

# FINAL TRANSCRIPT

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## **CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call**

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Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

## CORPORATE PARTICIPANTS

**Marlene Dooner**

*Comcast - IR*

**Brian Roberts**

*Comcast - Chairman, CEO*

**Mike Angelakis**

*Comcast - EVP, CFO*

**Steve Burke**

*Comcast - COO*

## CONFERENCE CALL PARTICIPANTS

**Ingrid Chung**

*Goldman Sachs - Analyst*

**Craig Moffett**

*Sanford Bernstein - Analyst*

**Jessica Reif Cohen**

*Merrill Lynch - Analyst*

**John Hodulik**

*UBS - Analyst*

**Benjamin Swinburne**

*Morgan Stanley - Analyst*

**Doug Mitchelson**

*Deutsche Bank - Analyst*

**Tom Eagan**

*Colin Stewart - Analyst*

**Brian Goldberg**

*JPMorgan - Analyst*

**Vijay Jayant**

*Barclays Capital - Analyst*

**Spencer Wang**

*Credit Suisse - Analyst*

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to Comcast's third-quarter 2008 earnings conference call. At this time all participants are in a listen-only mode. Please note that this conference call is being recorded. I will now turn the call over to Senior Vice President Investor Relations, Ms. Marlene Dooner. Please go ahead, Ms. Dooner.

**Marlene Dooner - Comcast - IR**

Thank you, operator, and welcome, everyone, to our third-quarter 2008 earnings call. Joining me on the call are Brian Roberts, Steve Burke and Michael Angelakis. Before we start let me refer everybody to slide number 2 which contains our Safe Harbor disclaimer and remind you that this conference call includes forward-looking statements subject to certain risks and uncertainties.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

In addition, in this call we will refer to certain non-GAAP financial measures. Please refer to our press release for the reconciliation of non-GAAP financial measures to GAAP. And now for opening remarks I'll pass to Brian Roberts for his comments. Brian?

**Brian Roberts** - Comcast - Chairman, CEO

Thanks, Marlene. I think you'll see we had solid financial and operating results this quarter. But I want to begin the call by stepping back and just commenting on the obviously unique and challenging economic time that we're all living through in the United States. Is cable a good business, is Comcast ready? I think absolutely, yes. With 9% cash flow growth, 8% revenue growth and 109% free cash flow growth in the first nine months of 2008 we clearly have a very strong company.

About a year ago we saw our world beginning to change; a softer economy with slower growth rates and also more competition. So I look back over the last 12 months and see the moves that Steve and Mike and their teams have made to be ready for this type of environment and I'm quite pleased with where Comcast is positioned. No one can see what's going to come next; all you can do is have the strongest balance sheet and have your operating team appropriately making adjustments in strategy as the world changes. And I think we're doing that quite well.

Let's begin with the balance sheet. It probably goes back to my father, Ralph's life being truly changed by the Depression. And so he trained me always to be ready for even the most unexpected future. And I think that's a big reason why Comcast is in such a strong position today. We can comfortably make the statement that we do not need to access the capital markets anytime for the foreseeable future. We have significant free cash flow and liquidity to internally fund all of our obligations and that I believe is a very enviable position.

Operationally we're beginning to invest in the technological enhancements that are enabled from well going all-digital and continuing to improve the customer experience and I feel we've made real progress so far this year. Now we want to speed up the Internet even further as we recently announced with DOCSIS 3.0, have more high-definition choices for our customers with over 1,000 already and more coming, and build new businesses like Comcast Business Class. All of this will help position the Company for future growth.

So when I think about the first nine months, both the financial side and the operational side, we'd expected for the full year to do at least \$2.8 billion in free cash flow. I'm very pleased, and I think the most significant point for me is that in the first nine months of this year we have now already achieved this full year goal; so clearly we're on a path to exceed this target.

So our business model is solid. We've made adjustments to anticipate slower growth in the future; we've proactively managed expenses and capital so that we can generate even more significant free cash flow and at the same time position the Company right where we want to be -- an industry leader, an innovator and a provider of products that our customers really look forward to. With that let me turn it over to Michael Angelakis to take you through the financial details.

**Mike Angelakis** - Comcast - EVP, CFO

Thank you, Brian. Please refer to slide 4 which highlights our third-quarter consolidated results. The third quarter reflects solid operational results in our cable, programming and interactive businesses as well as the integration of the Insight Cable systems which occurred this past January.

On a consolidated basis the Company's revenue increased 10% to \$8.5 billion and operating cash flow grew 10% to \$3.2 billion. On an apples-to-apples comparison, our third-quarter consolidated pro forma revenue growth was 7% and our consolidated pro forma operating cash flow growth was 8%.

Over the last 12 months the Company's organic growth has generated \$2.7 billion in additional revenue and \$1.2 billion in additional operating cash flow. Our reported net income for the third quarter was \$771 million or \$0.26 per share. Excluding

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

\$80 million in favorable tax adjustments our adjusted EPS for the quarter was \$0.24 per share, an increase of 33% versus last year.

Year-to-date reported net income was \$2.1 billion or \$0.72 per share. Year-to-date net income for both this year and last year include gains from the dissolution of the Insight and the Texas/Kansas City cable partnerships. Excluding these gains and this quarter's tax adjustment our adjusted EPS for the first nine months of this year increased 19% to the \$0.64 per share.

Free cash flow for the quarter increased 77% to \$928 million reflecting growth in operating cash flow and a reduction in CapEx from \$1.5 billion in the third quarter of '07 to \$1.3 billion in the third quarter of '08. Free cash flow per share increased 88% during the quarter from \$0.17 in the third quarter of '07 to \$0.32 this quarter.

On a year-to-date basis free cash flow per share has increased 124% to \$0.94 per share from \$0.42 per share. I think it is important to note that these results also include the occurrence of \$59 million in hurricane and severance related costs during the quarter.

With year-to-date pro forma revenue growth of 8% and pro forma operating cash flow growth of 9% our results are consistent with the full-year revenue and operating cash flow targets we provided at the beginning of the year. Although our visibility is difficult as the economic environment is clearly more challenging today than it was at the beginning of the year, we continue to expect to achieve our full-year revenue and operating cash flow guidance, albeit with revenue at the low end of the range.

Please refer to slide 5 and let's review our revenue results in more detail. Pro forma cable revenue for the third quarter increased 7% to \$8.1 billion. As you can see in both the third quarter and year-to-date numbers, video revenue growth was relatively stable at 4% reflecting growth in advanced services and rate adjustments and offset by continued promotional activity, lower basic subscribers and the effect of a larger proportion of our subscriber base in multiple product plans.

At the end of the third quarter of '08, 22% of our customers took all three of our products compared to 17% in the beginning of '08 and 15% at the end of the third quarter in 2007. Our high-speed Internet revenue grew 9% in the quarter reflecting continued unit growth and relatively stable ARPU. In the third quarter we added 382,000 high-speed Internet subscribers as we continued to gain market share in broadband.

Also our trends continue to look favorable for our broadband customer mix. Our economy service, which allows us to address an important segment of the market, continues to represent less than 5% of our total high-speed Internet gross additions. At the same time we continue to see many more customers taking our Blast service versus the economy service, demonstrating that customers are willing to pay more for higher speed service.

Our phone revenue increased 44% in the third quarter reflecting continued growth in our CDV customer base offset by slightly lower ARPU. While the pace of net additions has slowed, we continue to add approximately 1 percentage point of the CDV penetration in the third quarter which now stands at 13.3% of homes passed.

Although we are now essentially out of the legacy circuit-switched phone business, it continues to negatively impact revenue growth. Phone revenue would have increased 61% year-over-year if we excluded the decline from our circuit-switch business. Our business services group continues to experience healthy growth with third-quarter revenue of \$145 million, an increase of 42% versus last year.

Now moving on to our advertising business -- this is an area where we are experiencing real softness, particularly on the local side which continues to feel the impact of a weakening economy even in this political year. Additionally, this quarter had one less broadcasting week than in 2007 which negatively affected both the cable advertising and the programming division's comparable results.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

On a reported basis cable advertising revenue decreased 10% in the third quarter and if you adjust for the one less weak and exclude the benefit of \$30 million of political advertising in the quarter, our core revenue did decrease by about 10%, which is worse than the 4% to 5% in the core advertising revenue experienced in the first half of this year.

On the national advertising side, which is more reflective of our programming division's operations, it's a bit of a different story as the softness there was mostly ratings driven resulting from the Olympics. While the market has weakened, pricing and demand for our networks are holding up quite well. Overall programming revenue grew 5% for the quarter and 11% year to date benefiting from continued affiliate fee growth and strong international revenue growth. The corporate and other category also saw strong revenue growth this quarter as we benefit from increased Internet advertising and search revenue at Comcast Interactive.

Please refer to slide 6. As revenue growth has slowed we are continuing our focus on improvements in efficiencies and expense reductions. We continue to extract operating efficiencies in our phone business which now stands at 6.1 million customers. Total direct costs related to our high-speed Internet business also continue to decline. Each of these services had expense declines of approximately 9% on an absolute basis this quarter. Expense reductions in these two areas helped offset increases in our programming expense, in our technical operations, in marketing and in our business services operation.

This quarter our results were also negatively impacted by two major hurricanes, hurricanes Ike and Gustav, that reduced operating cash flow by \$20 million in the third quarter. We expect these hurricanes will also impact operating cash flow to a similar degree in the fourth quarter.

Finally, we incurred \$39 million of severance expense related to a recent divisional restructuring and ongoing staff reductions. Year to date we have incurred \$63 million in severance expenses as we remain very focused on managing our expenses and as the level of activities slows. As such we may have a similar level of expense in the fourth quarter as in the third quarter.

All in, for the third quarter pro forma operating cash flow for the cable division increased approximately 7% to \$3.25 billion and cables operating cash flow margin for the quarter decreased 20 basis points to 40%. Excluding the impact of the hurricane and severance charges I just mentioned, cable operating cash flow grew 9% in the third quarter with a margin of 40.7%.

In the programming division, operating cash flow increased 9% from \$97 million in the third quarter of '07 to \$105 million in the third quarter '08. Year-to-date programming operating cash flow has increased 30% from \$237 million to \$307 million. As we mentioned previously, year-to-date results reflect the timing of marketing and programming costs which were not incurred during the first nine months of the year but we expect to spend in the fourth quarter.

On a consolidated basis, pro forma operating cash flow increased to \$3.24 billion, an increase of approximately 8% for the third quarter with a margin of 37.9%, up 20 basis points. Year-to-date pro forma operating cash flow has increased 9% to \$9.8 billion with a margin of 38.3%, also up 20 basis points.

Please refer to slide 7 to review the quarter's capital expenditures. Reflecting slower unit growth and an increased discipline around capital allocation, total capital expenditures for the quarter were \$1.3 billion, down approximately 16% compared to pro forma CapEx of \$1.6 billion for the third quarter of '07. On a year-to-date basis consolidated CapEx has decreased 14% from \$4.7 billion to \$4 billion. Consolidated CapEx as a percentage of revenue has decreased this quarter to 15.3% from 19.6% in the third quarter of '07 and year-to-date consolidated CapEx has decreased to 15.8% of revenue versus 19.9% last year.

Consistent with historical trends, cable CapEx continues to be predominantly growth oriented with growth CapEx accounting for 73% of the total cable CapEx for the first nine months of this year. The most significant driver in this quarter's CapEx decline was CPE which was down 15% compared to last year's third quarter reflecting lower unit activity.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

Additionally, capital spent on new construction is also down approximately 45% this year which directly reflects the slowdown in the housing market. These declines were somewhat offset by our continued investment in business services which has increased \$100 million on a year-to-date basis versus last year.

While year-to-date CapEx has been trending at a lower level than last year, we do expect an increase in the CapEx during the fourth quarter as we aggressively commence our all digital and DOCSIS 3.0 rollouts. Specifically we will be purchasing millions of D to A converters in the fourth quarter as we begin the all digital transition in up to 20% of our systems.

In terms of DOCSIS 3.0, as we just announced last week, we are launching our extreme 50 Mb service in 10 major markets by the end of this year. Even with this expected increase in our fourth-quarter capital investment plan we are very comfortable with our full-year guidance for capital expenditures.

Please refer to slide 8. Our financial priorities have not changed. Our first priority continues to be to secure sustainable and profitable growth by investing in our businesses and by executing on our strategic plans in a very disciplined manner.

Another priority is to return capital to shareholders and we've been aggressively executing on this priority through a combination of our share buyback program and our dividend. Our financial strategy is supported by our increased focus on free cash flow and free cash flow per share. And given the continued growth in operating cash flow and lower capital expenditures we generated free cash flow of \$928 million this quarter.

On a per-share basis we generated \$0.32 of free cash flow in the quarter, an increase of 88% over last year. Year to date we generated \$2.8 billion of free cash flow versus \$1.3 billion last year, an increase of 109%. Year to date we have converted almost 29% of our operating cash flow into free cash flow compared to a 15% conversion rate for the first nine months of 2007.

As I mentioned, free cash flow generation remains a priority for the Company. And given that CapEx continues to trend lower than we initially forecast, we will exceed our full-year target of at least 20% growth in free cash flow this year.

At the same time, we have been committed to returning capital to shareholders. In the third quarter we repurchased \$800 million of our stock, reducing our shares outstanding by 1.4%. This buyback combined with the payment of our quarterly dividend equates to the Company once again returning in excess of 100% of its free cash flow to shareholders. Over the last 12 months we have repurchased approximately 4.1 billion of our stock, reducing our shares by approximately 7%.

We have a continuing commitment to our buyback program and believe our stock remains under valued. However, we have entered unprecedented times with regards to the economic disruption and the crisis in the equity and credit markets. As such we may not complete our buybacks for the fourth quarter and for next year as originally planned.

We believe it is critical to maintain the strength and stability and financial independence of the Company, therefore we will continue to monitor the economy and the capital markets. We remain disciplined and make appropriate adjustments as we go along.

Now let's move on to our balance sheet data on slide 9 as I know many investors are appropriately spending time in this area. This slide outlines our current balance sheet metrics and our upcoming debt maturities for the next three years. As Brian has mentioned, we have taken a very responsible and prudent approach to managing our financial operations and believe our balance sheet is a tremendous asset to our shareholders in this environment.

Our focus on free cash flow generation has provided us with improved liquidity and financial independence. And as you know, we are an investment grade credit and we have ample liquidity to meet our financial obligations while simultaneously being able to invest in our business to meet our strategic return on incremental capital and our competitive goals. Therefore we remain confident about our business model and our financial and strategic position.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

Importantly, we continue to be very disciplined around resource and capital allocation and will continue to make the necessary investments to ensure that we sustain our competitive advantages for the long term which we believe will generate attractive shareholder returns. Now let me pass the call to Steve.

**Steve Burke** - Comcast - COO

Thanks, Mike. I want to quickly walk through some of the unit activity for our cable business this quarter, and then I'll spend some time discussing why our operational strategy is working in this environment.

First on video, we continue to manage well in an increasingly competitive marketplace. Basic subscriber losses are consistent with our expectations. Digital penetration continues to grow and is now approaching 70%. Growth in higher end services like high def and DVR remain strong as we added over 300,000 advanced service customers during the quarter. Advanced service penetration now stands at 43.5% of our digital customer base.

It was another strong quarter for our high speed Internet business, indexing at close to 80% of last year's net adds. It's pretty clear we're taking share in this business. Demand for our phone service from new customers remains strong with sell-in rates at 40%. Lower activity due to the slowdown in the housing market does impact this business as there are simply not as many new opportunities for people to take phone service when they move. Nevertheless we continue to grow penetration and are now over 13%.

We have some markets with penetration in excess of 20% and others that are quickly approaching. We're confident that there is plenty of room left for growth in this business and we're on pace to add over 2 million new phone customers this year.

Looking ahead we see a real opportunity to target and attract new customers to all of our cable services with the upcoming digital transition in February. At the same time we continue to invest in new growth opportunities like business services. This business is starting to ramp nicely now with revenue up 42% for the quarter. This business is now a real cash contributor to the Company.

I think slide 10 reflects our approach to diversified growth which is predicated on slower growth in our more mature business of basic video complemented by new digital features such as DVRs, high-def, high-speed Internet, phone and business services all combining to result in strong ARPU growth which is now \$111 a month, up 9% versus last year.

As the economy and competitive dynamics change our job is to adjust our strategy accordingly. Cable is more recession resistant than most businesses, but as the environment changes we need to change too. The first area where we're adjusting our approach is our product offering. Examples of this were introduced -- we have introduced two product bundles; we've instituted economy tiers; we're changing how we speak about high-def, particularly as we go into the holiday season and more people are buying high-def sets; we've recently put a lot more emphasis on retention due to the economic climate.

While we're adjusting our promotions we're continuing to focus on investing in product superiority. For example -- we're expanding our VOD offerings; we're adding more high-def channels; and we now have over 1000 high-def choices on Video-On-Demand, which we think is helping us do well competitively as the world transitions to high-definition. Our research shows that we're doing quite well in holding share in terms of high-definition television.

We're rolling out TiVo beyond the Boston Market test where things are going quite well and we're going to be introducing other cities, probably starting with Chicago in the first quarter next year. We're starting to introduce wideband with the DOCSIS 3.0 rollout which is our very high speed Internet service which I think will be very competitive with DSL. And we're beginning the conversion, as Mike mentioned, to digital delivery to get more bandwidth in a very cost efficient way.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

While we're investing to be more competitive we're also making good progress reducing our expenses and becoming more efficient and this has been a key focus area for us during the last year. As activity levels have slowed with the business we're doing a good job adjusting our staffing accordingly. We're also improving reliability and that's resulting in 2 million less truck rolls during the third quarter and over 6% less trouble calls. And when these activity levels go down that means we save money because people don't have to go out and do those truck rolls or answer the phones or respond to trouble calls.

Unit cost for CDV and high-speed data have declined significantly as these businesses scale and that decline is actually greater than we thought would happen. And finally, capital spending is down for the quarter about \$260 million versus the same quarter last year. Some of this capital reduction is due to slower growth in units, but much of it is due to better procurement as costs for set-top boxes, cable cards, CMTS', high-definition equipment, ENTAs are all down on a per unit basis.

Finally, capital expenditures are a key focus area for our entire management team and free cash flow growth is very much on people's minds and I think that is proven out in the results and will be in the future. So to sum up, even in a challenging environment our business is fundamentally resilient and continues to grow. With some adjustments to reflect changes in the economy we're confident that we can continue to keep operating cash flow and free cash flow on a growth curve in the future. Now, Marlene, I guess we'll open it up for questions.

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**Marlene Dooner** - Comcast - IR

Thanks, Steve. Operator, please give us the instructions to start the Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Ingrid Chung, Goldman Sachs.

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**Ingrid Chung** - Goldman Sachs - Analyst

Sure, thanks. Good morning. So my first question is about how operating conditions trended monthly. So I was wondering if you could talk about how operating conditions in September '08 compared to September '07. And then how did October 2008 look versus September 2008? And then my second question is about the geographic distribution of basic losses. I was wondering if they were isolated to certain areas.

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**Brian Roberts** - Comcast - Chairman, CEO

Let me start by saying broadly the economy and the slowdown in the economy affects certain parts of our business and doesn't affect other parts. For example, when housing starts come down that obviously means there are less opportunities to gain new subscribers; but when existing home sales go down that's actually good for our business in certain areas because there's less activity, less connects and less disconnects.

What we have seen, and this has been going on for a while and accelerating recently, is that our connects are lower than they were last year. Interestingly, our disconnects are not rising. So it's not that people who have our service are leaving, it's that there's less propensity to upgrade, less propensity to move and take our services when someone moves into town.

A lot of our other metrics are very a stable -- bad debt is very stable; pay-per-view is growing 9% or so a year; ad sales is a very negative picture, ad sales is going backwards. But a lot of the trends that we're talking about we've been seeing for the last

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

year. All the housing-related things have been in the business the last year and obviously over the last few weeks the economy has gotten worse.

We're watching some of these metrics very, very carefully like bad debt and we're surprised all three of our product lines have lower churn for the third quarter and the month of October we think than last year. So it's an interesting thing; the base core subscription side of the business is very resilient we think and very strong, but on the margin people's propensity to do something new and step out and increase their spending with us appears to be affected more than our existing customers potentially leaving.

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**Steve Burke** - Comcast - COO

I think the other point, however, is on the geographic diversity we do see that AT&T and Verizon are both now in a competitive position in many of the markets so there's -- it's not just one versus the other. I think we have more competition as more homes have become available with an over build from a wireline over builder.

And I do think that we -- we're reading the paper like everybody else, we see that October, of course, is just an unprecedented month in so many ways that, as we said, a lot of our planning is to assume that the fourth quarter and that the period that we're in is worse than the period that we were just three or four months ago. But as Steve said, this business has certain characteristics that can retard that, but it's not a great environment, it's not getting better, that's for sure.

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**Ingrid Chung** - Goldman Sachs - Analyst

Okay, thank you.

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**Operator**

Craig Moffett, Sanford Bernstein.

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**Craig Moffett** - Sanford Bernstein - Analyst

Brian, you talked about preparing for slower growth, so let me just drill down on that a little bit if I could, and then one additional question on technology. But first on the overview 30,000 foot question, when you say you're preparing for slower growth, what are the things that you anticipate customers doing? Is it reducing the richness of their packages? Is it a slowdown in the uptake of HDTV? Is it that they're going to downgrade their HSD tiers? What are the sorts of things that you specifically expect and that you're preparing for?

And then if I could follow up with a specific technology question, just to make sure I understand. Steve, you talked a lot about your D to A converter strategy. As I understand, those don't have conditional access; if they did they'd need to have cable cards. So am I to understand that you're going to be sending digital signals to television sets unscrambled? And if so, is that compliant with all your programming agreements with your content partners?

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**Brian Roberts** - Comcast - Chairman, CEO

Let me start and Steve can answer a little bit of both those. Let me just put in context just what I meant by slower growth. If you go back to '07, we've seen and we stated in our '08 guidance that we thought we would sell less RGUs and we would have slower revenue growth than we did in '07 in '08.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

And so what I think you do when you use see that period of time coming as some of the products mature, you begin to reduce your expenses, you reduce your capital -- all the things that I think make this a very healthy quarter from a financial standpoint and I think bode well as we look to the rest of the year in terms of how we will perform on free cash flow in particular.

Customers, and Steve can be even more granular, are looking for packages, customers are I think showing that they still want our cable and our broadband product. I think clearly in wireline phone some people are not getting wireline phone who are just getting wireless phone, so you're seeing some of that perhaps affect the growth rate.

But when you're coming from a 10% penetration that went up a few points this year you have so much upside versus downside that it nips you a few hundred thousand units perhaps over time in a year or whatever than you would have liked to have had at the beginning of the year, but big picture we are still the fastest growing part of the Company and we think -- and the same goes in broadband.

I'm sure there are some people who would have liked to have switched already or some other reason, but as long as we have the right package and the right pricing and the best products we are in terrific business that in times -- when times are tough people want to watch television and now even as much they want to be on the Internet and be connected.

And our phone product represents the best value of all of our three products because it's clearly cheaper than any alternative and as part of a package it's even a better deal. So I think the other macroeconomic conditions are something that we're all just anticipating and doing what you have to do to run your business appropriately. Steve?

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**Steve Burke** - Comcast - COO

Just to put a point on it, I think what we're talking about is marginally less net adds. So instead of 550,000 phone adds it's a 450,000; instead of 400,000 high-def sets during a quarter it's 300,000. It's those types of things, it's not existing customers leaving or no growth, it's just slower growth in terms of the elections that consumers make.

In terms of the D to A and the conversion, the way this will work is you will need to have a D to A to receive the expanded basic digital signals. So it will be secured initially by the fact that you need to have a D to A, right now you don't. Obviously you can just get an analog signal. So in many senses it will be more secure than the analog distribution. We will not be using encryption initially and that is fine in terms of our programming contracts.

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**Craig Moffett** - Sanford Bernstein - Analyst

Okay, thank you.

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**Operator**

Jessica Reif Cohen, Merrill Lynch.

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**Jessica Reif Cohen** - Merrill Lynch - Analyst

Three questions. The first is given the volatility in the market I was just wondering if you would consider increasing the dividend, helping investors wait for a more normalized market. The second question is on wireless, given what's happened to Clearwire's shares -- everybody shares -- but given what's happened is there any way that you can revise the terms either in terms of money, control or structure? And then finally, I was hoping that you could give us some color on your initial experience with DOCSIS 3.0. Thanks.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

**Mike Angelakis** - Comcast - EVP, CFO

This is Michael, Jessica. Good morning. Why don't I take the first one. With regards to dividends, we're not making any change to dividends, we think it's appropriate. We've only had two dividend payments and I think you're indirectly getting at the buyback in terms of how we've mentioned we're just reevaluating it.

There's a lot going on in the marketplace, I think everyone is very aware of that, and we're just taking a step back on the buyback and just reevaluating all aspects of the credit markets, of the capital markets and those kinds of items. So I don't think we're going to make any -- we don't anticipate any changes to the dividend.

When we talk about Clearwire, we're very focused on closing the deal. And we look at it Clearwire as sort of new Clearwire where there are a lot of assets from Sprint in the Xohm and spectrum that's getting contributed to a new company called New Clearwire and we're very focused on getting that transaction closed.

We are very focused on our 3G agreement which we negotiated with Sprint as well as our 4G agreement which we negotiated with Clearwire or New Clearwire which we think are both strategically important to us. And we're also focused on sort of post closing what that looks like. So I think DOCSIS 3.0, Steve, why don't you take that one?

**Steve Burke** - Comcast - COO

DOCSIS, it's too early. We have customers now but measured in the hundreds. The good news is technically it works beautifully and we're rolling it out to a very substantial part of our base as we speak, but in terms of customer reaction, it's just too early.

**Jessica Reif Cohen** - Merrill Lynch - Analyst

Thank you.

**Operator**

John Hodulik, UBS.

**John Hodulik** - UBS - Analyst

Two quick questions. It seems like you guys are well on your way to being under the 18% CapEx number; I think you'd have to spend well into the 20% of revenues in the fourth quarter. Is there any -- assuming that you are below the 18% this year, is the expectation that and I think you guys have been talking about that if you look into '09 versus '08 or just in the future that CapEx as a percentage of sales would continue to come down even from what may be a lower level this year?

And then second, just getting back to some comments Steve made, it sounds like you may be seeing a little bit more competition from AT&T as they roll out U-verse. In the past it's sort of been said that I think FiOS had been strong but you really haven't seen much AT&T. Do you see a bit of a change there as they roll out or are they being more aggressive in general or is it just a function of maybe more marketing on their front?

**Steve Burke** - Comcast - COO

Why don't I do the AT&T Verizon one first. We're actually seeing more competition from AT&T than Verizon right now and that was the exact opposite a year ago. We monitor it very, very carefully. AT&T has so much broader a footprint that we actually

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

think they're having a greater effect on our business than Verizon. In both AT&T and Verizon's case we obviously believe that we're taking more phone and data customers from them than they are taking video from us, but clearly we've seen a shift of late where AT&T is proving to be a more formidable competitor than they were.

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**John Hodulik** - UBS - Analyst

Is that just a function of the rollout or they've gotten more aggressive from a pricing promotion standpoint?

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**Steve Burke** - Comcast - COO

I think it's more footprint related. I think they've been very aggressive for a long time in certain markets. I think it's more just footprint.

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**Brian Roberts** - Comcast - Chairman, CEO

But just to comment, I mean relatively speaking it's fairly expected what we think is happening. I don't think there's too much surprise, it's clearly working and they've improved their high-def offering and other things. But I want to echo the point that what we've set up -- we've assumed that we were going to lose subscribers and that we were going to be able to get many more phone customers at high speed data.

And I think one of the points that hasn't been brought up yet on this call is high-speed data came in, as Steve said in his opening remarks, around 80% of a year ago level and a lot of that is coming from DSL. And we do think that the DOCSIS 3.0 question that was just asked, even though we don't have data yet, we're going to be able to go on a proactive marketing campaign that we offer up to 50 Mb of speed in many of our markets as soon as by the end of this year. And that's a pretty, I think, reaffirming message to consumers that if you want high speed data the best way to get that is through Comcast.

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**Steve Burke** - Comcast - COO

And in the third quarter we gained more high-speed Internet customers than AT&T and Verizon combined.

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**Mike Angelakis** - Comcast - EVP, CFO

That's a great note. I'll take the CapEx question. Obviously we've been trending lower this year. Our guidance is approximately 18% which we're very comfortable with. In the fourth quarter we do expect to spend more capital than the third quarter related to the D to A's as well as DOCSIS 3.0. But again, for year-end we feel very good.

And the second part of your question, John, related to next year. Budgets aren't done, but we're very hopeful that as a percentage of revenue we'll continue to see a trend downward, even in '09.

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**John Hodulik** - UBS - Analyst

Great, thanks, guys.

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**Operator**

Benjamin Swinburne, Morgan Stanley.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

**Benjamin Swinburne** - Morgan Stanley - Analyst

Good morning. Two questions. I wanted to go back to the converter all digital rollout. And Steve, now that you're getting very close to accelerating this is there any headcount impact and any comment you can make on sort of the percentage of converter deployments that require truck rolls just so we can try to fine-tune the CapEx numbers around this project. And also, are you still thinking you'll complete this end of '09 into 2010, does that timing still make sense?

And then I wanted to ask on VOD, I think you said pay-per-view is up around 9%. I believe that's a slowdown from where it was running last year. And maybe Brian, I don't if you could comment on this, but as you look out into '09 and 2010, if the windows improve for the VOD movie releases, do you think that business can we accelerate? I mean, that seems a business that would hold up fairly well in a downturn, home video watching?

**Brian Roberts** - Comcast - Chairman, CEO

On the digital conversion, it's definitely going to spill into '10, we will not finish in '09. In terms of the percentage of digital boxes that are going to go in with self install, that's really the \$64,000 question. It's going to be a very material percentage, but whether it's 50% or 70% we are going to need to sort of monitor the initial rollouts. Portland is getting ready to go as we speak with the new D to A boxes which are now in stock and in test homes and we'll see what that percentage is.

It clearly increases headcount and marginally reduces operating cash flow when you take a market to D to A. There's a certain amount of phone calls, there's a certain amount of truck rolls, there's a certain amount of marketing and activity level and that's all baked into our plans, but it does have an effect on the profitability of that system when it's going through that conversion.

**Steve Burke** - Comcast - COO

The VOD question, we're hoping that -- anyway, I think I saw some news in the last day that one of the studios is talking about taking some releases and going day and date across the nation. So you're beginning to see more people experimenting because of what's happening with the DVD market and the economy in general and just whether VOD can reaccelerate.

We had a lot of boxing matches and other things that weren't the same as a year ago. There is clearly more ways to get that content whether it's over the net or some of the other places. So I don't know what reaccelerates it. We're just as equally focused, not so much on that line item growth rate, as sort of the experience of what On-Demand brings to our customers and by having 10,000 choices On-Demand and Project Infinity, trying to increase that.

So this year we got to over 1,000 HD choices and now to be able to go to multiples of 10,000 over the next year or two or so and to be able to interlay the network content some day into the On Demand experience, I think you're going to see customers value that more and more vis-a-vis their pricing with satellite and other competitive offerings. And one way or the other I think we're going to be able to recoup value to our shareholders by having On Demand.

So whether it's pay-per-view or it's part of your subscription or we create a special package some day where you can access a bucket of content, we're looking at a bunch of models and talking to the content companies about that and I think we're making progress. Technically we're very much on track to be able to continue to increase beyond where we are today.

**Benjamin Swinburne** - Morgan Stanley - Analyst

Thank you.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

**Operator**

Doug Mitchelson, Deutsche Bank.

**Doug Mitchelson - Deutsche Bank - Analyst**

Two questions, both for Steve. I was hoping for more detail on small- to medium-sized business along the lines of what percentage of your ultimate target market are you attacking right now in terms of what products you're offering versus where you might go over the next few years. In other words, are you still on track with what was laid out early last year for the long-term outlook for that business?

And the second question was what is the character is of the basic subs that you're losing? It seems to me that many of the video subs you're losing are single play lower value subscribers and maybe basic subs isn't the right way to look at the business anymore? Thanks.

**Steve Burke - Comcast - COO**

Okay. On the basic sub side you're absolutely right. The propensity or the vulnerability of single product video customers is significantly higher than double or triple play product customers. Right now about, I think 22% of our customers are double play -- or triple play; 57% are double play. So the 43% that are just video are more vulnerable. And the good news is if they're disproportionately lost it hurts us less financially, but we don't like to lose any subscribers that we don't have to.

In terms of small and medium size business, I'm getting very optimistic about this business. The revenues grew 42% year-over-year. We see that ramp continuing. We have phone and data, eight-line phone and our high-speed data product with a very interesting suite of additional services which we're enhancing all the time and that product is scaling very well.

It's interesting, we're doing our budget sessions now finalizing the 2009 budget and every single part of the Company spends a significant amount of time talking about business services. And when you look at the financials you see that as a percentage of their operating cash flow growth and free cash flow growth in '09 it's become a significant chunk.

So general managers who last year might have said, well, and we're hiring some people for business services, now spend 20 minutes talking about how important it is and how it's all working, and so I feel very confident in all the projections that we're going to get 20% or 25% of the small and medium size business market eventually. We're increasing our passings and don't do a lot of "if you build it they will come" capital investment.

Typically we would be more conservative than that, but just organically as the business expands you increase your fiber footprint, increase your passings. We're starting to get some cell backhaul business and overall I feel very positive about the job Bill Stamper and the business services team are doing.

**Doug Mitchelson - Deutsche Bank - Analyst**

As a follow-up on the basic, are you willing to tell us what the churn differential is between a triple play sub and say just a basic only sub?

**Steve Burke - Comcast - COO**

I don't think we have ever done that.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

**Doug Mitchelson** - *Deutsche Bank - Analyst*

All right, thank you.

**Operator**

Tom Egan, Colin Stewart.

**Tom Egan** - *Colin Stewart - Analyst*

I guess first question for Steve, if you could give us a little more -- little deeper thoughts on the wireless substitution. For example, is what you're seeing -- is that a function of the economy, meaning that folks are being more economy minded and therefore substituting fixed line phone for wireless, or is it just a trend amongst consumers?

Secondly on that, how is what you saw in Q3 different from what you saw in Q2? And then I have a follow-up, thanks.

**Steve Burke** - *Comcast - COO*

Well, there is no question that wireless substitution is substantial and is increasing, and it would stand to reason that it would increase as people look at all of their bills and try to respond to the changing economy. One of the interesting things about our business, and maybe it is because the majority of our phone customers are in packages, is that we are seeing churn, phone churn, decline fairly markedly year-over-year.

So while there is clearly some wireless substitution, my bet is that what is happening is the majority of the wireless substitution in percentage terms is coming from RBOC customers that are not bundled in. And I think if you look at their numbers, there is some evidence that that is increasing.

**Tom Egan** - *Colin Stewart - Analyst*

Okay. Then secondly on the February of '09 migration, how do you think the economy and the pressures may impact what consumers might do, and how do you think that differs from what you were expecting about six months ago?

**Steve Burke** - *Comcast - COO*

Well, we are already starting to see some people call us and say, I want to get ahead of the migration. And we ran a flight of advertising during the month of October to try to get the word out. Our theory now is that with everything else going on, people are going to be distracted. And the people that may have acted earlier than waiting until the last minute in February, a greater percentage will wait until the last minute.

Our deal is if you get any of our other services, Internet or phone, we will give you basic video service for free. And if you want just basic video service, we will give it to you for \$10 for a period of time. So we think we have a pretty attractive deal for someone who needs to do something during the transition, and we think a lot of people are going to be outside of the digital footprint and they're going to have to do something if they want to keep watching those channels.

And that will result in us picking up basic subscribers plus some high-speed data and phone subscribers. But I think to the degree that the economy changes things, our bet is that it just makes people distracted and they make their decisions later than they would have.

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

**Tom Eagan** - *Colin Stewart - Analyst*

Right, okay. Thank you.

**Operator**

Brian Goldberg, JPMorgan.

**Brian Goldberg** - *JPMorgan - Analyst*

Thanks. I was wondering what percent of your digital net ads this quarter came from enhanced basic? And also do you have an estimate of cable TV piracy in your footprint? And based on your experiences in Chicago, is it reasonable to expect this rate to improve? And if so, can you help us think about how to quantify that?

**Brian Roberts** - *Comcast - Chairman, CEO*

There is no question that when you go all digital you reduce theft. And we've had some markets where the percentage increase in expanded basic customers has been 5% or 6%. Again, it's very, very early, very small sample size, but it stands to reason -- we've always known there's a significant amount of theft. It's not all that difficult to steal an analog signal, much harder to steal a digital signal and go out and get a box and all those things.

So I think we're anticipating some kind of a build up due to theft reduction. And we are looking, as we speak, for the percentage that's enhanced digital versus paying digital. We'll get that for you in a minute. Why don't we take the next question and we can factor that in later?

**Operator**

Vijay Jayant, Barclays Capital.

**Vijay Jayant** - *Barclays Capital - Analyst*

Thanks. Brian, given the current valuations across the board and in the past you've shown some interest in content assets, and arguably some of those prized assets are very attractively valued. Do you think this is the time to play offense and take advantage of your strong balance sheet and do something or do you want to be more cautious for the foreseeable future?

**Brian Roberts** - *Comcast - Chairman, CEO*

Well, I think that we're staying very focused on the business that we've got. We've got, I think, a very good plan and I'm pleased with all the things we've been talking about this morning. So we want to stay focused -- that's job one. We have said previously and Mike has said and you can weigh in here if you want that we do want to look at opportunities to grow the Company in a disciplined way and in a focused way.

Our content business did quite well this quarter and through the first nine months is the fastest growing part of the Company. But there's nothing that we're working on, and in this environment I don't think there's that much to really talk about actually. And we're pretty focused on the business we've got. Mike?

Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

**Mike Angelakis** - Comcast - EVP, CFO

I think you said it well. I mean, we've been very clear that we have seven meaningful revenue streams. We want to look at everything within those seven areas. We're very focused and disciplined and we have I think pretty meaningful financial and strategic filters related to acquisitions. I'd argue that the criteria for those filters have increased a bit given the environment and I think Brian summed it up pretty well.

**Steve Burke** - Comcast - COO

We gained 417,000 digital homes, starter was 210,000. It's kind of confusing because people move into different tiers with advanced, but 210 out of 417 is the answer to your question, Brian.

**Operator**

Spencer Wang, Credit Suisse.

**Spencer Wang** - Credit Suisse - Analyst

Good morning. I just wanted to go back to CapEx for a quick second. It looks like -- Mike, you mentioned that CPE CapEx, it looks like it was down double-digits in the third quarter, down 7% I think year to date, yet RGU net adds are actually growing both in the quarter and also year to date. And so I guess that means unit costs are coming down even more. And I know Steve has talked about better unit -- better procurement, but is there anything else going on there in terms of how you're redeploying older equipment or the CPE you have in inventory? Thank you.

**Steve Burke** - Comcast - COO

No, I don't think there's any magic to that. I think that we've done an excellent job on procurement. I think the team has done really a very strong -- have very strong relationships with our suppliers and we work with them. I think that with regard to CPE also you're looking at product mix. So we are down, as you said, 7%. I don't really look at the quarter per se because there's a lot of volatility going around quarter-to-quarter, but we're down 7% year to date and I think that's a combination of both units as well as better procurement.

**Spencer Wang** - Credit Suisse - Analyst

Okay, thank you.

**Marlene Dooner** - Comcast - IR

Thank you all very much for joining us. Operator, you can go ahead and give all of the directions around repetition of this call. Thanks.

**Operator**

Thank you. There will be a replay available of today's call starting at 11:30 a.m. Eastern Time. It will run through Friday, October 31st at midnight Central Time. The dial-in number is 800-642-1687 and the conference ID number is 6590-5828. A recording of the conference call will also be available on the Company's website beginning at 12:30 p.m. today. This concludes today's teleconference. Thank you for participating. You may all disconnect.

## Oct. 29. 2008 / 8:30AM, CMCSA - Q3 2008 Comcast Corporation Earnings Conference Call

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