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Third Quarter 2006 H-S Access Report: Cable Makes a Comeback!

Introducing Our New High-Speed Forecast!

For the first time in several quarters, cable is making some noise! As we will see, this noise is mostly Comcast, but Time Warner also had a big quarter.

Before we get into the details of this quarter's performance, we need to introduce our new forecast for h-s access lines. Our "old forecast" was made in 2003. As we try not to change our forecast too often, it has not been updated since then. A number of changes have happened since 2003, and while that forecast has served many very good purposes, it is becoming out-of-date.

Rationale for Updating the High-Speed Access Lines Forecast

As noted above, the old forecast is now out of date, and needs updating. The following lists the reasons for updating, and defines the changes made in this new forecast.

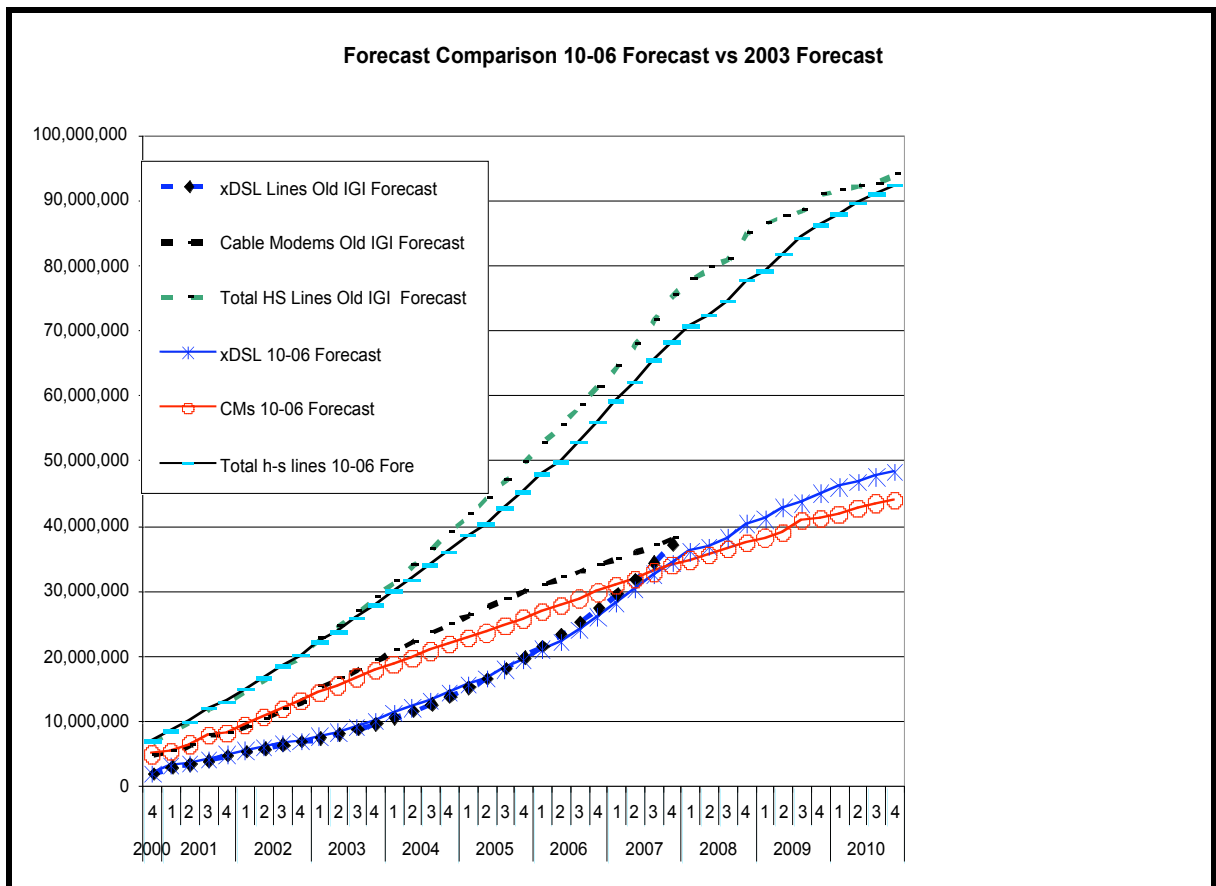
The main items included in the update of the quantities are as follows:

- Bringing the forecast in to line with the actual experience of the last three to four years. While the xDSL forecast has been tracking very well, perhaps even being a bit conservative (the actuals are a little ahead of the forecast), the cable modem forecast has been much too optimistic. CMs continue to fall further behind the forecast and have led us to forecast (for the last year or so) that xDSL will overtake CMs in the near future.
- To recognize the great success that xDSL is having and to establish a realistic date for xDSL to over take CMs.
- To recognize the impact that FTTP is having on the high-speed forecasts and will have in the future. The existing forecast was made prior to any thought of FTTP (as now being implemented).

- To recognize the seasonality in the data. Third and fourth quarters tend to be big periods for high-speed additions. First and second quarters tend to be slower.
- The old forecast only existed in detail through the end of 2007. The new forecast goes to the end of this decade.

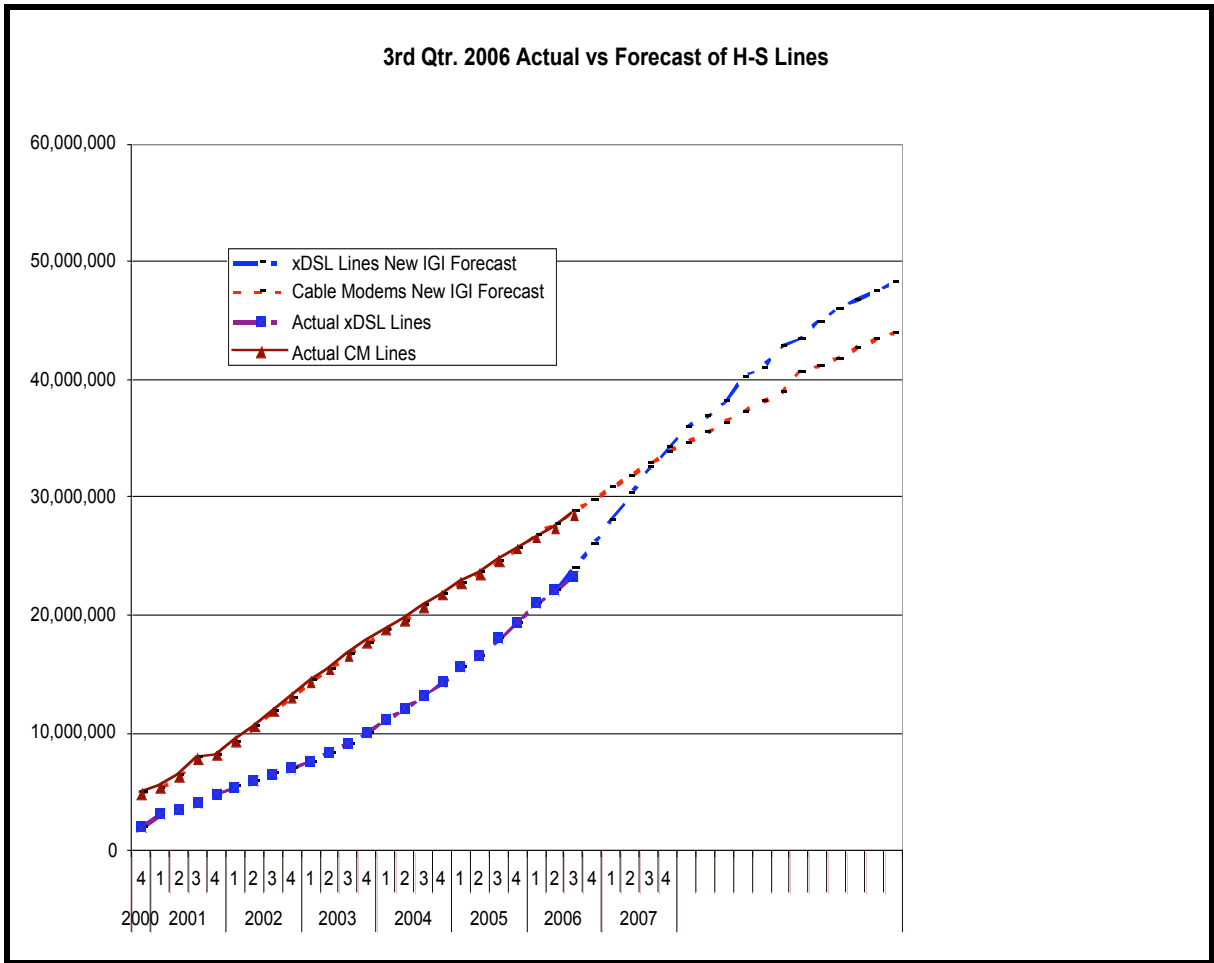
We introduced this forecast in our, just released, report, [“Internet Growth – 2006, Traffic on the Internet.”](#) This forecast is the basis for much of the traffic work in that report.

The following chart compares our new forecast to the old one.



This graph may be somewhat confusing, but to help, the old forecast lines are all dashes, while the new forecast lines are all solid. Note that the old forecast only existed in detail through the end of 2007, so that is the end of the old forecast xDSL lines and CM lines.

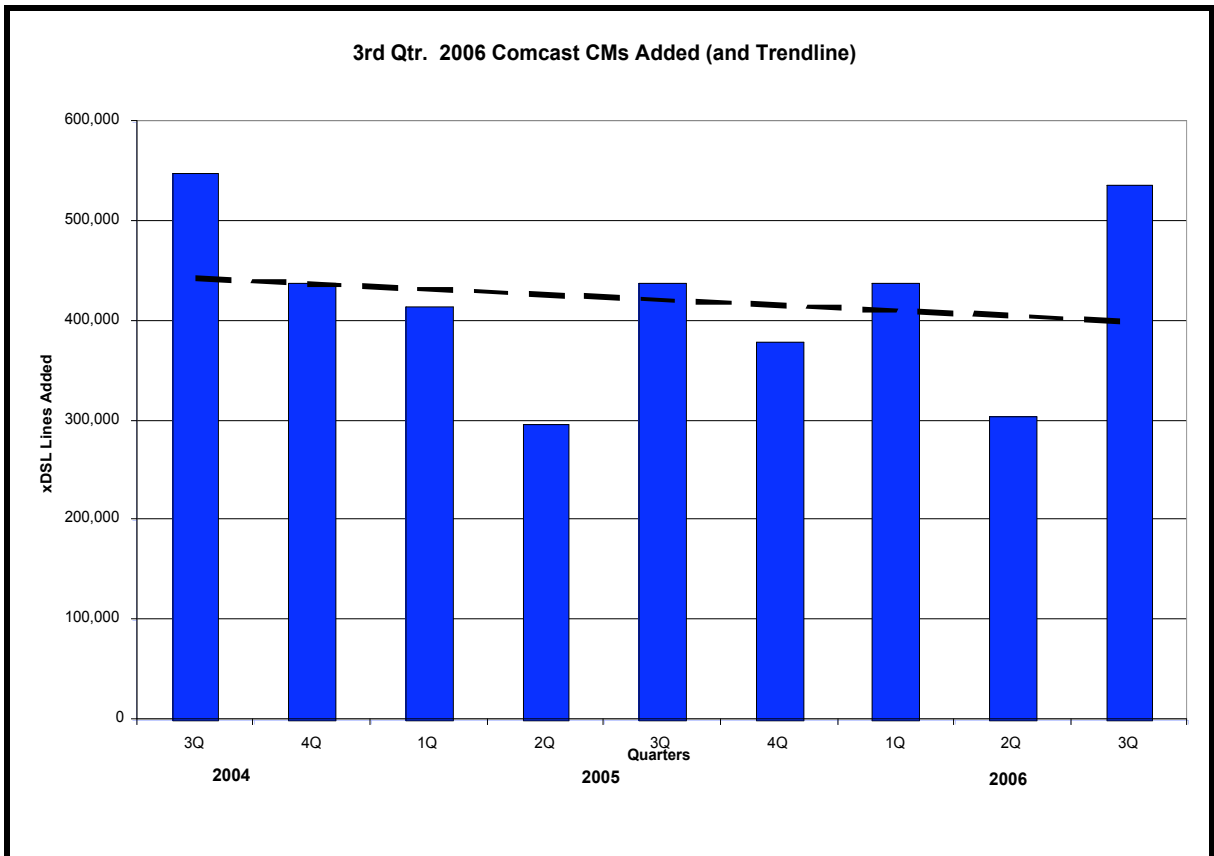
The following chart illustrates the crossover point when xDSL catches up to CMs. We had previously predicted it would happen in 2006, but that appears to be a bit optimistic for the xDSL camp. We now believe that will happen in mid-2007. Still, that is a very strong showing for the telcos to come back from a 2-to-1 deficit in the early 2000s to pull even, and ahead, in 2007.



We will be using this forecast in all of our h-s and Internet traffic work until such time s it becomes too outdated – hopefully a long time from now.

Third Quarter Results

Having introduced our new forecast, we need now to focus on third quarter results. As noted, it was the first quarter in recent time that the cable companies had something to talk about. Comcast had its biggest quarter since mid-2004, and it was also Comcast's second largest quarter ever. The following chart shows Comcast's additions over the last 11 quarters.

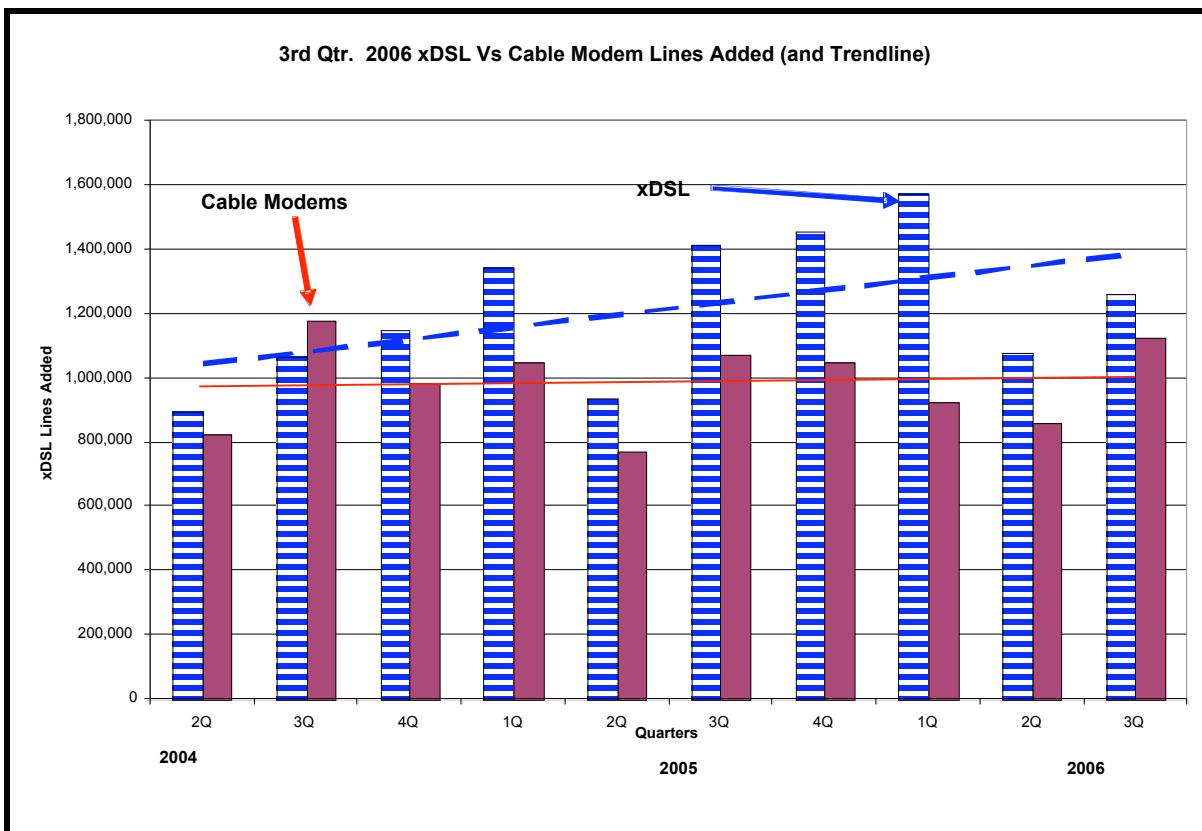


As noted, this is the best quarter since 2004 for Comcast and it certainly is very positive. However, note that the trend line is still negative. It will take another quarter or two to establish a positive trend for this company.

Time Warner also had one of its biggest quarters ever, but nothing as outstanding as Comcast. T-W added 251,000 h-s lines (included its consolidated companies – Adelphia.)

While the cable companies had a good quarter, the telcos were not standing still.

The following chart illustrates the historical relationship between the major cable companies and the major US telcos, as well as this quarter's results. It also provides a linear trend line for both cms and xDSL.



The trend lines tell the real story here. While both the telcos and the cable companies are coming back from a seasonal low this quarter, the trend for cable is flat to slightly negative (even with Comcast's monster quarter.) On the other hand, the telco trend line is very positive.

Therefore, we have the trend that was established throughout much of 2004 and 2005, of the telcos continuing to make up the historical 2-to-1 lead of the cable companies. Our previous reports had predicted this and it is happening. We had predicted that that the telcos would catch up by the end of 2007, but at the current rates, it could be much sooner. We had thought it could happen late this year (2006) but with the current gain rates, it is going to be likely in 2007 (as shown above.).

This trend still has to be read as a significant defeat for the cable companies. Perhaps we are seeing the beginning of a real comeback by the cable companies. However, the telcos are not going to sit on their successes. Verizon has just started

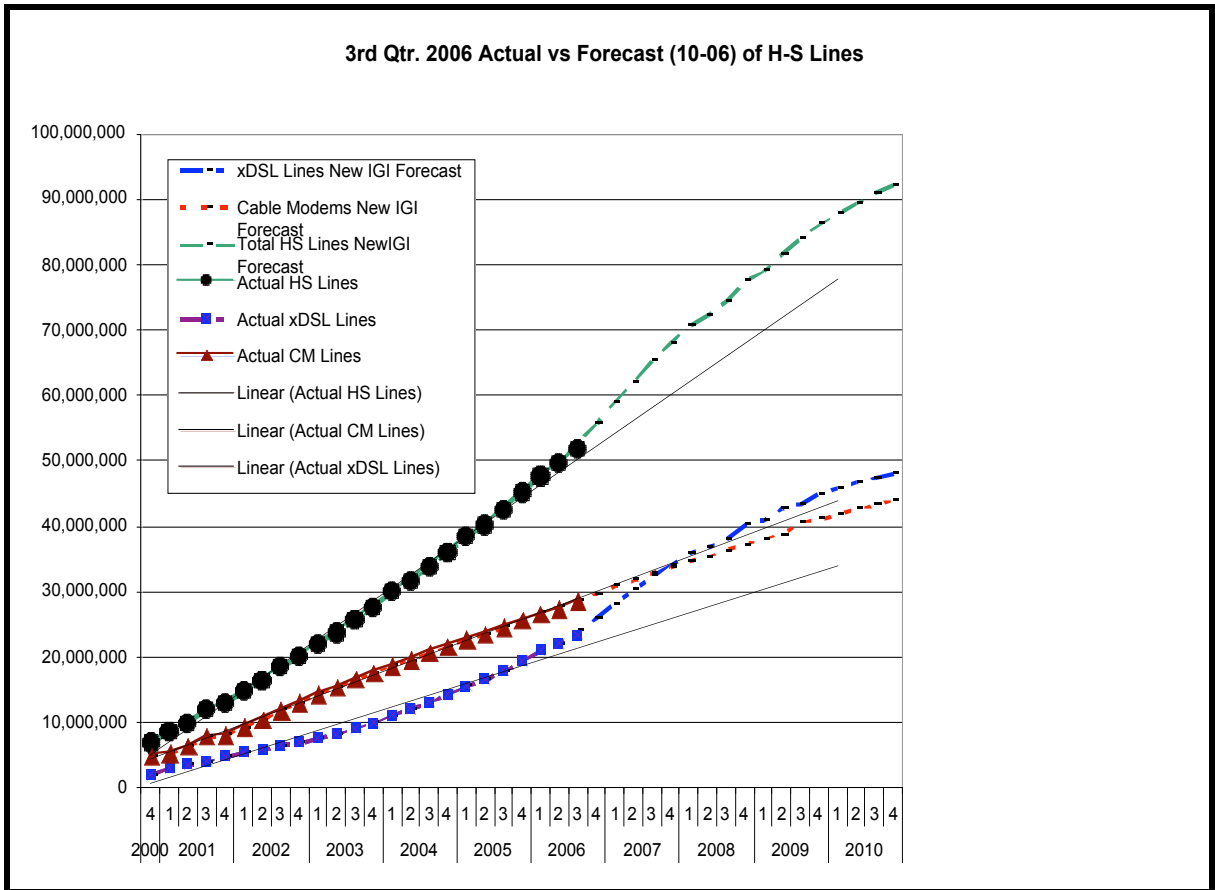
an unheard-of marketing practice for telcos. They are now going door-to-door to sell their FiOS TV service. They started this in a city in the Dallas Metroplex are expected to continue in many other locations. This is extremely aggressive marketing!

Highlights of the 2nd Quarter 2006 include:

- **DSL is virtually at 45% of total H-S Accesses, up from 34% at end of 2002!**
- **Penetration of h-s accesses reaches 47.3%, up from 19% at end of 2002 (Households.) IGI forecasts 50% by the end of 2006!**
- **H-S Accesses exceed 51,000,000 up from 20,000,000 at end of 2002!**
- **IGI Forecasts Telco DSL to surpass Cable in 2007!**
- **FCC notices (finally!) that Telcos are out gaining Cable Companies**

The following chart illustrates the overall situation and provides comparison to our forecasts.

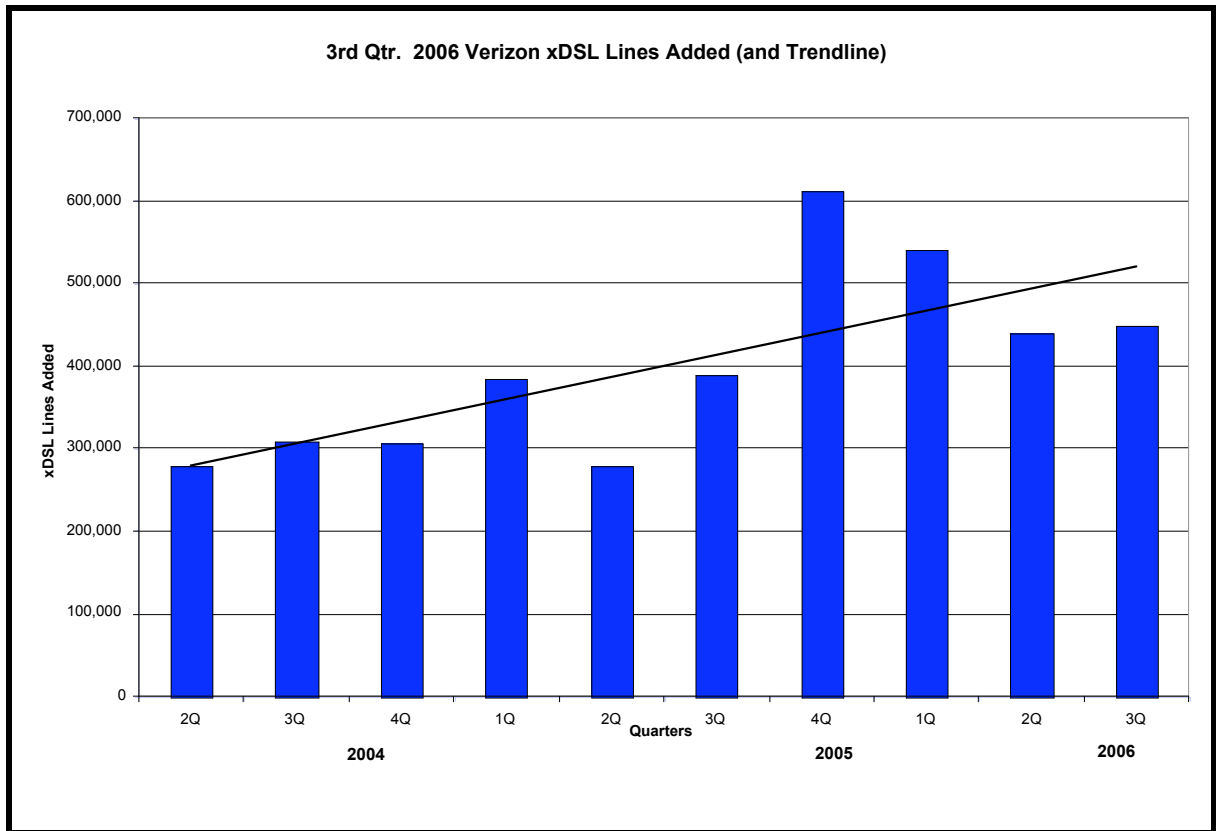
Cable is following the linear trend line very closely. However, the telcos are following what appears to be a parabolic curve, and it is rapidly catching up to the cable linear trend.



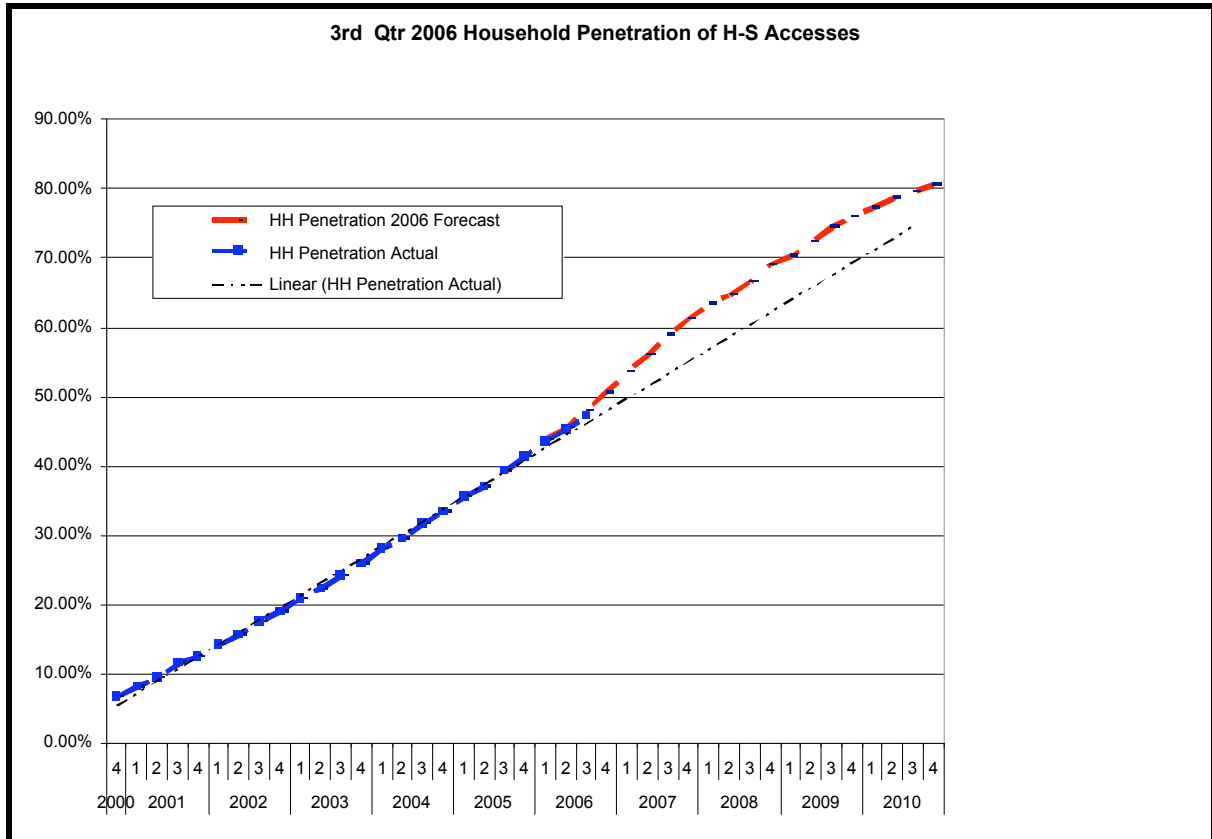
Verizon Continues to Star

Verizon is now very actively pursuing its FiOS FTTP project had that is resulting in its gains being much larger. It fell behind Comcast this quarter, but still had a very good performance in its own right. When AT&T starts its Project Lightspeed implementation on a really aggressive basis, a similar result is expected.

The following chart illustrates the good quarters that Verizon is having.



The following chart illustrates the penetration versus our forecast, and a linear growth line.



Note that this forecast suggests that by 2009, h-s accesses will be available in 80% of our households. This result requires a concomitant growth of household PCs to around 85%. (See "Internet Growth -2006" www.igigroup.com for details of the forecast.)

It is of interest to note that this quarter saw a milestone reached with a penetration rate of over 47.3% of households for the first time, and will likely reach 50% by the end of the year.

Growth Detail by Company

The following chart illustrates the major cable companies' and telcos' results for the quarter and year.

Note that the telcos added over 4.2 million lines in 2005 while these cable companies only added about 3.5 million. That is a substantial difference, and the reason that the telcos are rapidly catching up to the cable companies. Only a few quarters ago, the cable companies held a clear two to one advantage. The split is now about 55-45 and closing fast!

		Major Cable Companies - CMs Added							
		2005	Total	2005	2005	2005	2006	2006	2006
		2Q	1st H 05	3Q	4Q	Total	1Q	2Q	3Q
Charter		43,800	2,149,300	98,400	91,000	2,338,700	126,000	100,000	88,100
Comcast		297,000	7,688,200	437,000	378,000	8,503,200	437,000	305,000	536,000
Rogers		33,400	951,400	53,300	62,200	1,151,900	40,300	21,600	51,800
Cox		150,000	2,875,594	150,000	150,000	3,175,594	-123,328	100,000	100,000
Time Warner		201,000	4,419,000	234,000	265,000	4,918,000	346,000	230,000	251,000
<u>Totals</u>		<u>725,200</u>	<u>18,083,494</u>	<u>972,700</u>	<u>946,200</u>	<u>20,002,394</u>	<u>825,972</u>	<u>756,600</u>	<u>1,026,900</u>
		Major Telcos - DSLs added							
		2005	Total	2005	2005	2005	2006	2006	2006
		2Q	1st H 05	3Q	4Q	Total	1Q	2Q	3Q
BellSouth		124,000	2,473,000	205,000	204,000	2,882,000	263,000	128,000	176,000
Bell Can.		92,000	2,040,000	106,000	61,000	2,207,000	71,000	47,000	90,000
Qwest		68,000	1,218,000	150,000	140,000	1,508,000	198,000	120,000	175,000
SBC		360,000	5,968,000	528,000	425,000	6,921,000	511,000	342,000	380,000
Verizon		278,000	4,222,000	389,000	613,000	5,224,000	541,000	440,000	448,000
<u>Totals</u>		<u>922,000</u>	<u>15,921,000</u>	<u>1,378,000</u>	<u>1,443,000</u>	<u>18,742,000</u>	<u>1,584,000</u>	<u>1,077,000</u>	<u>1,269,000</u>
<u>Total</u>		<u>1,647,200</u>	<u>34,004,494</u>	<u>2,350,700</u>	<u>2,389,200</u>	<u>38,744,394</u>	<u>2,409,972</u>	<u>1,833,600</u>	<u>2,295,900</u>
<u>CM+xDSL</u>									
<u>Mjr. Car.</u>									