

# Cablevision

Quarterly Analysis

4th Quarter 2004



Communications Media Analysis Group



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**Quarterly Report Analysis – Q4 2004****Cablevision Systems**

Although its satellite TV business continued to drag it down, Cablevision Systems achieved solid results in its video, high-speed data and telephony services during Q4 04.

In its fourth quarter earnings announcement on 2/23, the Long Island,, NY-based cable operator reported a loss for the quarter of \$279.1 mil., compared with a loss of \$46 mil. in the year-earlier quarter. The company attributed the decline to higher DBS operating losses, as well as \$354.9 mil. in non-cash impairment charges at Rainbow DBS to reduce the carrying value of certain assets.

But consolidated revenues increased 11% to \$1.36 bil., up from \$1.23 bil. in Q4 03.

<b>Operating Results</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
<b><u>Consumer Services</u></b>					
Net revenues	\$679,001	\$ 697,307	\$ 730,376	\$ 742,848	\$773,478
Operating cash flow	\$252,854	\$ 257,979	\$ 292,741	\$ 298,859	\$303,987
OCF margin	37.20%	37.0%	40.1%	40.2%	39.3%
<b><u>Business Services</u></b>					
Net revenues	\$45,638.00	47,079	49,792	52,510	\$54,527
Operating cash flow	\$19,804.00	17,068	16,558	18,579	\$21,019
OCF margin	43.40%	36.3%	33.3%	35.4%	38.5%
<b><u>Total</u></b>					
<b><u>Telecommunications</u></b>					
Net revenues	\$722,960	\$ 740,068	\$ 775,177	\$ 788,256	\$820,455
Operating cash flow	\$272,658	\$ 275,047	\$ 309,299	\$ 317,438	\$325,066
OCF margin	37.70%	37.2%	39.9%	40.3%	39.6%

**Cable Television**

Cable Television, comprised of analog and digital video, high-speed data, voice and R&D, recorded Q4 net revenues of \$773.5 million, up 14% over the same period of 2003. Operating income climbed 70%. That growth was driven by the addition of 333,273 revenue generating units in the quarter. The company added 10,788 basic subs., marking its third straight quarter of sub. growth. Cablevision also added 93.5K high-speed data customers, bringing its total HSD customer count to 1.3 mil. The company also added 83.5K telephone customers, bringing its total telephony sub. count to 273K.

**Quarterly Report Analysis – Q4 2004**

Cablevision continued to lead the nation's other top cable operators in the percentage of homes passed receiving high-speed data service. With a footprint that encompasses the New York City metropolitan area, the company ended the quarter with high-speed subs. as a percentage of homes passed of 30.4%, up from 24% at the end of Q4 03.

The MSO is using a triple-play offer to drive phone service into 4.4 million passings in its service area where, as of year-end 2004, less than 300K had yet subscribed to voice. Cablevision says about 30% of gross subscriber adds are triple-play customers and all voice customers by definition are data customers. In five of its franchise areas the company has exceeded 60% data services penetration.

Revenue per-sub of the triple play has been \$110 with additional transactions on top of that actually raising average revenue another couple of dollars. Also part of the bundle, although not broken out, is an additional \$9.95 lease fee for DVR. This is not yet being heavily marketed and is still in the experimental stages, and the company is also looking at a network DVR option as well.

Though it was very late in deploying digital set-tops relative to its peers, Cablevision Systems jumped immediately to a leadership position in VOD, when it included on-demand programming as a key component of its company-wide digital rollout, which occurred in late 2001. It has since been an innovator in developing content specifically for cable's VOD platform.

<b>Consumer Revenues (Mil.)</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Video Revenue*	\$ 507	\$ 526	\$ 537	\$ 542	\$ 545
<i>% of total consumer revenue</i>	74.6%	75.5%	73.6%	72.9%	70.0%
Advertising	\$ 30	\$ 20	\$ 26	\$ 24	\$ 30
<i>% of total consumer revenue</i>	4.4%	2.9%	3.6%	3.2%	3.80%
Other	\$ 4	\$ 4	\$ 5	\$ 4	\$ 9
<i>% of total consumer revenue</i>	0.6%	0.6%	0.7%	0.5%	1.2%
Total video revenues	\$ 541	\$ 550	\$ 568	\$ 570	\$ 584
<i>% of total consumer revenue</i>	79.6%	78.9%	77.8%	76.7%	75.5%
High speed data	\$ 129	\$ 135	\$ 144	\$ 150	\$ 159
<i>% of total consumer revenue</i>	19.0%	19.4%	19.7%	20.2%	20.6%
Residential telephone & other	\$ 10	\$ 12	\$ 18	\$ 23	\$ 30
<i>% of total consumer revenue</i>	1.5%	1.7%	2.5%	3.1%	3.9%
Total consumer revenue	\$ 680	\$ 697	\$ 730	\$ 743	\$ 773
Total consumer revenue per basic sub	\$ 73.45	\$ 79.02	\$ 82.60	\$ 83.39	\$ 87.17

**Quarterly Report Analysis – Q4 2004****Lightpath**

Growth in data revenue also helped Cablevision's Business unit, Lightpath, which reported \$54.5 million in net revenues for the quarter, a 20% increase compared to the prior year period. Operating loss in that unit decreased to \$1.4 million, compared to an operating loss of \$2.3 million in the prior year period. The company attributed the improvements to revenue from both Optimum Online for business and Lightpath.net and other data transport services over Lightpath's fiber infrastructure. Net revenue for Lightpath includes the impact of Optimum Voice call completion activity.

<b>Basic Subscribers and RGUs</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Homes passed	4,400,895	4,407,735	4,416,505	4,427,561	4,443,229
Basic subscribers*	2,942,000	2,943,870	2,951,360	2,952,213	2,963,001
Pro Forma annual sub growth	-0.7%	-0.3%	-0.5%	-0.1%	0.7%
Basic penetration	66.9%	66.7%	66.8%	66.7%	66.7%
Monthly churn	na	na	1.8%	2.1%	1.9%
New service RGUs	2,002,700	2,266,110	2,470,200	2,795,180	3,117,655
RGU % of basics	68.1%	77.0%	83.7%	94.7%	105.2%
<b>Digital Video</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Homes released	4,400,895	4,407,735	4,416,505	4,427,561	4,443,229
Homes released % of total homes	100%	100%	100%	100%	100%
Digital subscribers	905,495	1,055,720	1,165,710	1,337,091	1,483,024
Quarterly net sub adds	150,170	150,225	109,990	171,381	145,933
Penetration of homes released	20.6%	24.0%	26.4%	30.2%	33.4%
Penetration of total basics	30.8%	35.9%	39.5%	45.3%	50.1%
Penetration of total HP	20.6%	24.0%	26.4%	30.2%	30.4%
Monthly churn	na	na	2.9%	3.1%	2.2%
<b>High Speed Data</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Homes released	4,400,895	4,407,735	4,416,505	4,427,561	4,443,229
Homes released as % of total homes	100%	100%	100%	100%	100%
Customers*	1,057,020	1,128,930	1,179,040	1,259,024	1,352,541
Quarterly net adds	72,185	71,910	50,110	79,984	93,517
<i>% change versus prior quarter</i>	13%	0%	-30%	60%	85.5%
Penetration of homes released	24.0%	25.6%	26.7%	28.4%	30.4%
Penetration of basic subscribers	35.9%	38.3%	39.9%	42.6%	45.6%
Penetration of total homes passed	24.0%	25.6%	26.7%	28.4%	30.4%
Sequential quarterly growth rate	7.3%	6.8%	4.4%	6.8%	7.0%
Monthly churn	na	na	2.2%	2.6%	2.2%

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<b>IP Telephony Voice</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Customers	29,000	70,815	115,050	189,191	272,688
Quarterly net adds	23,994	41,815	44,235	74,141	83,497
Penetration of homes passed	na	na	2.7%	4.3%	6.1%
<b>Residential Voice - circuit switched</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Homes marketed	157,320	157,320	157,320	157,320	157,320
Homes marketed as % of total homes	3.6%	3.6%	3.6%	3.6%	3.60%
Customers	11,185	10,645	10,400	9,874	9,412
Penetration of homes marketed	7.1%	7.1%	7.1%	7.1%	6.0%
Penetration of total homes passed	0.3%	0.2%	0.2%	0.2%	0.2%
<b>Residential Voice - Total</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Total Residential Telephony Subs.	40,185	81,460	125,450	199,065	282,100
% of homes passed	0.9%	1.8%	2.8%	4.5%	6.3%
<b>Commercial Telephone</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Buildings on net	1,655	1,670	1,700	1,634	1,662
Access lines	142,690	135,625	145,530	151,210	154,001
Fiber miles	119,405	119,940	120,817	121,995	126,690
Route miles	2,320	2,334	2,360	2,390	2,439

For the full year 2004, Cablevision's consolidated net revenue increased 18% to \$4.9 billion, driven by the addition of 1.1 million RGUs during the year in Cable Television and revenue growth at Rainbow Media's Core Networks. Operating loss for 2004 totaled \$59.4 million compared to operating income of \$31.7 million in 2003, reflecting the Rainbow DBS impairment charges discussed above as well as higher Rainbow DBS operating losses.

<b>Capital Expenditures (000)</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Consumer premise equipment	\$ 86,840	\$ 101,385	\$ 121,267	\$ 124,693	\$81,131
Scalable infrastructure	\$ 19,442	\$ 6,516	\$ 14,625	\$ 22,659	\$13,093
Line extensions	\$ 7,450	\$ 5,038	\$ 5,588	\$ 8,355	\$11,412
Upgrade/rebuild	\$ 29,812	\$ 725	\$ 4,756	\$ 2,034	\$4,156
Support	\$ 11,714	\$ 5,289	\$ 12,772	\$ 14,423	\$13,921
Total Consumer	\$ 155,258	\$ 118,953	\$ 159,008	\$ 172,164	\$123,713
Commercial	\$ 21,818	\$ 9,034	\$ 12,334	\$ 11,981	\$14,293
Total Telecommunications	\$ 177,076	\$ 127,987	\$ 171,342	\$ 184,145	\$138,006
<b>Capex Per Sub.</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Average basic subs	2,948,478	2,942,935	2,947,615	2,951,787	2,957,607
Capex Per Sub.	\$ 52.66	\$ 40.42	\$ 53.94	\$ 58.33	\$41.83



## Quarterly Report Analysis – Q4 2004

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### **Voom**

Concerned about continued losses, Cablevision's board of directors in January voted to sell the company's troubled Voom high-definition satellite TV business, punctuating a battle between CEO James Dolan—who favored the sale—and his father, company founder and controlling shareholder Charles Dolan, who wanted to keep the unit. Voom had grown rapidly since its launch in late 2003. By the end of September 2004, Voom listed 38 high definition channels, 87 standard definition video channels and 18 music channels. But Cablevision's fourth quarter and full year earning report noted DBS operating losses of \$661.4 million. EchoStar subsequently agreed to buy the DBS assets for \$200 million in cash.

For 2005, Cablevision is project a growth in basic subs. of 1.5% to 2.0%, and percentage revenue growth to be in the "mid teens." Capital expenditures for the year are expected to be \$600 mil. to \$650 mil.