

Where Your Cable

(OR HOW AN OPERATOR SPENDS ITS MONEY)

Taxes: 5 cents

Once a dirty word in the cable industry, more cable operators are paying the tax man as interest expense has fallen, revenue has grown and capital expenditures on equipment and upgrades have declined. Some larger operators have been paying taxes for several years.

Interest Expense: 8 cents

Another big expense item that is waning as capex needs decline and debt markets offer favorable rates. For some operators, interest expense has declined by double digits in the past three years.

Depreciation & Amortization: 18 cents

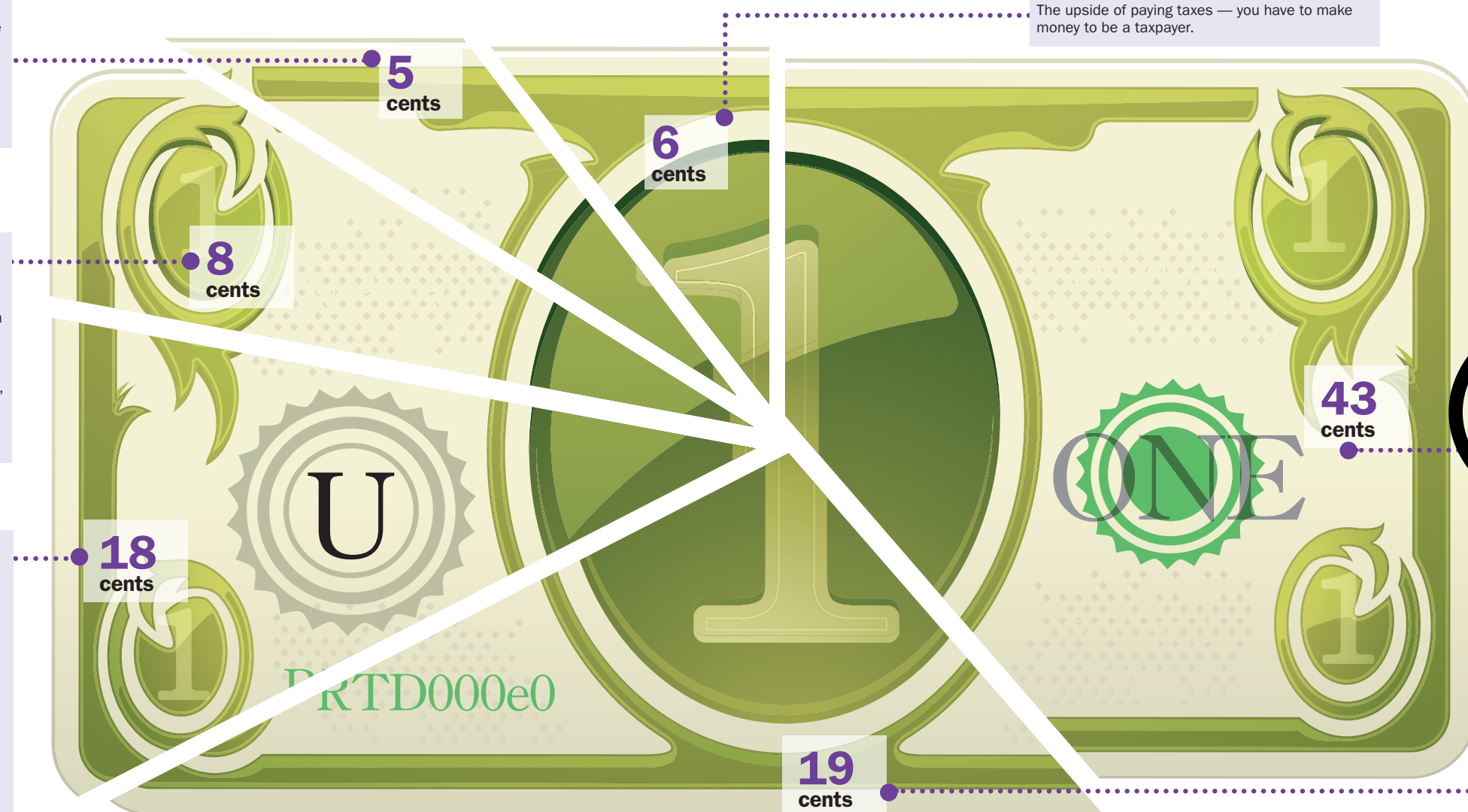
At 15 cents, capex makes up most of depreciation and amortization (loss in asset value), but those outlays are on the decline as the fiber buildout is finished. Capex as a percentage of revenue has fallen from more than 20% in 2008 to about 15% in 2010.

Just where does the average dollar of cable revenue go? As cable operators struggle to win back customers, juggle their finances to adapt to a changing economy and find new ways to package services for cost-conscious consumers, that question stands out. For most operators, the bulk of every dollar generated from voice, video and data service is plowed right back into the business (about 80%). But that other 20% does find some interesting homes — taxes, for one (contrary to industry lore, many cable operators do pay taxes now) and profit, another once-elusive metric for cable. *Multi-channel News* took a detailed look at the financial statements of several publicly traded MSOs and spoke with analysts and industry associations to come up with a snapshot that would represent how a typical cable operator spends its money. All numbers are averages and are based on financial reports, industry estimates, SNL Kagan research and MCN estimates. No figures are intended to reflect the practices of any individual cable operator.

— Mike Farrell

Profits: 6 cents

The upside of paying taxes — you have to make money to be a taxpayer.



Operating Expenses: 43 cents

VIDEO PROGRAMMING: 22 cents Programming remains the largest expense item for cable operators, accounting for 47% of all operating expenses, or 49% of total video revenue.

RETRANSMISSION CONSENT: 2 cents According to SNL Kagan, retransmission-consent fees were expected to be about 1.2% of total video revenue in 2010, rising to 2% by 2014. At that rate, retrans currently makes up about 3% of total video expenses.

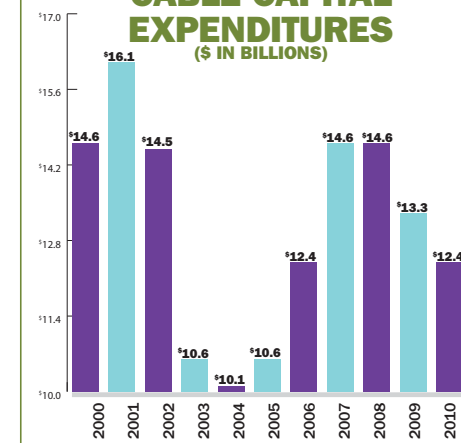
CABLE NETWORKS: 20 cents Affiliate fees at networks — ranging from about \$4.75 per month per customer to \$10.00 per month for RFD-TV, according to SNL Kagan — have been growing at a double-digit annual clip. And those increases could rise even higher as networks that had accepted lower carriage fees roll off those long-term deals and seek what they feel is fair value.

CABLE-INDUSTRY REVENUE: (\$ IN MILLIONS)

YEAR	RESIDENTIAL REVENUE	OTHER REVENUE	TOTAL REVENUE
2000	\$32,541	\$9,575	\$42,116
2001	\$35,734	\$9,743	\$45,477
2002	\$36,738	\$11,160	\$47,898
2003	\$39,338	\$15,056	\$54,394
2004	\$41,813	\$18,212	\$60,025
2005	\$43,832	\$21,846	\$65,678
2006	\$46,518	\$25,354	\$71,872
2007	\$49,105	\$29,719	\$78,824
2008	\$51,467	\$33,788	\$85,255
2009	\$53,040	\$36,861	\$89,901

SOURCE: SNL Kagan

CABLE CAPITAL EXPENDITURES (\$ IN BILLIONS)



SOURCE: SNL Kagan

Selling, General & Administrative Expenses: 19 cents

MARKETING: 4 cents Marketing has traditionally been cable's Achilles heel, but is attracting greater attention as competition heats up and new products emerge. Marketing spend for the major cable operators rose about 12% in 2010.

CUSTOMER SERVICE: 5 cents Another segment that is getting more attention. In the past three years, customer-service expenditures have grown about 3% for some major MSOs.

EMPLOYEE: 10 cents Includes labor costs, as well as expenditures for delivery trucks and other equipment.

Dollar Goes