Leichtman Research Group, Inc.

Research Notes

2Q 2008 *Actionable Research on the Broadband, Media & Entertainment Industries*

Addressing a Broadband "Problem"?

Americans love to be #1, and aren't happy with anything less. The same week when the Boston Celtics were feted by hundreds of thousands of revelers in a parade through the streets of Boston in celebration of their seventeenth NBA championship, the runner-up Los Angeles Lakers returned home with little fanfare, and their star player, league-MVP Kobe Bryant, was derided as a loser by his former teammate Shaquille O'Neal in a freestyle rap. It's not surprising then that when it is published that the US ranks #15 in the world in broadband penetration, politicians (particularly in this election year) and others spend hundreds of hours discussing this *terrible* problem.

In this issue:

But is broadband penetration in the US really a problem?

While it may be painful for competitive Americans to finish behind the likes of Iceland and Sweden in anything (with the possible exception of curling), it is imprudent to diagnose that broadband penetration is a "problem" in the US based on comparisons to nations of different sizes and economic structures. The United States is a capitalist country, with a large and diverse population. The combined population of all the countries with higher broadband penetrations than the US is essentially the same as the US population. (Eight of the countries with higher broadband penetrations than the US have smaller populations than the state of Ohio.)

In reality, broadband remains one of the fastest adopted products or services in the history of this country, and broadband consumers are relatively happy with their broadband providers.

At the end of the first quarter of 2008, the top nineteen cable companies and Telcos accounted for over 64 million broadband subscribers (about the same amount as the top thirteen nations in broadband penetration combined) – placing the US as #1 in the world in the number of broadband subscribers (with the possible exception of China).

LRG's annual survey on broadband in the US, conducted in March-April of this year, demonstrates the rapid growth of broadband in the US:

- 57% of US households (at the time of the survey) subscribed to a broadband service – compared to 20% just four years ago

LRG Leichtman Research Group

- Broadband represented over three-quarters of all online at home – compared to under one-third in 2004

The survey also found that broadband consumers in the US are relatively happy with their service, and are generally not seeking or willing to pay for faster speed access than they currently have. The survey found that:

- 70% of US broadband Internet subscribers are very satisfied with their current Internet service at home (rating satisfaction 8-10 on a 10-point scale)
- Comparatively, 45% of dial-up/narrowband subscribers are very satisfied with their Internet service
- 72% of cable broadband subscribers, and 62% of Telco broadband subscribers, rate the quality of the speed of their Internet connection as 8-10 (on a 10-point scale)
- 24% of broadband subscribers are very interested in receiving faster Internet access at home than they currently receive
- 11% of broadband subscribers would very likely pay an additional $10 per month to double their Internet speed

While there remains some valid concern about the availability of broadband service in the US, the survey reveals that the lack of any available broadband service is now fairly isolated to rural America.

- In rural areas, 14% of current Internet subscribers and those planning to go online say that broadband is not available in their area – compared to 4% in urban areas, and 3% in suburban areas

[C]able companies are again beating telcos at adding broadband subscribers. ***The first quarter of this year was the first since 2004 that the cablecos added more broadband users than did the telephone companies****, the report from Leichtman Research Group says.*

- US News & World Report
May 16, 2008

It should also be noted that at the end of 1Q 2008, the top ten cable providers (with limited government intervention or assistance) had built broadband availability to about 112.6 million Passings – totaling about 99% of their collective footprint.

One other problem that is often discussed is the “divide” between broadband subscribers and non-subscribers in America. This divide is actually not about broadband, but is rooted in the presence of computers in the home. LRG’s study found that:

- 83% of all US households have a computer, while just 56% of households with annual incomes under $30,000 have a computer at home
- In total, nearly 70% of all homes that own a computer subscribe to a broadband service

While the US may not be #1 in the world in broadband penetration, the problems with broadband in the US may not be so bad. It is unfortunate that there is not as much time and energy spent on the fact that US ranks 37th in the world in infant mortality rate, and is second worst in the developed world – a world ranking that truly is a problem.

> ***About 34% of all U.S. households are at risk of losing broadcast reception to at least one TV set*** *as a result of the digital transition next February if no action is taken, according to the Leichtman Research Group.*
>
> - **Multichannel News**
>   *June 10, 2008*

Digital Transition Could Impact up to One-Third of U.S. Households

New consumer research from Leichtman Research Group, Inc. (LRG) finds that 14% of primary residences nationwide with at least one TV set do not subscribe to cable, DBS, or any other type of multi-channel video service. In addition, 24% of households that subscribe to a multi-channel video service have at least one TV set that only receives broadcast programming. In total, 34% of all US households are at risk of losing broadcast reception to at least one TV set as a result of the pending digital transition if no action is taken.

LRG's research found that:

- 84% of all adults had heard of the digital transition – nearly double the rate from six months earlier
- Among those who have heard of the digital transition:
  - 30% of non-subscribers to a multi-channel video service believe that it will have no impact on their TVs
  - 41% of cable or DBS subscribers with a broadcast-only TV set think that it will have no impact on their TVs
  - 45% with annual household incomes under $30,000 feel that they need to know more about it – compared to 28% with incomes of $30,000-$75,000 and 19% with household incomes over $75,000

These findings are based on a telephone survey of 1,601 randomly selected households from throughout the United States and are part of a new LRG study, *Cable, DBS & Telcos: Competing for Customers 2008*. This is LRG's sixth annual study of this topic.

Other findings include:

- The mean annual household income of non-subscribers to a multi-channel video service is $44,400 – 32% below the sample mean
- Currently 12.5% of households in areas with cable TV available do not subscribe to a multi-channel video service – compared to 14% last year, and 17% in 2004
- The mean annual household income of cable and DBS subscribers (where

cable is available) is 56% higher than that of non-subscribers – this is the largest disparity in the six years that this study has been conducted

General awareness of the digital transition has significantly increased in the past year, but many still need to better understand the implications of the transition. Even among those who have heard of the transition, a large percentage of at-risk households, namely non-multi-channel video subscribers and multi-channel video subscribers with broadcast-only TV sets, seem to be oblivious to the potential impact of the transition on the TV sets in their household.

2.2 Million Add High-Speed Internet in the First Quarter of 2008

Leichtman Research Group, Inc. (LRG) found that the nineteen largest cable and telephone providers in the US – representing about 94% of the market – acquired 2.2 million net additional high-speed Internet subscribers in the first quarter of 2008. The top broadband providers now account for 64.1 million subscribers – with cable companies having about 34.7 million broadband subscribers, and telephone companies having about 29.5 million subscribers.

Other key findings for the quarter include:

- The top cable companies added 1.2 million subscribers, representing 54% of the net broadband additions for the quarter versus the top telephone companies
- This is the first quarter since 3Q 2004 that cable added more broadband subscribers than telephone providers
- Overall, broadband additions in 1Q 2008 amounted to 75% of those in 1Q 2007 – with cable having 84% as many additions as a year ago, and Telcos 67%
- The top cable broadband providers now have a 54% share of the overall market, with a 5.2 million subscriber advantage over the telephone companies

The first quarter of 2008 marked this first time in three and a half years that cable companies added more broadband subscribers than telephone companies. With telephone companies generally curtailing prior aggressive price-based offers to woo subscribers, the Telcos added about two-thirds as many broadband subscribers as a year ago.

Industry by the Numbers – (as of the end of 1Q 2008)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Availability	Penetration	Net Adds in 1Q 2008	Net Adds in 1Q 2007
Basic Cable	114,200,000	58,000,000		50.8%	28,600	190,000
Digital Cable	113,900,000	36,300,000	99%	31.9%	1,055,000	1,220,000
Broadband Internet^	112,600,000	34,370,000	99%	30.5%	1,190,000	1,420,000
Telephone*	98,100,000	14,050,000	91%	14.3%	1,160,000	1,080,000

Sources: The Companies and Leichtman Research Group, Inc.
Totals include LRG estimates and pro forma results from system sales and acquisitions.
^ Internet data does not include RCN
** Telephone data does not include Bright House Networks or Suddenlink*

DBS

	Subscribers	Net Adds in 1Q 2008	Gross Adds in 1Q 2008	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	17,035,000	275,000	964,000	$712	$79.07
DISH Network	13,815,000	35,000	730,000	$709	$67.93
Total DBS	**30,850,000**	**310,000**	**1,694,000**		

Sources: The Companies and Leichtman Research Group, Inc.
** Includes leased equipment and unreturned box costs*
*** Includes revenue from commercial accounts and other non-consumer spending*

U.S. Residential Telephone Lines – Gains and Losses

	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008
RBOC Net Adds*	(1,132,000)	(1,011,000)	(1,367,000)	(1,509,000)	(1,637,000)
Cable Net Adds	1,085,000	1,125,000	1,140,000	1,140,000	1,160,000

Sources: The Companies and Leichtman Research Group, Inc.
** Retail residential phone lines include both primary and additional lines, but do not include wholesale lines*

Top Broadband Internet Providers in the U.S.

Broadband Internet Provider	Subscribers at the end of 1Q 2008	Net Adds in 1Q 2008
Cable		
Comcast	14,078,000	492,000
Time Warner	7,924,000	304,000
Cox*	3,845,000	120,000
Charter	2,768,200	85,700
Cablevision	2,343,000	61,000
Mediacom	688,000	30,000
Insight	412,200	26,200
Cable One	356,543	15,509
RCN	291,000	6,000
Other Major Private Companies**	1,952,800	52,800
Total Top Cable	**34,658,743**	**1,193,209**
Telephone Companies		
AT&T	14,647,000	491,000
Verizon^	8,501,000	266,000
Qwest	2,701,000	90,000
Embarq	1,340,000	63,000
Windstream	911,000	39,600
Century Tel	586,000	31,000
Citizens	543,020	20,175
Cincinnati Bell	227,900	6,400
Total Top Phone	**29,456,920**	**1,007,175**
Total Broadband	**64,115,663**	**2,200,384**

Sources: The Companies and Leichtman Research Group, Inc.

** LRG estimate*
*** Includes LRG estimates for Bright House Networks and Suddenlink*
^ Includes properties acquired by FairPoint Communications on the last day of the quarter
Top cable and telephone companies represent approximately 94% of all subscribers
Company subscriber counts may not represent solely residential households

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