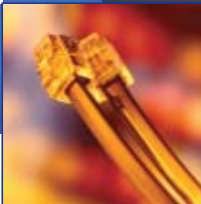




2004 Year-End Industry Overview



National Cable & Telecommunications Association



Table of Contents

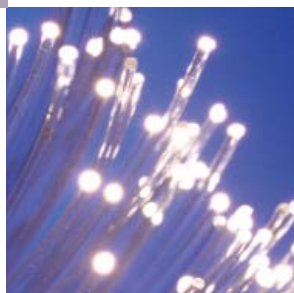
- I. INTRODUCTION2**
- II. CABLE’S COMMITMENT TO INVEST IN CONSUMERS.....4**
Cable companies have empowered American consumers by offering new digital services, made possible by investments in infrastructure and facility improvements.
- III. CABLE DELIVERS ADVANCED SERVICES TO CONSUMERS5**
The cable industry’s nearly \$95 billion capital investment has made it a leader in delivering on broadband’s promise.
- IV. CABLE DELIVERS PROGRAMS THAT CONSUMERS ARE WATCHING12**
Cable investment in programming has resulted in original, compelling and high-quality content that is attracting viewers and accolades.
- V. CABLE DELIVERS HIGH-DEFINITION PROGRAMMING TO CONSUMERS18**
The digital television transition continues, as cable operators offer HDTV in scores of markets nationwide.
- VI. CABLE FACES HEALTHY COMPETITION20**
Cable faces vigorous competition in its core video business, and has fueled competition in emerging services such as high-speed Internet access and phone service.
- VII. CABLE’S COMMITMENT TO FAMILIES24**
Cable addresses parents’ concerns about what they and their children see on television through choice, control and education.
- VIII. CABLE’S COMMITMENT TO EDUCATION25**
Cable’s broadband platform can provide unique educational benefits to teachers, students and parents, and these benefits are manifest in communities nationwide through Cable in the Classroom (CIC).
- IX. CABLE’S COMMITMENT TO DIVERSITY27**
Cable industry recognizes the rich diversity in the communities it serves and is committed to ensuring that diversity is reflected in cable’s workforce, supplier base and programming.
- X. CABLE’S COMMITMENT TO LOCAL & REGIONAL PROGRAMMING.....28**
At its core, the cable business is a local business serving more than 30,000 communities across the country. Cable ensures that community needs are met through local and regional programming.
- XI. INDUSTRY STATISTICS30**
A compilation of data about the cable industry.

CHARTS

- 1 Cable Industry Infrastructure Expenditures4
- 2 Cable Broadband Availability5
- 3 Digital Cable Customers6
- 4 Cable Modem Customers.....9
- 5 Cable Networks’ Programming Expenditures12
- 6 Cable Viewership vs. Networks ...13
- 7 Cable Operators’ Programming Expenditures14
- 8 National Video Programming Services.....15
- 9 Homes Passed by Digital Cable ...18
- 10 Analysis of MVPDs20
- 11 Growth in MVPD Households21
- 12 Industry Statistics.....30

I. Introduction

In 2004, cable put consumers in control. Cable system operators and cable programmers continued a decade-long blaze of developments in broadband applications and services that are changing the way we live. The industry's commitment to broadband deployment has led to significant competition in all areas of voice, video and data. More importantly, these changes have empowered consumers by offering them a broad range of flexible options to serve their communications, entertainment and information needs.



These enhancements were made possible by cable's substantial investment in the upgrade of its network. Nearly \$95 billion has been spent since 1996, turning cable's hybrid fiber-coaxial infrastructure into a powerhouse capable of delivering advanced services such as Video-On-Demand, digital cable, Voice over Internet Protocol (VoIP) phone service, high-speed Internet access, and more. At the same time, cable's traditional video services continue to improve in quality and popularity.

Consumer acceptance of these products continues to grow, with cable reaching a new plateau of maturity in 2004, despite intense competition. Cable's high-speed Internet service ended the Third Quarter of 2004 with 19.4 million subscribers, even in the face of growth from the telephone companies' digital subscriber line (DSL) service. The number of digital cable customers grew to 24.3 million by the end of the Third Quarter. There were also 2.7 million cable telephone customers at the end of the Third Quarter of 2004 – most of them served by circuit-switched digital telephone service – as the industry began to focus on deployment of VoIP. In November, the FCC found that cable VoIP was not subject to traditional state regulation, which should encourage additional investment in this new service.

This year brought significant developments in the digital TV transition, with continued gains in the deployment of High-Definition Television (HDTV).

This year also brought significant developments in the digital TV transition, with continued gains in the deployment of High-Definition Television (HDTV). Cable's deployment of HDTV service has increased nearly 140 percent since January of 2003. As of September 1, 2004, HDTV was available to 90 million U.S. television households. In addition, the amount of cable HD programming has increased steadily, with 17 cable networks now offering HD programming during some or all of their network schedules, in a broad range of genres including movies, sports and general interest. In December 2002, the cable and consumer electronics industries reached agreement on standards for the creation of Digital Cable Ready (DCR) equipment for the home. The FCC approved those standards in September 2003, and new DCR sets began reaching cable households in 2004.

In spite of these dramatic changes, cable has stayed true to its roots. From its simple beginnings in providing clear reception of broadcast stations to its current role as a broadband provider of voice, video and data, cable has played to its strength as a neighbor in the communities it serves. Unlike satellite, cable companies employ locally, pay taxes and franchise fees, engage in local public affairs initiatives, provide local programming, and contribute to the educational strength of the community through Cable in the Classroom and other public affairs efforts.

Part of this community-centric nature is cable's history of responding to the needs of customers. For example, cable and the entire television industry faced calls early this year from legislators, regulators, interest groups, and other public constituencies, to address the content of some television programming. Cable responded quickly, with measures designed to affirm that the programming that flows into consumers' homes should be controlled by consumers themselves. Cable operators pledged to provide, at no charge, blocking devices to allow cable customers to block channels they find unsuitable for family viewing. Cable networks have re-committed to rating their programs through the TV parental guidelines rating system. And the cable industry has introduced a consumer education campaign based on choice, control, and education: Cable provides the greatest entertainment and information choices of all media today; provides families with the tools they need to control the flow of programming into their homes; and offers comprehensive information about media literacy and other methods of supporting responsible television viewing.



Despite these efforts to empower customers, some groups contended this year that "a la carte" pricing and packaging of cable channels would be a way to enable viewers to easily block programming they find objectionable. However, a number of authorities found that a la carte would have the opposite effect of the attributes claimed by its

proponents. Following on the earlier findings of the Government Accountability Office that a la carte could result in higher prices for fewer channels, the FCC found that "government intervention through a la carte regulation likely will hurt MVPDs (multichannel video programming distributors), program networks, and especially MVPD subscribers." In July, a study conducted by the worldwide consulting firm of Booz Allen Hamilton found that even if no consumers were to choose a voluntary a la carte option, consumer prices for current tiers would increase between seven percent and 15 percent. The study also concluded that the number of cable networks, and the quality and diversity of cable programming, would be severely diminished under an a la carte regime.



Cable TV service today provides consumers with a highly personalized level of service. As the level of programming and services continues to grow – including new ways for viewers to watch what they want, when they want – cable is delivering more choice, convenience and control to consumers than ever before.

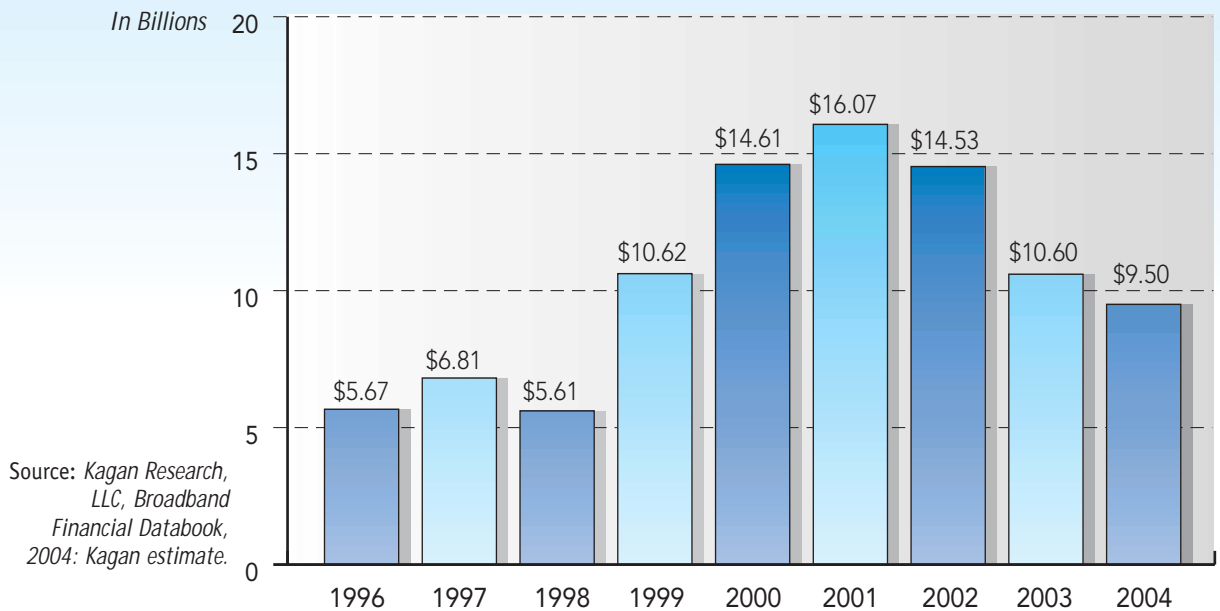
II. Cable's Commitment to Invest in Consumers

Cable companies have demonstrated their commitment to bring consumers advanced services by heavily investing in infrastructure upgrades and facility improvements that have made "broadband" a household word in America.

- Between 1996 and 2004, cable capital expenditures reached nearly \$95 billion (see Chart 1). In 2004 alone, \$9.5 billion was invested.
- This investment equates to nearly \$1,300 per customer spent to upgrade cable systems and launch new broadband services. The upgrades, which involved rebuilding more than one million miles of cable plant with fiber optic technology, will be nearly 90 percent complete by year-end 2004.



CHART 1: Cable Industry Infrastructure Expenditures: 1996–2004



Source: Kagan Research, LLC, *Broadband Financial Databook*, 2004: Kagan estimate.

FACILITY UPGRADES

By year-end, more than 113 million homes will be passed by cable plant with a capacity of at least 550MHz – with over 99 million homes passed by systems with a capacity of 750MHz or higher. These upgrades position cable to compete more effectively with Direct Broadcast Satellite (DBS) companies, which typically offer more than 150 channels of video programming. Also by year-end 2004, more than 105 million households will be passed by activated two-way plant. Kagan Research, LLC, estimates that by the end of 2005, more than 109 million households will be passed by two-way plant.¹

¹ Kagan Research, LLC, *Broadband Cable Financial Databook*.

III. Cable Delivers Advanced Services To Consumers

The cable industry's investments have enabled it to be at the cutting edge of broadband, giving consumers the products they want, such as high-speed Internet access, High-Definition Television (HDTV), digital cable, Video-On-Demand (VOD) or telephone service. Today, cable's advanced services are available to more than 105 million homes, or 91 percent of U.S. households passed by cable (see Chart 2).

While some of the immediate benefits of the cable industry's network upgrade included the ability to provide customers with increased reliability and more basic and digital cable channels, the broadband platform is a competitive advantage for cable, since consumers can choose multiple services from a single provider.

Several cable multiple system operators (MSOs) are aggressively marketing bundled packages of their services as a way to attract new consumers and retain existing video subscribers.

- In the 17 markets where Cox Communications is offering phone service, 17 percent of customers now receive all three advanced services offered (video, high-speed Internet and local telephone service), up from 15 percent at the end of 2003.
- Cablevision Systems is selling Optimum Voice, its new VoIP service, as an exclusive bundle with Optimum Online, the existing high-speed data service. By the end of the Third Quarter of 2004, more than 190,000 customers had taken the package. The Optimum Triple Play promotion lets customers choose digital video, voice and data services for \$29.95 each per month for 12 months when all three services are taken together.
- More than 25 percent of Comcast Cable's customers subscribe to more than one of its video, voice or data products.

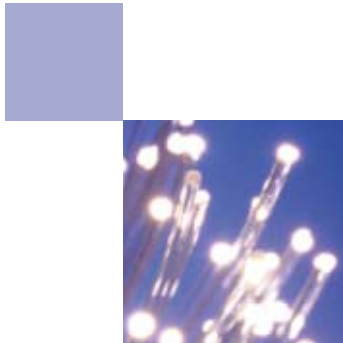
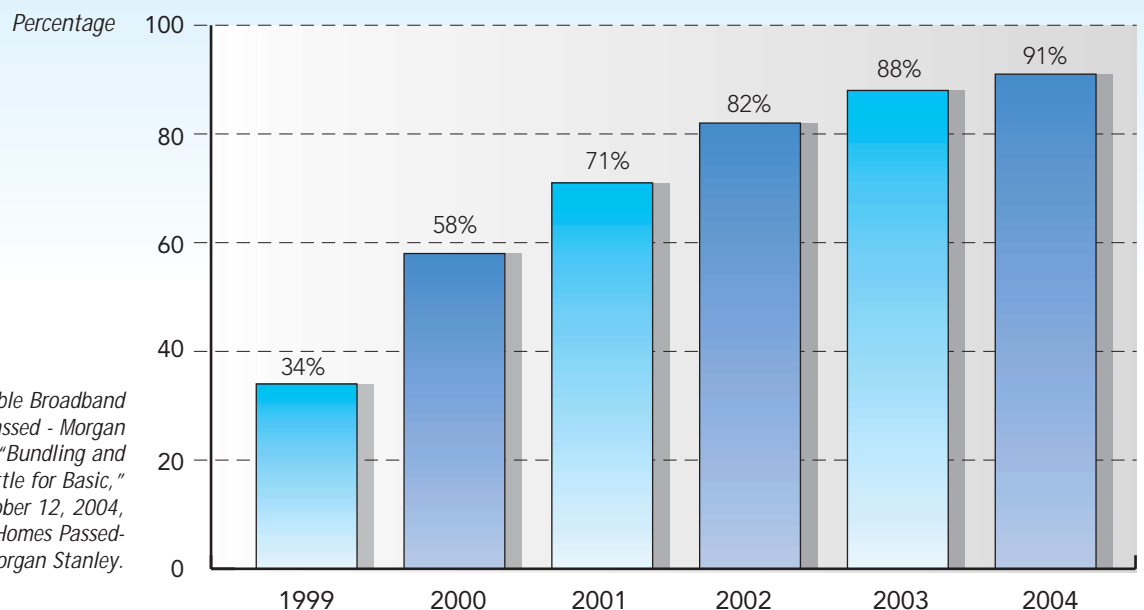


CHART 2: Cable Broadband Availability as a Percentage of Homes Passed by Cable: 1999–2004



Source: *Cable Broadband Homes Passed - Morgan Stanley, "Bundling and the Battle for Basic," October 12, 2004, Cable Homes Passed - Morgan Stanley.*

III. Cable Delivers Advanced Services to Consumers

DIGITAL CABLE

Cable's digital services are integral to the industry's plans to increase customer satisfaction and compete effectively with DBS, telephone companies and other broadband providers. The increased channel capacity and wide variety of new programming available through digital cable have been welcomed by consumers.

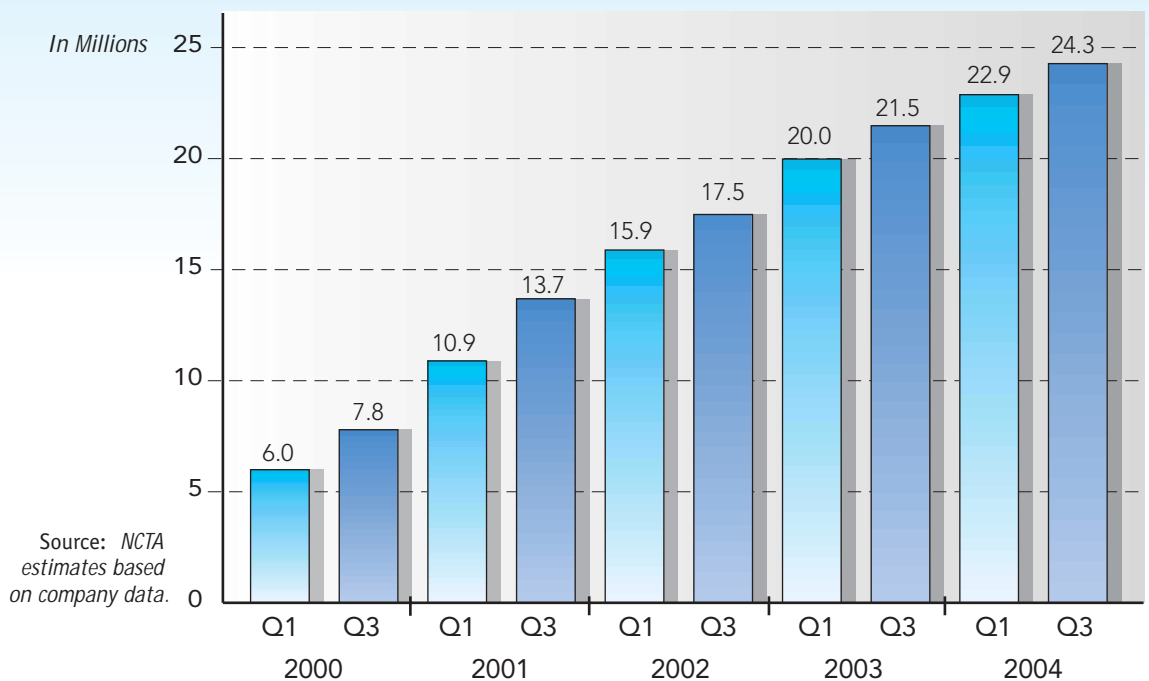
- Today, more than one-third of U.S. cable customers – approximately 24.3 million – subscribe to digital cable service (see Chart 3).
- Cable networks have responded to the availability of additional digital capacity by launching a wide array of new programming services. Digital tiers often package network lineups by genre, such as sports, music, movies, family, and Spanish-language programming.

INTERACTIVITY

As cable operators upgrade their systems with digital and two-way capability, they are offering more sophisticated interactive services. Such services are increasingly putting the control of media directly into the hands of consumers – allowing them to watch what they want, when they want.

These interactive services, now being deployed, include digital video recorders (DVRs), VOD, interactive program guides (IPGs), enhanced TV services (ETVs), and TV-based Web access and local content.

CHART 3: Digital Cable Customers: 2000–2004





More than one-third of U.S. cable customers – 24.3 million – subscribe to digital cable service, which provides customers with a wide array of new interactive features.

Video-on-Demand. VOD is a method of delivering video to customers upon request and is unique to cable because of its two-way network. Programming is ordered with the push of a remote button and the content plays with full VCR functionality (pause, rewind, fast-forward). The content – which includes new and old movies, special events, and television programming – is stored on servers at the cable system headend.

- Kagan Research, LLC, estimated that by the end of 2004, 19.8 million U.S. homes would have access to VOD from their local cable operator.²
- Many MSOs have been deploying VOD during the past several years, including Time Warner Cable, Comcast, Charter Communications, Cox Communications, and Insight Communications.
- VOD provider iN DEMAND reports that, starting around June of 2004, Movies On Demand orders exceeded pay-per-view orders by more than two-to-one.³
- MSOs partnered with C-SPAN to make material from the Democratic and Republic National Conventions and the Presidential debates available on VOD. Key speeches from the conventions were available throughout VOD-enabled homes of Comcast, Time Warner, Cablevision, and Cox. C-SPAN's coverage of the three presidential debates and one vice presidential debate was available to 18-20 million homes through such companies as Comcast, Time Warner, Charter, Cox, Adelphia Communications, Cablevision, Bright House Networks, Mediacom Communications, Insight, RCN Corp., Bresnan Communications, Block, Patriot Media, as well as more than a dozen other smaller operators.

Several MSOs have either deployed digital video recorders (DVRs) or announced plans to do so. DVRs record video programming onto a hard drive located in the set-top box and allow the viewer to pause, fast forward and manage other functions and applications, including the ability to pause live television.

- Time Warner Cable has rolled out DVRs in all of its top 31 divisions. As of the Third Quarter of 2004, it had 709,000 DVR customers.
- Cox Communications plans to have the service available in 95 percent of its markets by the end of 2004. Kagan Research, LLC estimates that Cox had 127,000 DVR customers at the end of the Third Quarter. Recent market launches include Orange County, CA; Omaha, NE; Roanoke and Hampton Roads, VA; New England (Rhode Island and Connecticut); New Orleans and Baton Rouge, Louisiana; Macon, Georgia; and Tulsa, Oklahoma.
- Comcast plans to offer DVRs to all of its customers by year-end 2004. Kagan estimates that Comcast had 294,000 DVR customers at the end of the Third Quarter. It has launched the service in Albuquerque, NM; northern Virginia; selected systems in New Jersey; Charleston, SC; and Panama City, Sarasota and Fort Myers/Naples, FL.
- Insight has launched DVR service in 12 of its 14 markets.
- Charter ended the Third Quarter of 2004 with 61,000 DVR customers, up from 24,000 in the Second Quarter.
- Other operators – including Cablevision, Mediacom, Bright House Networks, and Adelphia – began DVR deployment this year.

² Kagan Research, LLC, *Broadband Financial Databook 2004*.

³ Based on company information.

III. Cable Delivers Advanced Services to Consumers

The electronic gaming industry is another on-demand growth area in which cable operators are beginning to offer services.

- Comcast Games on Demand delivers games to the PC through cable modem, allowing access to a number of games from leading gaming publishers, such as Atari, Scholastic and Strategy First. Customers have unlimited access to the game library and can play games as long as they wish.
- Cablevision's iO: Interactive Optimum digital cable subscribers now have access to two new subscription game packages, Arcade and Logic Pak, which joined the existing packages Variety Pak and Casino. Across all packages, subscribers have access to 39 games, which are delivered to the digital set-top box and are played using a simple remote.

The electronic gaming industry is another on-demand growth area in which cable operators are beginning to offer services.

PC-based solutions to interactivity also are serving consumers' needs for audio and video on demand.

- Starz Encore Group and RealNetworks launched an online service, called STARZ! Ticket on Real Movies, which gives subscribers unlimited access to a rotating library of motion pictures for only \$12.95 per month. Titles were increased in September 2004 to offer approximately 150 new release and classic movies, films such as *Finding Nemo*, *Lord of the Rings: The Return of the King* and *Taxi Driver*. Subscribers also have access to a streamed version of the STARZ! linear service, marking the first time a premium movie channel has been delivered simultaneously over broadband.
- RealNetworks' Rhapsody jukebox subscription service gives consumers unlimited access to more than 30,000 albums of music from all five major music companies and more than 200 of the world's most prominent independent labels. Rhapsody is distributed to consumers through Cablevision's Optimum Online, Charter Communications, Comcast, and Time Warner Cable's Road Runner division.

Subscribers can also receive personalized information through operators' ITV offerings.

- Almost 70 percent of Insight's digital subscriber base utilizes the LocalSource interactive portal, which gives access to interactive news, sports, weather, community resources and customer care information.
- Cablevision now offers ITV functionality to all areas of its iO: Interactive Optimum digital platform. Applications include "Metro Weather Interactive," with localized forecasts; "Metro Traffic Interactive," which includes live camera shots of congested roadways; and "iO Dashboard," which lets users access news, sports, weather, and horoscope information.
- The suite of Charter "iTV" channels includes on-demand weather forecasts, movie listings, sports scores, and games.

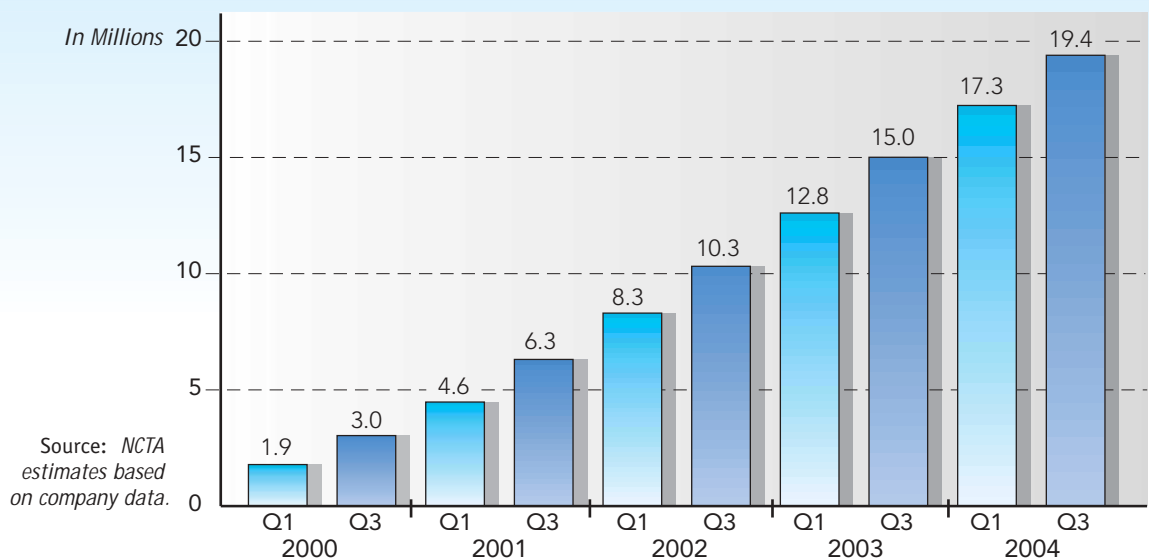
HIGH-SPEED INTERNET SERVICE

Cable is the ideal medium through which to offer consumers high-speed access to the Internet. Cable's superior bandwidth enables transmission speeds significantly faster than its competitors; the cable connection is "always on" and doesn't interfere with normal telephone activity or usage. The cable industry also has developed the DOCSIS standard in order to make cable modems available at retail stores.

- Today, the U.S. cable industry counts 19.4 million high-speed Internet customers (see Chart 4).
- More than one-quarter of cable households today are cable modem customers, and among households with Internet access, nearly 30 percent are cable modem customers.
- Some cable companies have increased the download speeds for their high-speed Internet service up to 3 to 10 megabits per second, offering subscribers an even more satisfying broadband experience. According to a study in the first quarter of 2004 by measurement firm comScore Networks, "cable providers are supplying the average end user with a download speed more than twice as fast as that of DSL providers."⁴
- Cable operators continue to deploy new online services that take advantage of cable's high speed and bandwidth. These cable Internet services provide content-rich local and national programming and access to other educational and informational resources. Operators are also offering home networking, so that the benefits of high-speed access can be used throughout the household.
- Charter's high-speed access service includes anti-virus, anti-spyware and firewall protection; parental control features; and content from Major League Baseball, NASCAR and Movielink, among others.
- Comcast has added content to its broadband portal .Net, including Voice Mail; PhotoShow Deluxe; "The Fan," a broadband multimedia player; "The Assistant," a personalized toolbar with always-on utilities; and content from ABC News, CNBC, Disney, FOXSports.com and MLB.com.
- Cablevision launched a series of enhancements to its high-speed Internet access service, including Pop-Up Stopper, a download to stop pop-up ads; SpamAway, to filter incoming spam; and a complete suite of security software.



CHART 4: Cable Modem Customers: 2000–2004



Source: NCTA estimates based on company data.

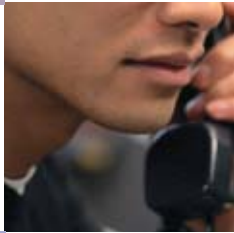
⁴ comScore Networks Press Release, April 28, 2004.

III. Cable Delivers Advanced Services to Consumers

CABLE PHONE SERVICE

As of the end of the Third Quarter of 2004, major MSOs including Cox, Charter, Comcast, Insight, Cablevision, and Time Warner, along with other cable operators, served approximately 2.8 million residential cable phone customers across the country. Companies including Cox Business Services and Cablevision Lightpath are offering telephone services to businesses as well.

For the first time, in J.D. Powers and Associates' Residential Long Distance Telephone Service study in 2004, a cable company ranked highest in customer satisfaction. Cox ranked highest in the bundled long distance telephone service segment, scoring high in performance and reliability, billing, and image.



VOIP – Voice over Internet Protocol. While some cable operators have offered circuit-switched telephony service for years, more recently, many companies have launched voice over Internet protocol (VoIP) service. These companies include Comcast, Time Warner, Cablevision, Charter, Cox, and Mediacom. Kagan Research reported that cable VoIP showed significant growth in the past year, increasing from 1,000 VoIP subscribers in the Second Quarter of 2003 to 141,800 in the Second Quarter of 2004. Moreover, the VoIP subscriber base continued to grow to 228,000 in the Third Quarter, up 161 percent in one quarter. According to NCTA estimates, cable VoIP will exceed 450,000 customers by the end of 2004.

In J.D. Powers and Associates' Residential Long Distance Telephone Service study in 2004, Cox ranked highest in the bundled long distance telephone service segment, scoring high in performance and reliability, billing, and image.

Through the use of software, VoIP provides all of the functionality of the public switched telephone network (PSTN), while making possible new features not available through traditional circuit switched telephony, such as Web portals that allows customers to review their calling history or listen to voicemail messages. Calls are placed over an IP-based data network and voice is transmitted with data "packets." For example, the IP data packets used by services from some of the Internet telephony providers travel over the public Internet. Facilities-based cable offerings, in contrast, transport IP data packets over their private managed IP networks with end-to-end quality of service monitoring (while still interconnecting with the PSTN as necessary).

In November 2004, the FCC issued a ruling that cable VoIP was not subject to traditional state regulation, which is an important step towards establishing a national framework for the regulation of VoIP services.

III. Cable Delivers Advanced Services to Consumers



- Cablevision launched Optimum Voice VoIP in the Fourth Quarter of 2003 throughout its New York City service area of four million homes. For \$34.95, customers receive unlimited local and long-distance service, caller ID, call waiting, call return, three-way calling, call forwarding, and emergency 911 service (Customers who purchase Cablevision's Triple Play option can receive the service for a discounted price of \$29.95 for the first 12 months of service). In December, Cablevision announced that its Optimum Voice service has passed the 250,000-subscriber mark, up from 28,650 customers at the end of 2003, with approximately 1,000 new customers on average being added each day within its New York metropolitan-area system.
- Time Warner Cable has launched VoIP service across its entire 27-state footprint. The first "Digital Phone" launch took place in Time Warner Cable's Portland, ME, division in May 2003. Digital Phone was aggressively rolled out in the Company's other 30 divisions over the course of 2004. In December, Time Warner stated that it would pass the 200,000 mark by year's end. The MSO announced a partnership with MCI and Sprint at the end of 2003, which enabled Time Warner Cable to provision its digital voice service, terminate its IP voice traffic and manage its emergency 911 service as well as provide long distance service.
- Cox, which has been delivering switched-circuit telephony since 1997 and served nearly one million customers with voice service at the end of 2003, made its first deployment of VoIP service in December 2003 in Roanoke, VA - marking the 12th market in which Cox introduced phone service. In 2004, Cox launched VoIP in Tulsa, OK; Baton Rouge, LA; west Texas; and southwest Louisiana.
- Comcast, which had 1.2 million circuit-switched phone customers by the end of the Third Quarter of 2004, is currently conducting VoIP trials in the suburbs of Philadelphia; Indianapolis, IN; and Springfield, MA. Comcast plans to have 50 percent of its network ready for VoIP by the end of 2004 and 95 percent ready by the end of 2005.
- Bresnan announced that it will be launching VoIP service in the First Quarter of 2005, with Net2Phone providing full operational support.
- Bright House Networks has launched VoIP service in Pinellas, Hillsborough and Pasco counties in Florida; launches in Hernando and Citrus counties are scheduled by year-end.

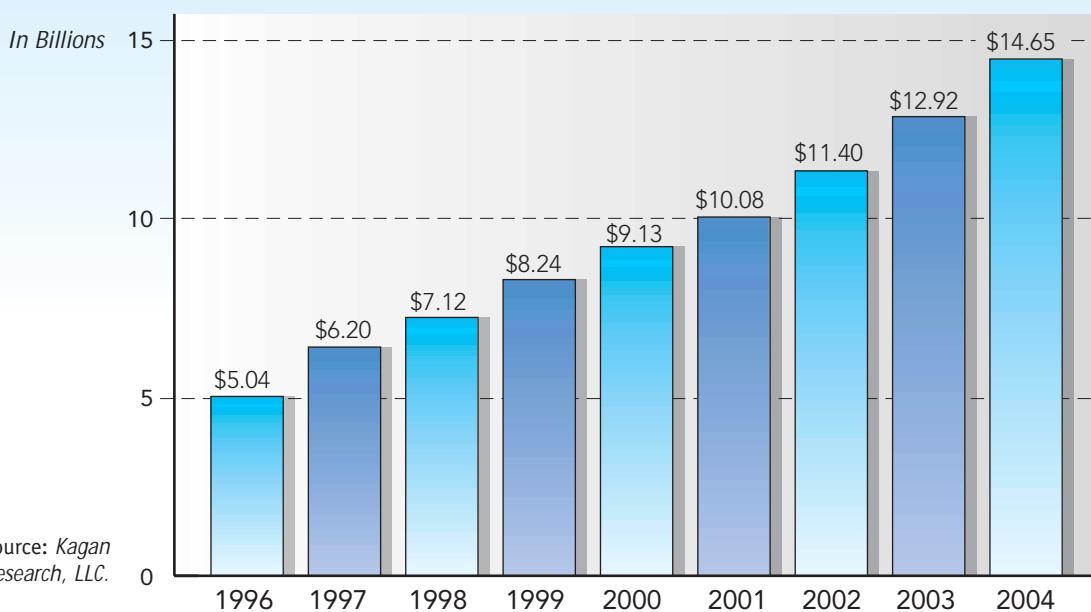
IV. Cable Delivers Programs that Consumers are Watching



Cable investment in programming has benefited consumers by delivering original, compelling, and high-quality content that attracts viewers and awards.

Programming Quality. Cable is increasingly recognized as the outlet for high-quality, cutting-edge programming by television critics and the viewing public. Cable networks continue to increase financial investments in their programming. In total, cable networks invested more than \$14.65 billion in programming during 2004 (see Chart 5).

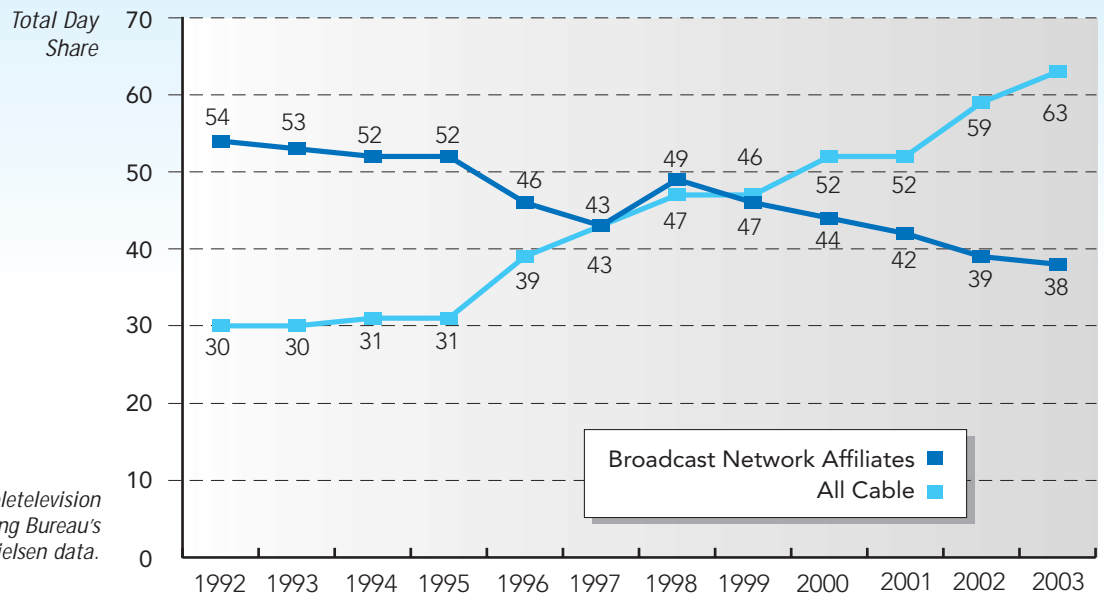
CHART 5: Cable Networks' Programming Expenditures: 1996–2004



Source: Kagan Research, LLC.

- Cable networks received a record number of Emmy wins in 2004, with 11 cable networks collectively garnering 50 awards during the 56th Annual Primetime Emmy Awards in September 2004, surpassing for the first time broadcast networks, which earned 37 awards.
- In January 2004, BBC America and HBO won Golden Globe Awards.
- In February 2004, the Humane Society of The United States (HSUS) presented its 18th Annual Genesis Awards, dedicated to increasing awareness of animal issues through the power of the media. Honors went to such cable programming as *Hunting in America* (National Geographic Channel); *National Geographic Ultimate Explorer* (MSNBC); *Cell Dogs* (Animal Planet); and *Bike Squad* (Showtime).
- In March 2004, Bravo and HBO won Producers Guild Awards, and in April 2004, cable organizations won seven George Foster Peabody Awards out of 29 awards granted.
- HBO won seven Sports Emmy Awards in April 2004, followed by ESPN with six, and ESPN2, iN DEMAND and NFL Network tied with one award each.

CHART 6: Viewers Tune in Cable and Tune Out the Big Four
(Total TV Households/Total Day Shares): 1992–2003



Source: Cabletelevision Advertising Bureau's analysis of Nielsen data.

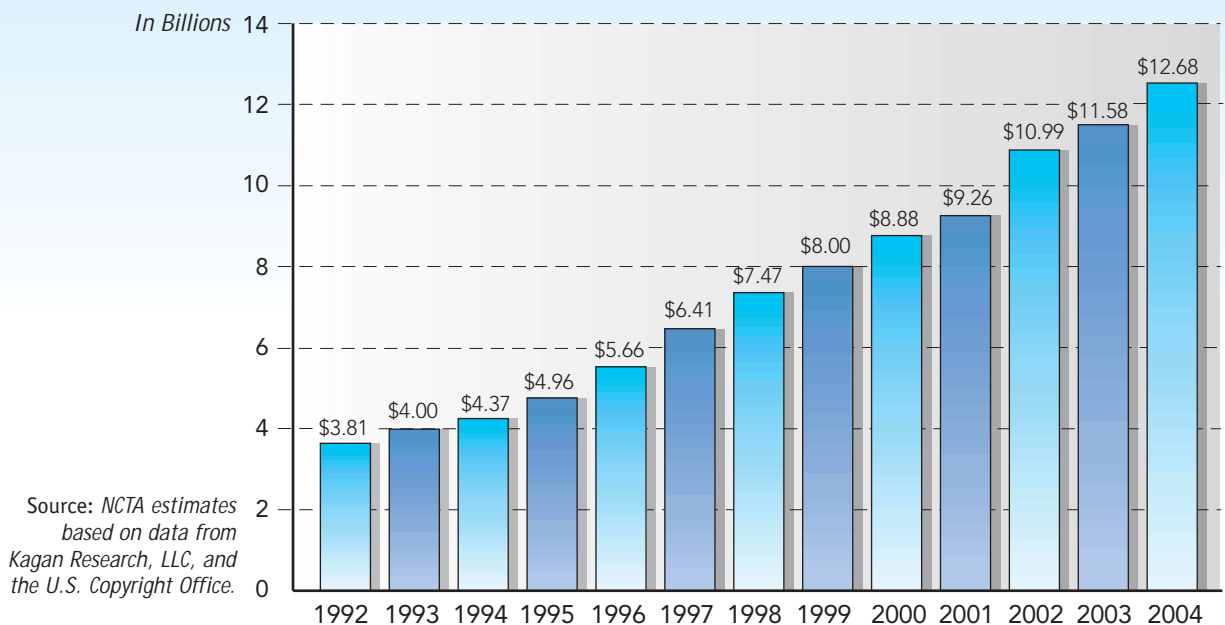
Programming Viewership. More viewers are tuning into cable’s diverse offerings than ever before. At the same time, collective viewership of the seven national commercial broadcast networks (ABC, CBS, NBC, FOX, UPN, WB & PAX) continues to decline (see Chart 6).

- More than half of all primetime television viewers watched ad-supported cable networks during the official 2003/2004 TV season (September – May), the first time that cable has topped all national broadcast networks combined during this programming period. Cable-plus households tuned in on a weekly basis to more than 35 hours of ad-supported cable programming versus an average of 24 hours per week for all commercial broadcast programming combined.
- An analysis of Nielsen data by the Cabletelevision Advertising Bureau (CAB) shows that for the official 2003/2004 TV season, ad-supported cable networks surpassed the “Big 4” (ABC, CBS, NBC, FOX) broadcast networks on a total day basis by 13.8 share points – with cable posting a 51.7 share to broadcast’s 37.9.
- Against all seven broadcast networks in primetime during the 2003/04 official TV season, cable outpaced the broadcasters collectively by 2.7 share points with a 49.9 share – a first for cable. The year before, the broadcast networks had a .3 share point edge as cable continued to whittle away at broadcast viewership.⁵
- Cable news networks proved to be popular destinations during the recent Presidential election. During the key hour of 10 – 11 p.m. during the Republican National Convention, FOX News Channel had the highest average rating of any network, broadcast or cable. During the Democratic Convention, FOX, CNN and MSNBC combined garnered more than double the viewers from the same convention in 2000.

⁵ All viewership data provided by Cabletelevision Advertising Bureau (CAB), based on analysis of Nielsen data.

IV. Cable Delivers Programs that Consumers are Watching

CHART 7: Cable Operators' Programming Expenditures: 1992–2004



Source: NCTA estimates based on data from Kagan Research, LLC, and the U.S. Copyright Office.

NOTE: Programming expenditures include license fees, copyright fees and investments in local programming.

Programming Investment. Cable operators also continue to make substantial investments in programming – \$11.58 billion in 2003 and \$12.68 billion in 2004 – resulting in more choice and higher-quality programming for consumers (see Chart 7).

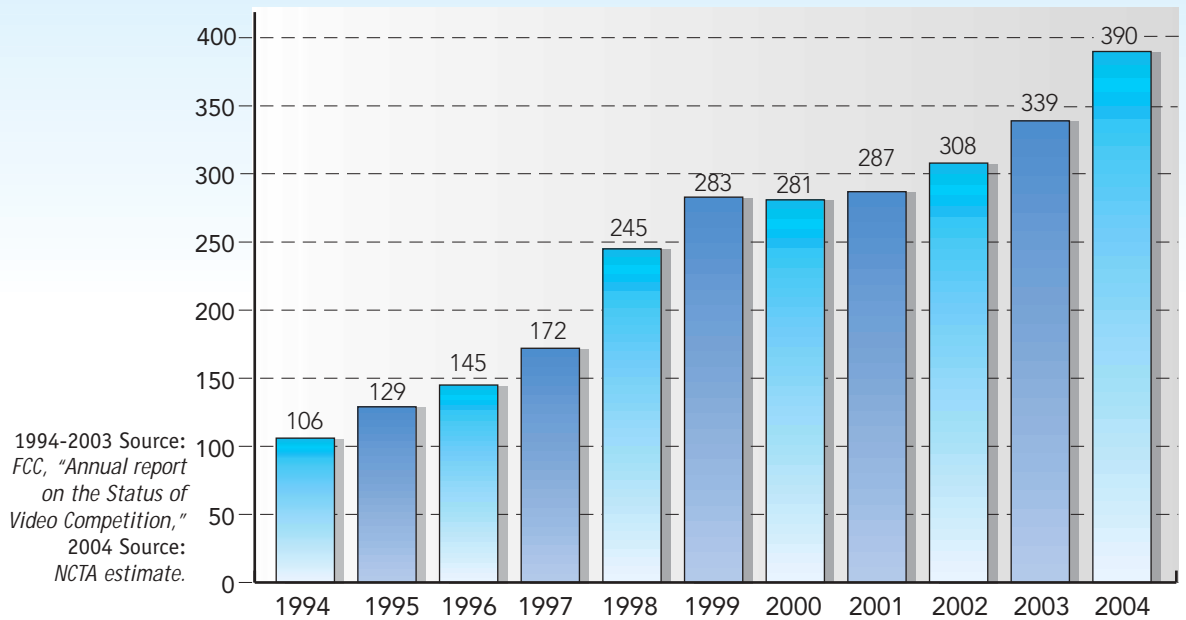
Programming Choice. Cable's investments have resulted in the creation of an increasing number of cable networks. According to NCTA estimates and data from the FCC, the number of national cable networks has grown from 145 in 1996 to 390 by year-end 2004 – a 269 percent increase over eight years (see Chart 8). Recent network launches include Pentagon Channel, Sí TV and TV One.

Children's Programming. Cable networks continue to provide many hours of quality programming for children and families.

- Basic cable networks such as ABC Family, Animal Planet, Boomerang, Cartoon Network, Discovery Kids, Disney Channel, The Hallmark Channel, Nickelodeon, Nickelodeon GAS, Noggin/The N, and Toon Disney, as well as premium networks such as HBO Family, Showtime Family Zone, STARZ! Family, STARZ! Kids, and WAM! continue to attract a growing audience share of children and families. Total day viewing by kids (ages 2-11) of advertising-supported cable networks increased from a 28.3 share in 1993/1994 to a 53.6 share during the 2003/04 official TV season.⁶

⁶ CAB analysis of Nielsen data.

CHART 8: National Video Programming Services: 1994–2004



- In addition to the positive viewing options that cable provides families, the industry has taken steps to help parents manage what their families watch. In March 2004, the 10 largest NCTA member companies and many smaller cable companies – a group serving about 85 percent of all cable subscribers – announced that they will make available upon request, at no additional charge, channel blocking technology to any cable customer who doesn't already possess the equipment necessary to block channels. NCTA member cable networks reaffirmed their commitment to apply TV ratings and content labels to their programming and encode the ratings so they can be interpreted by a V-Chip equipped TV.



IV. Cable Delivers Programs that Consumers are Watching

“Government intervention through a la carte regulation likely will hurt MVPDs, program networks, and especially MVPD subscribers.”

—
Federal Communications Commission Report, November 2004

Programming Value. Cable’s delivery of programming packages, with channels bundled into basic and digital tiers, provides unparalleled choice and quality for consumers. The tiering model utilized by the cable industry has enabled all programming networks, including niche networks that serve underserved audiences, to find and build an audience. The result has been today’s rich viewing banquet that includes networks devoted to general interest programming as well as religion, news and public affairs, minorities and foreign languages, women’s issues, science, and more.

A La Carte. While some have suggested that basic cable program networks should be sold on an unbundled or “a la carte” basis in which customers would only pay each month for the networks to which they choose to subscribe, several independent and industry studies have concluded that a la carte would offer no benefit to the vast majority of consumers and would, in fact, result in higher choices, less choice and less programming diversity.

In November, the FCC issued a report that found that “government intervention through a la carte regulation likely will hurt MVPDs (multichannel video programming distributors), program networks, and especially MVPD subscribers.” This report followed on the Government Accountability Office findings last year that a la carte could result in higher prices for fewer channels. Also, a study conducted by the worldwide consulting firm of Booz Allen Hamilton, released in July of 2004, found that even if no consumers were to choose a voluntary a la carte option, consumer prices for current tiers would increase between seven percent and 15 percent.

Top women executives from leading cable TV networks urged members of Congress to reject proposals that would require cable and satellite providers to offer programming on an a la carte basis, arguing that consumers would pay higher prices because the license fees of cable networks would dramatically rise in order to cover advertising revenue lost if networks are no longer offered on a basic cable tier. In addition, the heads of cable networks serving ethnic minorities also argued that a la carte would have a chilling effect on programming diversity in America. A coalition of prominent religious broadcasters pointed out: “The viewpoints offered to society from the religious, minority and ethnic communities also face the danger of being silenced by the imposition of an a la carte regime.”⁷

⁷ *Comments of the Faith and Family Broadcasting Coalition, p. 11, July 14, 2004, MB Docket No. 04-207, A la carte and Themed Programming and Pricing Options for Programming Distribution on Cable Television and Direct Broadcast Satellite Systems.*

IV. Cable Delivers Programs that Consumers are Watching

Some key excerpts from the November 2004 FCC Report on the Packaging and Sale of Video Programming Services to the Public:

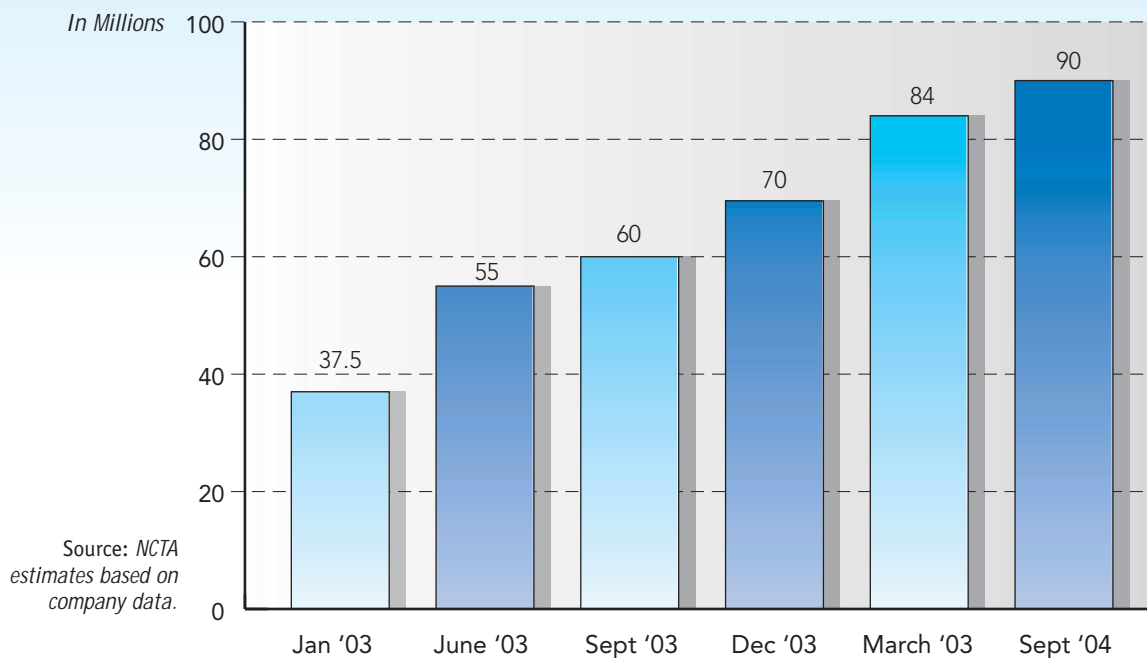
- “The bundling of channels into tiers of service is, generally, an economically efficient way of providing MVPD subscribers with video programming... Further, although increases in MVPD rates continue to concern Congress, the Commission, and consumers, competition, as a remedy, is preferred to government intervention and all of its unintended negative consequences. A la carte, as a means to control rates, should be viewed through this same prism: competition, not regulation, is the answer.” (p. 62)
- “Under an a la carte mandate, networks formerly sold in tiers would need to significantly increase their marketing expenses to induce consumers to affirmatively select the network. Moreover, any type of a la carte requirement would have a significant negative effect on a program network’s advertising revenues and license fee structure. The loss of cost savings, combined with the loss in advertising revenue and the likely rise in license fees to compensate such losses, may cause many program networks to fail, thus adversely affecting diversity. The most likely to feel the brunt of such a mandate would be networks serving small niche interests, such as religious programming, programming aimed at minority interests, arts programming and independently owned networks. The impact on program networks seems likely under either a mandatory or voluntary a la carte regime.” (p. 6)
- “The Report’s economic analysis estimates that the impact on retail rates of pure or mandatory a la carte sales indicates that only those consumers who would purchase fewer than nine program networks may see a reduction in their monthly cable bill. Consumers that purchase at least nine networks would likely face an increase in their monthly bills. The average cable household watches approximately 17 channels, including broadcast stations. If the average household purchased each of these channels under an a la carte regime, it would likely face an increase in their monthly bill under a la carte sales of between 14 percent and 30 percent.” (p. 6)

V. Cable Delivers High-Definition Programming to Consumers

Cable's programming picture has been made even sharper through cable's deployment of high-definition television (HDTV) – a digital television format delivering theater-quality pictures and CD-quality sound. HDTV offers an increase in picture quality by providing up to 1,920 active horizontal pixels by 1,080 active scanning lines, representing an image resolution of more than two million pixels. In addition to providing improved picture quality with more visible detail, HDTV offers a widescreen format and Dolby® Digital 5.1 surround sound.

Cable operators and programmers began providing HDTV services in 2002, and the digital TV transition reached new plateaus this year. As of September 1, 2004, 90 million U.S. television households were passed by a cable system that offers HDTV, growth of 140 percent since January of 2003, when HD was available to 37.5 million households (see Chart 9).

CHART 9: Homes Passed by Cable HDTV Service: 2003–2004



V. Cable Delivers High-Definition Programming to Consumers

At least one cable operator in all of the top 100 Designated Market Areas (DMAs) is offering a package of HDTV programming to consumers. In all, the total number in which at least one cable operator is offering HDTV is 177 of the 210 DMAs nationwide.

The number of digital broadcast stations cable operators are carrying has climbed to 454, an almost five-fold increase since January 2003, when 92 local digital broadcast stations were carried. A variety of cable networks now produce high-definition programming in a wide variety of genres. New HD services have launched each year, with ESPN2-HD and The Outdoor Channel scheduled to launch in 2005.

Consumer electronics manufacturers are producing “Digital Cable Ready” sets that allow cable subscribers to receive one-way digital cable services without the use of a set-top box, including HDTV services offered by cable operators. A security device called a CableCARD allows cable customers to view encrypted digital programming once authorized to do so by the cable operator. The CableCARD plugs into a slot built into the digital television. An NCTA survey of the top 10 MSOs showed that over 5,000 CableCARDS were installed as of mid-November, up from 700 on September 1.

The production of Digital Cable Ready DTVs was enabled by the “Plug & Play” agreement between cable operators and consumer electronics manufacturers which proposed technical requirements for the production of one-way Digital Cable Ready equipment for the home. The current rules and agreement concern one-way Plug & Play devices; inter-industry discussions of standards for two-way “Interactive Digital Cable Ready” television sets are continuing.

HD SERVICES ON CABLE

Cinemax HDTV, Comcast
SportsNet HD, Discovery HD
Theater, Encore HD, ESPN HD,
HBO HDTV, HDNet, HDNet
Movies, INHD, INHD2, MSG
Networks in HD, NBA TV,
Showtime HD, STARZ! HD, The
Movie Channel HD, TNT-HD,
Universal HD

VI. Cable Faces Healthy Competition

Cable faces vigorous competition in its core video business, and has fueled competition in emerging services such as high-speed Internet access and cable phone service.

VIDEO COMPETITION

Today, the American television consumer can choose from a variety of multichannel video providers, including DBS, alternate broadband providers such as RCN/Starpower, and local utility companies. The fact that the two national DBS companies now number among the top four national multichannel video providers demonstrates the heightened level of competition in today's marketplace.

As a result of this competition, more than 26 million consumers (more than one out of four subscribers) now obtain multichannel video programming from a company other than their local cable operator (see Chart 10).

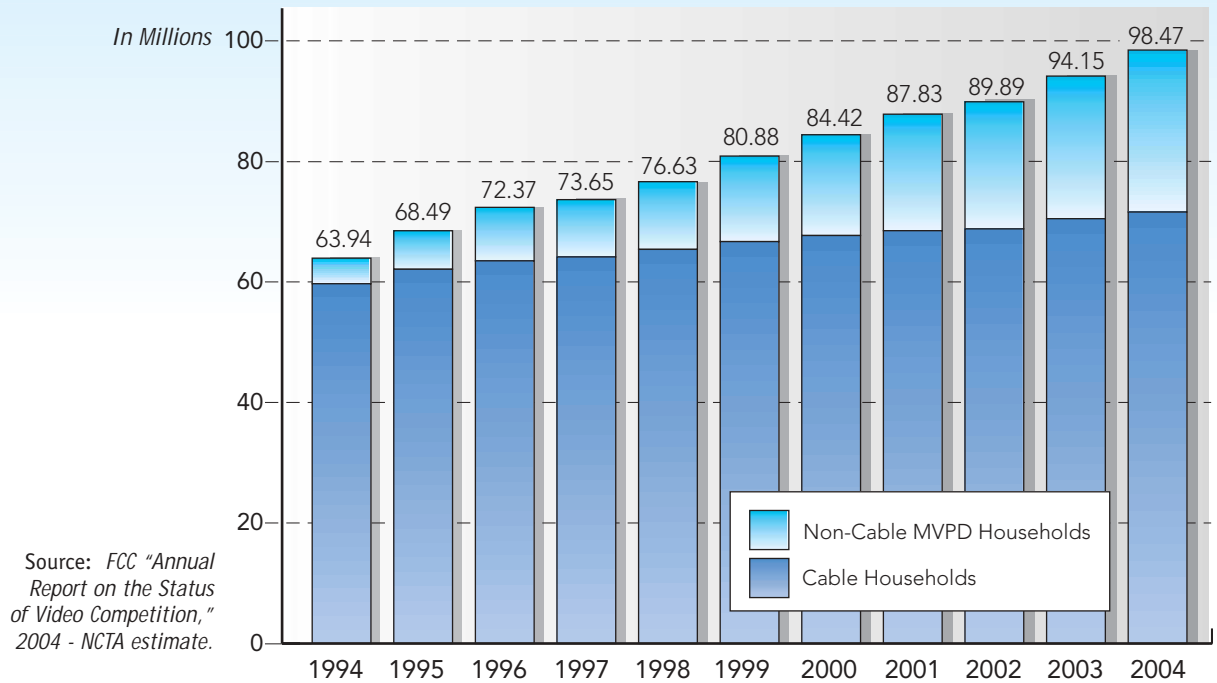
CHART 10: Analysis of MVPDs (Multichannel Video Program Distributors)
September 2004

MVPD Service Provider	Customers (in Millions)	Percent of MVPD Market
DBS	23.97	24.34%
C-Band	0.30	0.30%
MMDS	0.10	0.10%
SMATV	1.10	1.12%
Broadband Competitors	1.40	1.42%
Total Non-Cable	26.87	27.29%
Cable	71.60	72.71%
TOTALS	98.47	100.00%

Source: NCTA estimates based on data from Kagan Research LLC, Kagan Media Money, October 26, 2004, p.4; Nielsen Media Research.

Between December 1994 and September 2004, the number of non-cable multichannel video homes increased from 4.24 million to 26.87 million (see Chart 11). Like its competitors, cable continues to grow, and – as of Third Quarter 2004 – the industry had attracted 24.3 million digital cable customers among its analog base of more than 70 million customers.

CHART 11: Growth in Multichannel Video Program Households: 1994–2004



Direct Broadcast Satellite (DBS). The most prevalent competition to cable in multichannel video has been DBS service, offering more than 150 digital channels of video to satellite customers.

- The total number of DBS subscribers rose from 20.94 million in September 2003 to 23.97 million in September 2004.⁸
- DirecTV now has more customers (13.5 million) than all but one cable operator (Comcast), which makes it the second largest multichannel video provider in the U.S.⁹ Meanwhile, EchoStar, the second-largest DBS provider with 10.5 million, has more subscribers than all but two cable companies (Comcast and Time Warner).
- DirecTV and EchoStar are increasing their provision to television households of "local-into-local" service, which provides several local television stations to customers in their markets. According to company reports, DirecTV is delivering local channels to 130 markets, and will reach 135 markets (93 percent of TV households) early in 2005; EchoStar offers local channels in over 100 markets nationwide.
- In November 2004, Congress passed a five-year extension of the Satellite Home Viewer Act, which allows DBS operators to retransmit distant broadcast TV signals to underserved areas.

⁸ Based on company data.

⁹ DirecTV has owned and operated subscribers totaling 12.08 million. The remaining DirecTV platform customers are controlled by NRTC and Pegasus.

Broadband Overbuilds. While DBS is available to consumers nationwide, satellite is not the only alternative to incumbent cable operators. Broadband “overbuilders” – who construct local broadband networks to directly compete with incumbent cable providers – serve approximately 1.4 million customers.

- The ability to sell telephone, high-speed Internet access, and an expanded number of video programming channels over a single broadband facility (or together with wireless or satellite providers) has driven facilities-based broadband competition. Companies such as RCN/Starpower, Knology, WideOpenWest, SureWest, and others are providing consumers with competitive video and broadband services.
- Many of these providers tout competitive pricing in their marketing communications and offer bundled packages of video, Internet and phone service.
- Regional phone companies have announced that they will soon begin delivering video service. SBC Communications has announced *Project Lightspeed*, which includes plans to spend \$4 billion to build a fiber-optic network and deliver video services by the Fourth Quarter of 2005.¹⁰ Verizon has also begun fiber-to-the-home deployment, with a financial commitment of \$800 million for this year, and plans to begin testing the delivery of video over their *FIOS* platform in 2005.¹¹
- In recent years, there has been a rise in government ownership of cable and telecommunications providers. The Progress and Freedom Foundation found that between mid-2001 and 2003, there was an approximately 54 percent increase in public entities offering telecommunications, cable service or Internet access (from 230 entities to 357).¹² While the cable industry welcomes competition, NCTA has expressed serious concern about government entities operating in businesses that they regulate.

HIGH-SPEED INTERNET COMPETITION

Cable’s leadership in creating and developing the market for affordable high-speed Internet access has led to a profusion of competitive offerings from other facilities-based suppliers – such as local telephone companies. The deployment of cable modem service spurred the Regional Bell Operating Companies (RBOCS) to aggressively deploy digital subscriber line (DSL) service.

Industry analysts report that consumers are enjoying an expanding choice of broadband providers, including cable, DSL, wireless, satellite and alternate broadband suppliers.

- Over 100 million homes have access to cable modem and/or digital subscriber line (DSL) service, with more than 40 percent of homes with Internet access having elected to take either cable modem or DSL broadband service, according to a Morgan Stanley Research analysis.¹³

¹⁰ “SBC to Sell TV Service in 2005,” *The Wall Street Journal*, November 11, 2004.

¹¹ “Showdown of the Giants,” *The Wall Street Journal*, November 8, 2004.

¹² *A Survey of Government-Provided Telecommunications: Disturbing Growth Trend Continues Unabated*; Kent Lassman and Randolph J. May, Progress and Freedom Foundation, Progress on Point Release 10.17, October 2003.

¹³ Morgan Stanley, “Bundling and the Battle for Basic”, October 12, 2004.

Digital Subscriber Line (DSL). The number of DSL customers in recent years, while lagging behind cable modem customers, nevertheless also has grown rapidly.

- The four major DSL providers – BellSouth, Qwest, SBC Communications and Verizon – increased total subscribers from 7.83 million to 10.76 million between September 2003 and September 2004.¹⁴
- In addition to those companies, other providers include Broadwing (formerly Cincinnati Bell), and DLECs (data-centric competitive local exchange carriers) such as Covad.
- Leichtman Research Group found that the top cable providers added 1.28 million high-speed customers in the Third Quarter of 2004, representing 55 percent of the net broadband additions for the quarter versus DSL. Top cable providers have a 6.6 million subscriber advantage over DSL and comprise a 61 percent share of the total market versus DSL, as of September 2004.¹⁵

Satellite. Satellite firms also have stepped up their high-speed access offerings on a nationwide basis.

- EchoStar Satellite L.L.C. and SBC Home Entertainment announced a strategic marketing alliance in July 2003. The companies said they would bundle EchoStar's DISH Network offerings with SBC's broadband DSL Internet access service, under the SBC DISH Network Digital Home Advantage Plan promotion. EchoStar also entered a marketing alliance with Earthlink to offer bundled DSL service.¹⁶
- Qwest Communications announced a partnership with EchoStar and DirecTV in July 2003. Qwest's customers will be able to order local, long distance, wireless, DSL, and video service with one phone call.¹⁷
- BellSouth and DirecTV entered into an agreement in which DirecTV's service is made available to BellSouth customers as part of a bundle of services.¹⁸

Broadband over Power Lines. Broadband over Power Line (BPL) allows the delivery of IP-based broadband services using the communications capabilities of the nation's power grid. The FCC this year adopted changes to encourage the development of BPL systems.

According to the United Telecom Council, there are 50 to 75 trials nationwide and an estimated 2,000 paying BPL customers, with five commercial deployments: Central Virginia Electric Cooperative, Cinergy, City of Manassas, PPL and Progress Energy.

¹⁴ Based on company data.

¹⁵ Leichtman Research Group press release, "Broadband Internet rebounds with Record Quarter," November 10, 2004.

¹⁶ "SBC to Co-Brand EchoStar's Dish," *Multichannel News*, July 21, 2003.

¹⁷ "Qwest Forges Agreement with DirecTV to Offer Satellite Services as Part of Communications Bundles," Press Release.

¹⁸ "BellSouth and DirecTV announce agreement to sell digital satellite television service as part of BellSouth Answers(sm) bundle," BellSouth press release, August 27, 2003.

VII. Cable's Commitment to Families

The cable industry has a longstanding commitment to help address parents' concerns about what they and their children see on television and offers a three-pronged approach that empowers parents through a combination of **choice, control and education**.

Cable gives families **choice**, by offering a wide range of viewing options, including many channels that serve children and family viewers and provide educational, informative and entertaining programming. These programming services include ABC Family, Animal Planet, Boomerang, Cartoon Network, Discovery Kids, Disney Channel, The Hallmark Channel, Nickelodeon, Nickelodeon GAS, Noggin/The N, and Toon Disney, as well as premium networks such as HBO Family, Showtime Family Zone, STARZ! Family, STARZ! Kids, and WAM!

That choice is accompanied by technology that delivers a broad range of **control** over what can be viewed in the home. Analog and digital cable set-top boxes provide tools to block unwanted channels and programming, giving families the ability to manage the content coming into the home. In addition, the cable industry supports the TV rating system, which can be used in conjunction with televisions equipped with a V-Chip to block specific programming.

Finally, over the last decade, the industry has offered **education** to viewers about how to take charge of the diverse content available to them via cable. Since 1994, NCTA, Cable in the Classroom (CIC) and the National PTA have collaborated on a national media literacy initiative designed to provide parents and teachers with simple effective methods to critically examine media messages and make informed judgments and decisions about media use. The cable industry has also worked to develop and distribute informational material to increase public awareness of the TV Parental Ratings System and the V-Chip.

In March of 2004, NCTA pledged to increase consumer education efforts about cable's parental controls and media literacy resources to address concerns about indecency in media. In collaboration with CIC, NCTA developed a multifaceted consumer education initiative, *Cable Puts **You** in Control*.

A major component of the initiative is a Web site, www.ControlYourTV.org, launched in March and featuring information on the control offered by cable's blocking technology, descriptions of cable programming that is generally suitable for the entire family and resources devoted to media literacy and education. In November, a Spanish-language version of the site, www.contrrolesutelevisor.org, was launched.

In addition, Public Service Announcements produced by MTV Networks and STARZ! Encore, promoting the availability of cable's channel blocking technology, were aired by cable operators and networks. Through October 2004, the PSAs had been aired more than 3.1 million times, a figure that represents hundreds of millions of dollars in donated commercial airtime.

Other components in the initiative include customer communications materials for use by cable companies in their local communities and media literacy workshops sponsored by CIC and the National PTA.





VIII. Cable's Commitment to Education

In addition to the contributions cable is making to consumer services and the competitive environment, the industry continues to make a substantial commitment to education through Cable in the Classroom (CIC), the industry's nonprofit foundation. Cable's video and online content and broadband platform offer unique educational benefits to teachers, students, and parents, and these benefits are manifest in communities around the country.

The mission of CIC, a non-profit education foundation, is to improve teaching and learning for children in schools, at home, and in their communities.

Since 1989, 1,500 local cable companies have connected 86 percent of all public and private K-12 schools to cable, which provides teachers and students with access to commercial-free, educational programming. In 1996, the cable industry expanded its commitment to local schools by agreeing to provide all K-12 schools with a cable modem connection. CIC aids educators by identifying and making accessible to them the highest-caliber content – from cable networks, cable companies and other educationally valuable sources.

This year marks the 15th anniversary of the cable industry's commitment to education in schools, homes and communities. CIC, on behalf of the industry, harnesses the power of cable's technology and content to help children learn through projects that include research about the impact of technology and content on teaching and learning, media literacy resources created in partnership with National PTA, online tools and content resources for teaching, learning and collaborating, and publications for teachers, parents and national education leaders.

In 2004, CIC has launched a number of new projects:

- In April 2004, CIC, in partnership with the National PTA, released a new report, *Navigating the Children's Media Landscape: A Parent's and Caregiver's Guide*. The report offers realistic ideas and strategies to help parents and caregivers select and use media in ways appropriate for their children at different ages and developmental stages. For more information, go to www.ciconline.org/medialiteracy.
- CIC is also leading the cable industry's efforts to educate families about responsible TV viewing via the *Cable Puts You in Control* campaign. A key component of this initiative is the Web site (www.ControlYourTV.org), which CIC created and maintains. The site, accessible in both English and Spanish, is a comprehensive resource designed to provide parents with information about how to manage their family's television and media use, directions on how to use cable's channel blocking technology, guidelines for selecting appropriate programming, and educational materials to make informative decisions.
- The National PTA and CIC started a new series of media literacy workshops, conducted with guidance from the Center for Media Literacy. The first *Media Smart Families Workshop* took place in November in Dearborn, MI. About 100 parents and

VIII. Cable's Commitment to Education

members of the Michigan Parent Teacher Student Association learned how to use key questions from media literacy concepts to begin conversations about their children's interaction with media. The presentation also featured hands-on demonstrations about the V-Chip and TV Parental Ratings System, the parental control features of cable set-top boxes and other parental channel-blocking tools. Event participant U.S. Rep. John Dingell (D-MI) praised the cable industry for providing these resources to parents. The development of the workshops is the result of a decade-long media literacy collaboration among National PTA, CIC and the cable industry.

- Working with CNN and The History Channel, CIC developed a new interactive broadband learning experience and demonstration focused on elections, which premiered to great media acclaim in October 2004. *eLECTIONS: Your Adventure in Politics* is a 3-D high-speed game that gives users a chance to experience a run for the U.S. Presidency. This game shows how broadband, with its capacity to deliver video, audio, excellent interactivity, design and content, can support active, meaningful and memorable learning. By December 1, *eLECTIONS* had attracted more than 100,000 visitors and was named Macromedia's Site of the Day in November.
- CIC has launched a new national education awards program, **Cable's Leaders in Learning**, which recognizes accomplishments of vision, innovation, action, and transformation in K-12 education. Cable's Leaders in Learning Awards (www.LeadersInLearningAwards.org) will acknowledge policymakers, school and community teachers, community leaders and school administrators at a Washington, D.C. event on May 17, 2005.

The mission of CIC, a non-profit education foundation, is to improve teaching and learning for children in schools, at home, and in their communities.

- Results from CIC's **Points of View** (POV) research demonstration project show that student learning is enhanced by practical applications of broadband technology in the learning environment. POV, conducted jointly with Time Warner and C-SPAN, provided teachers with webcams, streaming video and other interactive tools to teach new curriculum about Theodore Roosevelt's era. Students were able to interview a Roosevelt re-enactor and other experts via the Internet, gain access to museums and historical collections, and participate in videoconferences with other groups as part of the experience.
- CIC's **Project Cam**, which works by using Web cameras and a broadband Internet connection, has been used to showcase the power of distance-learning in classrooms around the country. Titanic discoverer, Dr. Robert Ballard, has taken students on a virtual exploration of the ship and answered their questions while students in Maine and Puerto Rico used Project Cam for a language/cultural exchange lesson. Project Cam is a free tool, available on the CIC Web site, which educators can use to connect children to others around the world.

CIC continues to work closely with the national education community to explore ways cable's technology and content can be used to support teaching and learning. Outgoing U.S. Secretary of Education Roderick Paige accepted CIC's invitation to deliver a keynote address at the 2004 National Cable Show in New Orleans. In addition to his remarks, Secretary Paige met with several cable operator and network CEOs about the industry's important role in improving educational achievement.

IX. Cable's Commitment to Diversity

The cable industry recognizes the rich diversity in the communities it serves and is committed to ensuring that diversity is reflected in cable's workforce, supplier base and programming.

For more than 20 years, the cable industry has supported the establishment of organizations dedicated to diversity-focused efforts. These organizations include: the Emma L. Bowen Foundation, National Association of Multi-Ethnicity in Communications (NAMIC), the Walter Kaitz Foundation, and Women in Cable & Telecommunications (WICT). These organizations fund or provide support such as leadership development programs, career coaching, skills training, and access to professional internship experiences.

Last year, the Kaitz Foundation and NCTA approved a transition plan for Kaitz which positioned the organization to operate under the administrative auspices of NCTA. That transition was brought to a close with the selection in April of 2004 of Debbie A. Smith as Executive Director of the Kaitz Foundation.

This year, Kaitz provided more than \$1.3 million to fund programs and activities of three cable diversity partner organizations: Emma Bowen, NAMIC and WICT. In September, the Kaitz Foundation's annual dinner was held, honoring Spencer Kaitz, Founder of Kaitz, and former President and General Counsel of the California Cable & Telecommunications Association. Also recognized for their contributions were the founding members of Kaitz, as well as the diversity partner organizations that receive Kaitz funds. The event attracted 1,400 attendees and collected nearly \$1.4 million in donations.

The Kaitz Foundation organized and moderates monthly diversity partner conference calls in order for organizations to share information and resources. Participants include representatives from the Cable & Telecommunications Human Resource Association (CTHRA), Emma Bowen, NAMIC, NCTA, and WICT. Ms. Smith also serves on the Federal Communications Commission's Diversity Advisory Committee, which assists the agency in formulating new ways to create opportunities for minorities and women in the communications sector.

In May 2004, NCTA and Kaitz coordinated the 5th annual Supplier Diversity Connection Program during The National Show. The program works to foster relationships among minority- and women-owned businesses and cable companies that utilize diverse outside contractors. Women and minority business owners took part in networking with purchasing representatives from cable and telecommunications companies, via complimentary show registrations. The next Diversity Connection event is already planned for *The 2005 National Show*, scheduled to take place in San Francisco, April 3-5. In addition, in June 2004, The Society of Cable Telecommunications Engineers (SCTE) and Kaitz co-sponsored a Supplier Diversity Connection program as part of CableTec Expo, a technology conference.

Cable's programming offerings grow increasingly more diverse each year, offering a wide range of choices for ethnic and minority audiences including: BET, TV One, Black Family Channel, Black Starz!, Sí TV, Discovery en Español, Galavisión, Toon Disney en Español, and International Channel.



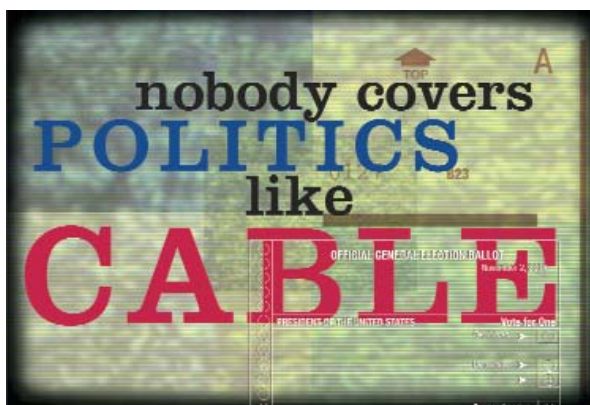
X. Cable's Commitment to Local & Regional Programming

One of the key facets of the cable business is its role in the local community. Today, cable systems serve more than 30,000 communities across the country; many of those communities' needs are being met through local and regional programming.

The Radio and Television News Directors Foundation (RTNDF) issued a report in May 2004 entitled, "Cable News: A Look at the Regional News Channels and State Public Affairs Networks," which offers a view of the breadth of local, state and regional news and public affairs channels now serving cable customers around the nation. Over the past 18 years, there has been significant growth in this area, leading to a total of 25 state public affairs networks and more than 30 regional cable news networks.

In the report, RTNDF President Barbara Cochran notes, "These channels are of great value to citizens in the communities they serve, providing local news and public affairs coverage that might not otherwise be available."

"These channels are of great value to citizens in the communities they serve, providing local news and public affairs coverage that might not otherwise be available."



Earlier this year, NCTA issued a comprehensive brochure, **Nobody Covers Politics Like Cable**, which highlighted the abundant political coverage provided by cable, including traditional coverage via cable news networks, and non-traditional coverage and attention from lifestyle, entertainment and sports channels.

Examples include:

- (Tampa) Bay News 9 and Central Florida News 13, both run by Bright House Networks, offered *Election 2004: Florida Decides*. Programming including local coverage of election issues and candidates, extended coverage of presidential candidates and local events, and regular segments profiling local races. Bright House Networks also offered Bay News 9 en Español, covering issues of importance to the growing local Hispanic community.
- Chicagoland Television provided special continuous coverage of live campaign events, candidate interviews and local Chicago-area political results.
- Comcast's regional news, sports and entertainment channel CN8 provided live expanded coverage and comprehensive coverage of both party conventions.



X. Cable's Commitment to Local & Regional Programming

- Time Warner Cable's News 14 Carolina in Charlotte covered the gubernatorial debate, offered a 30-minute *Voter's Guide* and covered Election Night results.
- Adelphia Communications in Orange County, CA, offered coverage of Election Night results, including analysis of propositions, candidates and races.
- Bend Broadband in Oregon showed live and taped candidate forums with candidates for local county commission.
- Cablevision partnered with C-SPAN on the *Power to Learn* initiative during the Republican National Convention to give area high-school students the opportunity to experience the convention first-hand. Students visited with political officials and convention staff and prepared Web journals, which were posted on the *Power to Learn* site.



XI. Industry Statistics

CHART 12: Statistics

U.S. Television Households (TVHH) ¹	109,590,170
Cable Headends ^{2, 3}	9,211
Cable Household Universe ⁴	73,575,460
Cable Penetration of TVHH ⁴	67.1%
Premium Cable Units ⁵	50,190,000
Annual Cable Revenue ⁵	\$57.6 billion
Occupied TV Households Passed by Cable ⁵	108,200,000
Occupied TV Households Passed as a Percent of TVHH ⁵	97%
Cable Systems ⁶	8,875
National Cable Networks ⁷	390
Annual Franchise Fees Paid by Cable Industry ⁸	\$2.4 billion

1 Nielsen Media Research Estimate (January 2005).

2 Nielsen Media Research (November 2004).

3 Headend – the control center of a cable television system, where incoming signals are amplified, converted, processed, and combined into a common cable along with any original cablecasting, for transmission to subscribers. The system usually includes antennas, preamplifiers, frequency converters, demodulators, modulators, processors, and other related equipment.

4 Nielsen Media Research (November 2004).

5 Kagan Research LLC (2004).

6 Warren Communications News, Inc.

7 NCTA estimate for 2004.

8 NCTA estimate for 2004.



Notes



Notes