

Research Notes

2Q 2009

Actionable Research on the Broadband, Media & Entertainment Industries

Keeping Pace with Change

At this time five years ago, the Detroit Pistons had just defeated the Los Angeles Lakers to win the NBA championship; the Florida Marlins were the reigning MLB World Series champions (the Boston Red Sox had not won a championship in 85 years);

Barack Obama was an Illinois State Senator; and about one-fifth of US households subscribed to a broadband high-speed Internet service.

Clearly a great deal has changed in five short years – no one today calls the Marlins or the Pistons “champs,” Obama has become “President Obama,” and about two-thirds of US households now subscribe to broadband.

When we look at broadband in America, we need to view it through a lens that reflects where the industry stands today, not where it was in the past. While various stakeholders discuss and debate the status and future of broadband in the US, it is essential to analyze the industry using timely input from the most important stakeholders – US consumers.

LRG’s seventh annual survey on broadband in the US, conducted in March-April of this year, demonstrates the continued success of broadband in the US from various consumer perspectives:

The survey found that, overall, **broadband consumers in the US are happy with their broadband service:**

- 67% of broadband subscribers are very satisfied (rating satisfaction 8-10 on a 10-point scale) with their service – while just 4% are not satisfied (1-3 on that same scale)

Broadband subscribers are content with the speed of their Internet connection, and are not usually looking to increase their Internet speed:

- 66% of broadband subscribers rate the quality of the speed of their Internet connection favorably (8-10) – while just 5% rate the connection speed as poor (1-3). *Note that cable broadband subscribers rate speed more favorably than Telco broadband subscribers*
- 29% of broadband subscribers are very interested (8-10) in receiving faster Internet access at home – while 37% are not interested (1-3)

While spending over \$40.50 per month, on average, for broadband service, **consumers are generally OK with the price of broadband:**

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- Just 8% rate the cost of their broadband service as poor (1-3) – while 46% rate the cost favorably (8-10). *Note that Telco broadband subscribers rate cost more favorably than cable broadband subscribers*

With two-thirds of Americans now broadband subscribers, the question then goes to – what about those who do not currently subscribe to broadband?

- Non-broadband subscribers are more likely than average to live in rural areas; be over age 55; and have a lower annual household income

As has been true since the introduction of broadband services little more than a decade ago, higher-income households remain most likely to subscribe to a broadband service – but online subscriptions in general, and computer ownership, also tend to increase with household income.

Did you know?

44% of adults agree that changes in the economy have negatively impacted their household in the past year.

LRG’s study found that:

- 89% of all households with annual incomes over \$75,000 subscribe to a broadband service – compared to 70% of households with incomes of \$30,000-\$75,000, and 37% of households with incomes under \$30,000
- 38% of households with annual incomes under \$30,000 do not have a computer at home, and only half of households in this income group subscribe to any type of Internet service at home

Annual Household Income	Have a Computer	Internet at Home	Subscribe to Broadband
Under \$30,000	62%	50%	37%
\$30,000-\$75,000	87%	81%	70%
Over \$75,000	97%	94%	89%

The challenges of bringing broadband to all economic segments of the population go well beyond broadband itself,

requiring recognition of the fact that lower income households (along with older individuals) are still less likely than others to be online and less likely to own computers. Simply lowering the price of broadband access would not necessarily spur the growth of broadband in these demographic segments beyond their natural adoption curves. The benefits of broadband in the

home can not be seen without a computer in the home.

Bringing broadband to less densely populated areas (primarily in rural America) has been slower than in other locations because of the economic

feasibility for companies to wire these areas. Despite this, progress continues to be made in expanding the availability of broadband:

- At the end of 1Q 2009, the top ten cable companies had broadband available to 99% of its collective footprint (representing a total of 114.3 million passings)
- LRG’s survey found that 27% of those interested in getting broadband say that broadband is not available in their area – compared to 42% last year

- Overall, 3% of Internet subscribers say that broadband is not available in their area

Like the rollout of telephone service decades ago in the US, without government assistance in building the infrastructure, it seems unlikely that these last few percent of US homes will get access to a wired broadband offering.

But if one goal of the program is to bring broadband to far-flung locales, one question might be can they afford it? Or more to the point, do they really want it? ...

Leichtman agreed, adding that urban areas may be where the program can do more good. Some of the money could be used to help purchase computers and subsidize broadband service for low-income families.

“For 20% to 25% of America, a computer is a major expense,” Leichtman said.

- Multichannel News
May 11, 2009

Cable and telephone companies have brought broadband access to the vast majority of US households, and broadband has traveled an accelerated consumer adoption curve over the past five years. As the future of broadband in the US is addressed, it is clear that the evolution of broadband in the US to date has been highly successful.

Gap in Satisfaction Between Cable and DBS Subscribers Narrowing

New consumer research from Leichtman Research Group, Inc. (LRG) finds that 62% of US cable TV subscribers are very satisfied with their cable TV company (rating satisfaction 8-10 on a 10-point scale), while 66% of satellite TV subscribers are very satisfied with their Direct Broadcast Satellite (DBS) TV company – representing a difference in levels of satisfaction that, for the first time, is not statistically significant.

Did you know?

40% of those negatively impacted by the economy agree that they reduced spending on TV, Internet, and phone service at home in the past year.

The gap in the levels of satisfaction between cable and DBS subscribers has narrowed over the past several years, with satisfaction among cable TV subscribers gradually increasing, and satisfaction among DBS subscribers declining slightly. In 2004, 53% of cable TV subscribers were very satisfied, compared to 70% of DBS subscribers.

These findings are based on a telephone survey of 1,600 randomly selected households from throughout the United States and are part of a new LRG study, *Cable, DBS & Telcos: Competing for*

Customers 2009. This is LRG's seventh annual study of this topic.

LRG's research also found that:

- 72% of Telco video subscribers are very satisfied with their TV company (while based on a relatively small sample, this is above the industry average)
- 62% of all households currently receive a bundle of services (TV, Internet, and/or telephone) from one company – up from 33% four years ago
- 66% of those who get bundled services from cable are very satisfied with their cable TV company – compared to 55% who get only cable TV
- 86% of households nationwide subscribe to some form of multi-channel video service – an all-time high

Did you know?

Cumulative multi-channel video industry net adds of 905,000 in 1Q 2009 were the most since 4Q 2001.

In an increasingly saturated multi-channel video market, competition from DBS and Telcos resulted in a loss of over 850,000 video subscribers for the cable industry in 2008. Yet, at the same time, the industry added over seven million high speed Internet and telephone subscribers. The increased number of consumers choosing to bundle high speed Internet and/or telephone service with cable TV has been crucial in increasing the overall satisfaction of cable subscribers over the past several years.

1.6 Million Add Broadband in the First Quarter of 2009

Leichtman Research Group, Inc. found that the twenty largest cable and telephone providers in the US – representing about 94% of the market – acquired over 1.6 million net additional high-speed Internet subscribers in the first quarter of 2009. These top broadband providers now account for nearly 69.3 million subscribers – with cable companies having 37.7 million broadband subscribers, and telephone companies having about 31.5 million subscribers.

Other broadband findings for the quarter include:

- The top cable companies added over 835,000 subscribers, representing 52% of the net broadband additions for the quarter versus the top telephone companies

"Clearly the digital [television] transition had some impact," Leichtman said.

People are more likely to switch to cable than to satellite services offered by Dish Network Corp. and DirecTV Group Inc., in part because it's more inconvenient to have a satellite dish installed and in part because cable offers video bundled with telephone and Internet service, Leichtman said.

- Bloomberg
June 11, 2009

- Overall, broadband additions in 1Q 2009 amounted to 73% of those in 1Q 2008 – with cable having 70% as many additions as a year ago, and Telcos 77%
- The top cable broadband providers have a 55% share of the overall market, with a 6.2 million subscriber advantage over the top telephone companies

Net broadband additions in 1Q 2009 were about 600,000 more than in 4Q 2008, and the most since the first quarter of 2008. Yet, given the traditional seasonality of the broadband industry, it should not be a surprise if net adds in 2Q 2009 are half of what they were in 1Q 2009.

Industry by the Numbers – (as of the end of 1Q 2009)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Availability	Penetration	Net Adds in 1Q 2009	Net Adds in 1Q 2008
Basic Cable	115,500,000	56,955,000		49.3%	(44,000)	28,000
Digital Cable*	115,100,000	38,900,000	99.7%	68.3%	600,000	1,055,000
Broadband Internet**	114,300,000	37,450,000	99%	32.8%	830,000	1,190,000
Telephone***	103,300,000	17,800,000	95%	17.2%	715,000	1,170,000

Sources: The Companies and Leichtman Research Group, Inc.

Totals include LRG estimates and pro forma results from system sales and acquisitions.

* Digital penetration of Basic subscribers

** Internet data does not include RCN

*** Telephone data does not include Bright House Networks or Suddenlink

DBS

	Subscribers	Net Adds in 1Q 2009	Gross Adds in 1Q 2009	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	18,081,000	460,000	1,175,000	\$708	\$80.35
DISH Network	13,584,000	(94,000)	653,000	\$659	\$70.03
Total DBS	31,665,000	336,000	1,828,000		

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

Telco Video

	Subscribers	Net Adds in 1Q 2009	Net Adds in 1Q 2008
Verizon FiOS	2,217,000	299,000	263,000
AT&T U-verse	1,329,000	284,000	148,000
Total	3,546,000	583,000	411,000

Sources: The Companies and Leichtman Research Group, Inc.

U.S. Residential Telephone Lines – Gains and Losses

	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009
RBOC Net Adds*	(1,713,000)	(2,131,000)	(2,222,000)	(1,890,000)	(1,768,000)
Cable Net Adds	1,170,000	1,090,000	965,000	720,000	715,000

Sources: The Companies and Leichtman Research Group, Inc.

* Retail residential phone lines include both primary and additional lines, but do not include wholesale lines
Includes LRG estimates and some results adjusted from prior reports

Top Broadband Internet Providers in the U.S.

Broadband Internet Provider	Subscribers at the end of 1Q 2009	Net Adds in 1Q 2009
Cable		
Comcast	15,258,000	329,000
Time Warner	8,952,000	225,000
Cox*	4,080,000	80,000
Charter	2,947,100	71,900
Cablevision	2,485,000	30,000
Mediacom	748,500	24,000
Insight	478,500	20,000
Cable One	386,101	13,214
RCN	306,000	4,000
Other Major Private Companies**	2,115,000	40,000
Total Top Cable	37,755,701	837,114
Telephone Companies		
AT&T	15,436,000	359,000
Verizon	8,925,000	252,000
Qwest	2,889,000	42,000
Embarq	1,452,000	40,000
Windstream	1,009,700	30,900
Century Tel	665,000	24,000
Frontier	600,047	20,104
FairPoint	300,882	5,522
Cincinnati Bell	235,000	1,800
Total Top Phone	31,512,629	775,326
Total Broadband	69,268,330	1,612,440

Sources: The Companies and Leichtman Research Group, Inc.

* LRG estimate

** Includes LRG estimates for Bright House Networks and Suddenlink

Totals reflect pro forma results from system sales and acquisitions

Top cable and telephone companies represent approximately 94% of all subscribers

Company subscriber counts may not represent solely residential households



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