs are generating on average across all RGUs about 220. And so as we look at this, it's sort of a very healthy return. And the other thing I would draw your attention to is that, even though we had a disproportionately high number of the digital starter customers included in the 800 or 1000 that we added in the second quarter, as a percentage of the total, only 20% of our total 14 million digital customers have this starter level of digital service. 80% are paying us $65 or more per month. And the those digital starter customers are three times more likely to subscribe to higher levels of digital service subsequently. So to us, it makes all the sense in the world to get as many of those boxes deployed as we possibly can.

Operator

Anthony Noto, Goldman, Sachs.

Anthony Noto - *Goldman, Sachs - Analyst*

Thank you very much. Typically, the RGU adds have been greater in the second half of the year than the first, and Brian said you expect an acceleration of RGUs. And the split has been about 60/40 -- 60% of the full year has been in the second half of the year. Given the digital box situation, do you think you can get as high as 60% of the full year RGU subs in the second of the year?

Second question -- while the second quarter is seasonally weak for basic video, can you do a switching analysis and tell us what the split is of the lost basic subs this year versus last year to different competitors; i.e., just maybe globally telco versus satellite? Thanks.

Brian Roberts - *Comcast Corporation*

On the second question, it is extremely hard to precisely tell where customers are going. We generally in the second quarter, the majority of the loss comes from people who are leaving town. They're physically leaving a college town, they're leaving Florida, they're disconnecting and not staying inside our footprint. But when you try to go down on a very granular level and say who's going to DirecTV, who is going to EchoStar, who's going to Verizon, that is very, very difficult to do and we're reluctant to give numbers on that.

In terms of the second quarter RGUs being higher than the first quarter, I think you can -- you should continue to expect a fairly substantial ramp in the Phone business, and that should happen in the third and fourth quarter. Basic subs in the second half of the year typically are better than the first half of the year, and we would expect that to continue. And then on high-speed data, we should be materially higher mainly due to seasonality in the second half than the first. So I don't know whether the 60/40 is going to govern exactly, but if history's any guide, and certainly all of our budgeting and projections, we budget it and assume that the first half of the year was going to be less than the second half of the year for RGUs, and we would expect that to play out.

Steve Burke - *Comcast Corporation*

I want to just add another point. I don't know that it will be -- I mean, I don't know that I know the answer right off the top of my head of 60/40 or 51/49, but I think the point is that we view the business as I think very healthy right now, and what I think is important is to understand the emphasis in how we're managing the Company. Clearly, there's more competition to your question specifically than a year ago. There's both from satellite and from telephone. That being said, to be able to have 1.65 or 1.6 million RGUs in one quarter and be in calibration of tens of thousands of basic subscribers different than where perhaps everybody might have preferred I think continues to reaffirm our emphasis, which is really trying to sell the Triple Play, really trying to sell the high-margin product of high-speed data. And we believe with the scale that we're getting in Phone, that the margins are getting better there. And we have, I've said before, we're putting a lot at the top of the bucket, some slippage out the bottom. You'd be dishonest if you did not say you wish the competition was not there, but the fact is it sharpens your Company. It gives the consumers a better experience, and net, net, net, we are having double-digit revenue, double-digit cash flow and record RGUs. I'm very thrilled with that position that we have in the marketplace and I think that's going to continue, and that's really what was trying to say.

Anthony Noto - *Goldman, Sachs - Analyst*

Thank you.

Operator

Jeff Wlodarczak, Wachovia Securities.

Albert Lyon - *Wachovia Securities - Analyst*

This is actually [Albert Lyon] on behalf of Jeff Wlodarczak. Just a quick question on the competitive landscape. How are you competing in the small areas where FiOS has rolled out in your footprint?

Brian Roberts - *Comcast Corporation*

I think we're competing well. The fact of the matter is, we added 670,000 telephone customers during the quarter. And if you sort of assume any kind of normal loss to Verizon and AT&T on the video side, that is many, many times what we have been impacted on the video side. We would anticipate that ratio continuing for quarters to come in the future. If you look at the Company as a whole, I think the fact that the revenue growth is where it is and the OCF growth is where it is, is really a testament to the fact that in the vast majority of our footprint, maybe 95% of our footprint, we're the only company that can offer all three services over the same platform. You can artificially create a Triple Play bundle by taking DirecTV or EchoStar and having an RBOC sell their two landline products with satellite, but the only company in 95% or our footprint that can do all three over the same platform with the same installation group, with the same integrated billing and everything else is us. And I think that is the reason why we are doing as well as we are competitively. And that dynamic is not going to change. The math of the rollouts, that dynamic is not going to change for sometime in the future.

Steve Burke - *Comcast Corporation*

One other point on FiOS specifically, on their television product, I think our sense is, it's more of a me-too product. There is no technological differentiation, and we continue to believe that our OnDemand product has a more robust and richer offering. Our plan to have hundreds of high-def OnDemand channels, if you will. And in addition to more cable channels and high-def, our improved program guide. I think our product is the world class, state of the art, and more competition means more market share for everybody, or at least for new entrants we'll get some share. But there is no trend that would change the macro (inaudible) that Steve just gave you.

Albert Lyon - *Wachovia Securities - Analyst*

Actually another quick question. Could you tell us what percentage of your data adds were from DSL, just roughly?

John Alchin - *Comcast Corporation*

We see a consistent improvement in that trend. You might recall that in the first quarter of this year, we announced that 55% of our modem adds came from DSL. That number actually increased modestly to about 58%. So that is pretty encouraging.

Operator

Vijay Jayant, Lehman Brothers.

Vijay Jayant - *Lehman Brothers - Analyst*

Thanks. My question is really relating to the commercial business. I know it's a little early, but are you going to disaggregate the commercial side? Because I'm trying to understand, you mentioned high-speed data ARPU was stable, and I think you have a $220 million business there. If you ex that out, can you just talk about the trend lines in commercial -- excuse me -- consumer high-speed data?

John Alchin - *Comcast Corporation*

There's still less than $2 included in the $43.37 that we're referring to for a total ARPU. And remember, the commercial business, which as we said at the beginning of the year, is about a $250 million revenue stream, that is just totally data. So you really have not seen any change in that number year-to-date. The $50 million of year-to-date investment in capital in the business is all about getting the hundreds of employees together. You're going to see that activity and maybe a little bit of revenue uptick as we go into the second half of the year and introduce voice to the commercial product in the second half of the year. We will continue to segregate the capital. We just have not worked out yet how much more segregation than that, that we will do. But just the key point there is that we're looking at less than $2 on the ARPU that's reported.

Vijay Jayant - *Lehman Brothers - Analyst*

Thank you.

Operator

Jason Bazinet, Citigroup.

Jason Bazinet - *Citigroup - Analyst*

I think in the quarter, you said that 89% of your Phone net adds were actually taking the Triple Play. Given that we're not seeing material growth in basic subs, it implies that the right way to begin to think about the long-term penetration rates is the that way you have depicted it slide 14, which is CDV or HSD or digital as a percent of basic subs, as opposed to homes passed. Do you agree with that contention, or do you think that that would be too conservative as we think about the long-term growth prospects? Thanks.

Brian Roberts - *Comcast Corporation*

I think you can look at it either way. One of the things that we inherited when we bought AT&T's cable business is a lot of cities with fairly low penetration. So relative to other big cable operators, we have a lower penetration, which on one hand, you wish that 50% video penetration was 60%. On the other hand, we have a lot of homes, as many homes where we don't have video as we do. And any of those homes are a potential telephone customer, high-speed data customer, and someday a potential video customer. It's hard to dramatically move a video penetration, but it's possible. What we were trying to do in that slide is show that already, 12% of our customers who take video have Phone, and we know that someone who takes video and phone and high-speed data is much less likely to churn. But I think you could look at it either way.

I think the main point on telephone that we would like to make is, we are continuing to get up to cruising altitude. Once you -- particularly since a lot of our growth has been governed by our ability to meet demand, we have been supply constrained, once you get up to a new plateau, you don't go backwards. You should only get higher. And we think we have years to come and lots of penetration and millions of phone customers ahead of us, and you can really look at it both ways. You can say, what's your penetration of homes, or what's your penetration of basic subs. Probably homes is a better calibration of opportunity, but measured as a percentage of basic sub, is a better calibration of how likely are those customers to churn in a competitive world.

Jason Bazinet - *Citigroup - Analyst*

Understood. Thank you.

Operator

Doug Mitchelson, Deutsche Bank.

Doug Mitchelson - *Deutsche Bank - Analyst*

You've already talked a bit about consumer high-speed data trends, but I'm curious on your bigger picture thoughts regarding the slowdown in the face of the growth of the entire broadband market. So the good news is, you're taking pretty nice market share from the RBOCs since you're flat and they're slowing. But in the aggregate, the market's slowing and it has to impact you at some point. So, how do you feel about the pricing power of your consumer high-speed data product? What are your plans for offering high-speed tiers? Any other ways you can drive growth in that business beyond what we're all thinking about in 2008 and 2009?

Brian Roberts - *Comcast Corporation*

I think if you start with the really big picture, look, eventually, hopefully, every computer gets attached to broadband, and I don't think we're there or anywhere close to there yet. But, there is no question that the market will expand because more homes will get computers over the next 10 or 20 years and I think, therefore, broadband will continue to (inaudible). But right now, we're really at changing out all of the narrow-band customers in America, and I think that continues.

As Steve said, we are hopeful that, at least in our case, we are going to have continued growth in that category. But a number of us might have thought it would have slowed down a while ago and it has not shown that. And so the real question becomes, what can you do beyond that? And that's what we were trying to demonstrated at the cable convention with DoxSys 3.0 or wideband. This industry, by dividing more bandwidth to broadband, will create another series of products. And I think where you can go as fast as 150 Mbps. If you just add three cable channels, you could go higher than that if there's ever a need. We're scratching the surface of the technological capabilities. I think that's very, very important to remember. Whether that will be high-def videoconferencing, (technical difficulty) Google Part 2 that no one can sit here today and articulate, or we would all be off creating it. And it's a new platform at these higher speeds. And I think we will find a way to get incremental revenue for offering that product, whether it's a commercial-grade product or whether it's tiers of service. In the very short run, I still think we feel we can run the play we have. And I think it's also encouraging to have a new business like CDV. And to that last question, I think for a phone business, it's more appropriate probably to measure against homes passed. Other products may relate more to what the ultimate PC penetration in that market is.

So in the telephone business, it's the most penetrated product there is, and so I think to only be at 8%, which is another way to look at it of our homes, means we have a lot of growth ahead of us in that product. So we're trying to enhance the high-speed data product to have growth, but whenever that day comes that everybody's saturated, and I think that looks promising, and then I think we have yet a new product that's only in its infancy.

Doug Mitchelson - *Deutsche Bank - Analyst*

Right, thanks.

Operator

Brian Kraft, Credit Suisse.

Bryan Kraft - *Credit Suisse - Analyst*

Thank you. On the topic of set-top boxes, does the comment in the press release regarding set-top box inventories apply to the advanced boxes as well as the low end? And then, are you comfortable that downloadable security will be available in commercially deplorable set-top boxes during '08? And then just lastly, do you have any plans to offer a whole home DVR, which I think actually is one point of differentiation that Verizon currently has versus a cable product?

Brian Roberts - *Comcast Corporation*

We're working on the whole home DVR product. We at the moment have some trials underway. We were just looking at some of that data and (inaudible) the timelines for that. I'm not sure that we are committed to '08 for downloadable security being deployed across the whole -- I think OCAP is the first step, and I think we are much more confident that OCAP will meet all of those expectations. So we anticipate cable cards for '08 in our planning, and that's not going to shock the system at all. We are able to have to factored in and be consistent with everything we said at the analyst day. There's no news there. Steve, do you want to add to any of that?

Steve Burke - *Comcast Corporation*

No, I think you got it. I would expect whole-home DVRs sometime in the next year.

Bryan Kraft - *Credit Suisse - Analyst*

And just on the first part of the question, the set-top box inventories, I know you said you have enough for the back of the year. Clearly at the low end you do. Do you have enough on the DVR side as well?

Brian Roberts - *Comcast Corporation*

Well, what we have up and running are the new cable card boxes as well. So we will be buying some new inventories. And we have -- the good news that we can report is, that is working and working fine. There's no technical glitches. That may not be something that you're focused on, but operationally, we were very focused to bring a whole new set of boxes and software and Herculean effort to make sure every single manufactured boxes work. And it allows us to now -- hopefully, there will be some TVs that are sold that don't require a box, and we have talked about that in the past.

Bryan Kraft - *Credit Suisse - Analyst*

Great, thank you very much.

John Alchin - *Comcast Corporation*

Thank you, everybody.

Operator

Thank you for your participation in today's Comcast second-quarter 2007 earnings conference call. This call will be available for replay beginning at 9:30 AM Eastern time today through 11:59 PM Eastern on Saturday, July 28, 2007. The conference ID number for the replay is 4170247. Again, the conference ID number for the replay is 4170249. The telephone number to dial for that number is 1-800-642-1687, or 706-645-9291.

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