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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 13.2002

Ex Parte Notice

Mal-lene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp., Transferors, to AT&T Comcast Corporation, Transferee, MB Docket No. 02-70

Dear Ms. Dortch:

On November 12, 2002, representatives of AT&T Corp. ("AT&T") and Comcast Corporation ("Comcast") met with Alexis Johns, Legal Advisor to Commissioner Copps. AT&T was represented by Betsy J. Brady, and Comcast was represented by Jim Coltharp, Richard Metzger, David Rudd, and Jim Casserly.

As with the presentation summarized in our report of November 5, the discussion mainly focused on the public interest benefits of Comcast's proposed merger with AT&T Broadband. Once again, the parties discussed how the merger would accelerate the upgrade of AT&T's cable systems and expand the availability of broadband services, including high-speed cable Internet service, to millions of homes

We also discussed AT&T Comcast's plans regarding competitive phone services. We noted that a November 5 ex parte report filed by the Media Access Project claims that "Comcast has made plain that it does not intend to compete in providing local telephony." Wc pointed out that there is no evidence whatsocvcr in the record to support that statement. We noted that some press reports of Comcast's third quarter earnings call had misinterpreted remarks made in the course of that call, and we explained that, in context, the statements made during that call are entirely consistent with Comcast's representations on the merger review record. In other words, Comcast *does* intend to offer competitive phone services, drawing on the expertise and experience accumulated by AT&T Broadband's cable telephone operations; Comcast *dues* believe IP phone services are approaching the point where they can be commercially introduced and achieve technological, operational, and economic success; and Comcast stands by its commitment to introduce phone services in the Philadelphia and Detroit markets beginning in the second quarter of 2003. Corncast's most immediate priorities, however, necessarily relate to

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strengthening the core cable business of the AT&T Broadband systems, and in particular to slopping its substantial losses of basic video subscribers (approximately 500,000 since the merger was announced). This, in turn, requires upgrading those systems that have not yet been upgraded, introducing digital services, improving customer service and transactional selling, establishing financial discipline, and otherwise seeing to the fundamentals of the core video business. These points are covered on pages 5-6, 8, and 11 of the attached transcript and are not at **all** inconsistent with the commitment Corncast has made regarding telephony.

Finally, we mentioned that the merger would enhance the ability of AT&T Comcast to compete with broadcast networks, DBS, and other outlets in the sale of national advertising, but would not limit the ability of *local* advertisers to arrange for carriage of their advertisements on the cable systems of AT&T Comcast.

Pursuant to section 1.1206(b)(2) of the Commission's rules, we are submitting the original and one copy of this letter to the Office of the Secretary. Copies of this letter are also being sent to Ms. Johns and the merger review team. Please let me know if you have any questions.

Sincerely,

Jim Casserly

James L. Casserly

Attachment

cc:	Alexis Johns	Royce D. Sherlock	Roger D. Holberg
	Erin Dozier	Simon Wilkie	James R. Bird
	William Dever	Cynthia Bryant	Jeff Tobias
	Patrick Webre	Lauren Kravctz Patrich	Qualex International

WDC 323281v1

Transcript produced and provided by

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10/28/2002 10:30 am CMCSK Comcast Corporation (CMCSK) – Q3 2002 Financial Release Conference Call

THE OPERATOR:
Welcome to the third-quarter earnings release conference call for Comcast Corporation. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to the Executive Vice President and Treasurer of Comcast, Mr. John Alchin. Please go ahead, sir.

MR. JOHN ALCHIN:
Welcome to the third-quarter 2002 earnings call. Just before we proceed I would like to refer everybody to the safe harbor disclaimer and remind you that this conference call will contain forward-looking statements subject to risks arid uncertainties. We refer you to the IO-K for a list of those risks and uncertainties that could impact the actual results. I'm going to cover the operating highlights this morning, cover the new CAPEX disclosure that we have and the other divisions before handing to Steve to cover the integration work that has been done over the last few months, and Brian will give a preview of the closing timetable and a bit of a preview on the power of combining ATTBroadband with Comcast.

On a consolidated basis we saw revenue for the quarter increase 12.7 percent to $2.7 billion and operating cash flow increase 17.8 percent to $826 million. We reported net income of 75.6 million or 8 cents a share as compared to a net loss of $107 million or 11 cents a share in the same period last year. In our press releasc on page 10 we detail a buildout to operating income per share which was reported at 45 cents per share compared to a loss last year of 19 cents a share reflecting the adoption of 142 on January 1, 2002, under which we no longer amortize goodwill and (indiscernible) intangible assets. Going further down the calculation on that page of the press release, we report operating cash flow per share of 86 cents up from 74 cents in the same quarter last year

All of this reconciliation is done on page 10 under the heading, reconciliation of diluted earnings per share to operating cash flow per share. Before I review the results of our individual divisions I would like to take a few minutes just to highlight three key developments that strengthened the balance sheet for the proposed ATTBroadband merger. I will also summarize the new supplemental information that we have added to our cable division reporting. The three key developments in the quarter that reenforce our balance sheet for the ATTmerger were the resolution of Time Warner Entertainment, secondly securing investment–grade ratings for ATTComcast from all three rating agencies and finally the launch of the exchange offer to ATTbondholders. The effect of these developments on our liquidity position is really meaningful.

The initial financing plan that we arranged in the first quarter of 2002 did not anticipate either a resolution (indiscernible) or an exchange offer. The investment grade ratings ensure our access to the funding required at closing. The combination of the (indiscernible) resolution and a successful exchange offer will remove any need for us to access the capital markets in 2002. Exchange debt will have at least a ten–year maturity and will he substituted for drawings under the one year bridge facility at close. AOL Time Warner cash and stock sale proceeds along with the proceeds from the sale of other liquid nonstrategic assets will be used to repay all anticipated outstandings on the bridge loan in 2003.

Consequently our liquidity has increased significantly and we expect to reduce debt in 2003 by $4 to $5 billion to approximately $25 or $26 billion. This excludes any proceeds from a Time Warner Cable IPO. As a result of the anticipated debt reduction and cash flow growth we expect to report year end 2003 leverage of approximately 3.5 to 1, a stronger ratio than what we had when we announced the ATTmerger in December of 2001. Our then remaining 21 percent interest in Time Warner Cable provides an additional cushion to further reduce leverage below the estimated 3.5 to 1. Next, last week on Monday a week ago, we and ten other MSO's agreed to provide additional information relative to capital expenditures and subscribers. The incremental CAPEX information for the third–quarter and 2002 year to date is on page 7 of the press release.

In addition we have provided an estimate for the percentage within each category that represents recurring capital. We have provided these ranges because the numbers will vary from quarter to quarter depending on construction and new product activity. With this information you can arrive at our estimate of maintenance or recurring capital. As you do the math you see that we report $30 to $45 of annualized maintenance CAPEX per sub and in addition $15 to $20 per sub for line extensions. This is consistent with our previous guidance for both maintenance and line extensions of $50 to $60 and also consistent with the guidance that we produced at the beginning of this year for 2002 for maintenance, capital and line extension capital of $450 million or $53 a subscriber.

Finally in our continuing effort to provide helpful additional information, I would also direct you to page 10 of the press releasc where we provide a detailed buildup of the free cash flow numbers. This is one of the key financial highlights of this quarter in my opinion. In the first nine months of 2002 we generaled nearly $660 million of free cash flow, after all CAPEX, net cash interest and cash taxes. This number compares to a deficit of 242 million in 2001 and represents a $900 million increase. Again this is consistent with the range of street estimates lor our free cash flow this year of $800 to $1 billion. Let's move on then to the individual divisions and highlight first of all the results of QVC. QVC had another solid quarter of growth especially from the international markets.

For the third–quarter revenue increased I3 percent to $1 billion and cash flow increased 20.6 percent to $185 million. Year to date revenue is up 13 percent to **$3** billion and cash flow up 17.7 percent to $572 million. QVC's base business reported revenue growth of 8.7 percent driven by a combination of phones growth of 3.6 percent up 74.8 million, an increase in sales for FTE (phonetic) of 4.9 percent to $1 1.23. Domestic operating cash flow growth of 14 percent shows the continued improvement from tight expense control both in the area of fixed and variable expenses.

At the same time QVC's operations in UK, Germany and Japan each generated double–digit revenue and operating cash flow growth during the quarter. In fact the UK had its best quarter since the fourth quarter of 1999. Revenue is up 16 percent to $69 million and cash flow up **18** percent to almost $5 million, where in Germany we had very strong results again and for the third–quarter we are in the black in the German operation. Revenue was up **43** represent to 65.5 million and operating cash flow at $500,000 versus a loss a year ago of $2.5 million. More homes are receiving the channel in Germany now, up nearly 1.8 million to *25* million with the awareness number at about the **40** percent level that we have been at in the last few quarters.

Japan is trending much stronger than expected. Revenue is up to 23.7 million for the quarter and the operating cash flow loss for the year to date is only **$4** million. **As** we have said in the past QVC's results are not affected as much as other retailers by a soft economy. We see that in the 8.7 percent domestic revenue growth in the third–quarter. It is up but not as much as we might have expected. We expect the fourth quarter to also be a bit soft domestically with some effect from generally low retail sales and some additional effect from the West Coast dock strike. But we expect international results to remain strong and still expect to meet full year guidance of consolidated revenue growth in the low double digits and consolidated operating cash flow growth in the low to mid teens excluding the results of Japan.

With respect to Japan we have given guidance for a cash flow loss of approximately $20 million for the year. We are today revising that guidance as we expect a loss of less than half of that of our previous estimate. Moving onto the content division, content reported revenue growth of seven percent to $148 million and cash flow growth of **10.4** percent to 33.7 percent -- I'm sorry $33.7 million. On a consolidated basis our content businesses generated pro forma revenue growth of seven percent and cash flow growth stemming from stronger advertising markets and an increase in carriage offset by a decline in revenues and cash flow at Comcast–Spectacor as a result of fewer pre–season games in the third–quarter.

Excluding the results of our new networks, Outdoor Life and **G4,** cash flow in fact increased almost 40 percent, at 49 -- I'm sorry almost 50 percent at 49.3 percent. All channels E!, Style, Golf, Outdoor Life and **G4** reported significant gains in their subscriber count year–over–year. In fact for the third–quarter E! reined with **its** highest–rated quarter ever in primetime and logged record–breaking stats on its Emmy programming on Sunday. September 22nd. It is the highest rated Emmy coverage ever from E! attracting one of the best demographics of the I8 to 34 and 18 to 39 year old category. Let's move on then to the cable division. We had revenue increase of L2.3 percent in the third–quarter to $1.5 billion and cash flow up 12.2 percent to $645 million for the quarter.

Year to date, revenue is up 12.2 percent to $4.6 billion and cash flow up 13.7 to $1.9 billion. New product growth is the principal driver of our cable business and I will review each of the new products individually after a couple of comments relative to the revenue growth. On the revenue front advertising added to the growth with approximately 11.9 percent growth in advertising revenue. This reflects a stronger local ad market as well as the ongoing success of Comcast MarketLink, our regional fiber interconnect that is now in about 15 markets and attracting new regional and national advertising.

Adjusting to the extra week in the broadcast calendar in the third–quarter of '01, revenue in the third–quarter of '02 actually grew closer to 20 percent. Third quarter we saw regional and national advertising grow on a combined basis at approximately 30 percent. The regional business grew 30 percent, the national business grew almost 40 percent. Because of the interconnect our share of national and regional advenising dollars has increased substantially year–over–year. This year in the Philadelphia market, our share is up 20 percent. In the Washington market we are up *50* percent and in national and regional advertising in Baltimore we have almost doubled year–over–year.

On the operating cash flow front, as I mentioned cash flow is up **12.2** percent. This however includes approximately $8 to $10 million of cost related to the pending ATTBroadband merger. This estimate by its nature, is somewhat subjective as it includes an estimate of additional travel, relocation and hiring activity amongst other things that would not have incurred were we not acquiring ATTBroadband. By way of example at any one point during the quarter we had two to three hundred employees on the road preparing postmerger plans for the creation of two new divisions and creation of planning for the following close of the merger.

Steve will describe all of this activity in more detail as soon as I finish the operating highlights. Net of these expenses operating cash flow would have increased 13.6 to 14 percent. Similar expense at a higher level ofapproximately $10 to $15 million will be incurred in the fourth quarter. However, we still expect to be well within our guidance for the full year for operating cash flow growth of 12 to 14 percent including the ongoing estimated merger related costs. Including these costs we generated over $300 of annualized cash flow per sub for our 8.5 million subs in the third–quarter. Including those costs we maintained an operating cash flow margin level with that of 2001 of 41.7 percent.

But the real stars of the quarter were the digital and data products. Last quarter we increased our guidance for digital and the third–quarter net ads are in line with that increased guidance of 7 to 800,000. In the third–quarter we reported over 205,000 digital box net ads, a weekly average of 15,800 to finish the quarter with 2.94 million digital boxes, representing a 39 percent pro forma increase over 2001. In fact our digital sell–in rate is now up to 50 percent from 30 percent a year ago. Average revenue per unit is down slightly from the second–quarter as we sell–in more boxes were home but remember we are generating $10.47 for every digital box at an 80 percent margin.

At around 1.39 boxes per home, we have over 2.1 million digital customers and a customer penetration rate of almost 25 percent (technical difficulty) 19 percent a year ago. Average revenue per sub is $14.53, 5.1 percent higher than it was a year ago. We also continue to be really excited about the next leg of growth in digital. Video on demand with access to a 1,500 hour library gives us something that satellite cannot offer. We expect video on demand to be in 7 million homes by the end of the year and we are already in 5 million of those 7 million homes. We will launch in Philadelphia by the end of November.

Secondly, high-definition television reinforces our competitive position. On October 14, we announced a HDTV launch in Washington Metro. More than 750,000 customers have access to six channels of HDTV programming from ABC, CBS, NBC, PBS, HBO and Showtime. We have not finalized pricing of the offer yet but it is likely to be some combination of activation and install fees. We expect to have HDTV in front of 9 million homes by the end of the year. Comcast Online reported its best quarter ever with almost 170,000 ads in the third-quarter, a weekly average of over 13,000, to finish the quarter with 1.34 million customers. This is a 69 percent increase over the 2001 level and 32 percent increase sequentially over the second quarter.

Our online sell-in rate, this is the number of customers to whom we sell the Online product when they call in and ask for cable is now to between 18 and 20 percent. A year ago that number was zero. Average revenue per unit is $41.34, down slightly from the second-quarter due to our back to school promotions that we have every year. Our goal is to maintain ARPU or the average revenue per subscriber above $40 and at the same time to continue to deliver this cost -- deliver this product at a declining cost structure.

Our second statistic that is really impressive in this product for the quarter is that our customer contact rate, i.e., the number of times a customer calls us, is now 0.45 a month, meaning that the customer only contacts us once every other month. That is the same contact rate that we have for the video product at the same time we are providing the service to the customer at a lower-cost than we did before. We are handling these costs -- handling these calls less frequently and incurring less cost in doing so. At quarter end we had a penetration rate for the product of 11 percent of marketable homes, up from 8.2 percent a year ago with over 12 million homes or more than 85 percent of the homes in our footprint having access to this service.

We added almost 500,000 homes to the service availability in the third-quarter and we are up from 75 percent availability at the beginning of this year. With that we would just like to reiterate the guidance for cable for the year and I think I will pass now to Steve to highlight what has been going on in the integration front.

MR. STEPHEN B U M :
During the third-quarter we really turned our attention to the ATT integration project. I think it was a good thing and an indication of the strong existing management team that we have kept our eye on the ball in the Comcast systems during the third-quarter. On July 10th both companies had their shareholder votes and the week after the shareholder vote we've finalized the divisional operating structure for the ATT systems. In effect we created six divisions all run by Comcast executives with an average of 22 years of cable experience. Four of the six divisions were existing ones which were managing the 8.5 million Comcast customers and in those four divisions we added roughly 1.5 million new ATT subscribers to each division.

We also created two new divisions, one in Denver and one and San Francisco to help manage the systems that are on the western parts of the United States. These divisions are really key to the way that we manage the business in a centralized way. It was important to get those established quickly. During the end of July and August the divisions worked with the 16 ATT markets to prepare what wc call preliminary operating plans. These are operating plans for life postmerger. During the process we got to know the management teams in each of the 16 markets quite well. We also identified the key issues facing each market on a market by market basis and we developed a game plan for each market for life post merger. During the month *of* September. I and my senior management team visited these markets and reviewed all 16 preliminary operating plans.

As a result of these reviews we have developed new priorities for life postmerger for the entire company' in each of the 16 markets. We also have basic subscriber 100 day turnaround plans and have identified cash flow opportunities in each of the markets. As a result of this process we have moved 120 Comcast executives into ATT systems with new assignments. All of these 120 Comcast executives have been identified and agreed to their new assignments and they either reside in the systems or have plans to move in the not too distant future. Meanwhile in August and September we completed our reviews of the Denver headquarters operations and as a result of this identified 1,700 redundant positions. These 1,700 people were identified two weeks ago and informed of the fact that after the close or shortly after the close, their services will no longer be needed by the combined company.

Our goal when we started this process was to havc a comprehensive business plan that we had completely vetted (phonetic) before the close and we now have that. Based on the work that we have done here are our integration principles. Principal number one is to move rapidly and decisively the day after close. We now have our plans in place and with this we can hit the ground running. Secondly, we want to leverage the Comcast structure and people. We have tremendous expertise and experience and as a result with the divisions, our budgeting process and the people that we are putting in place along with a fair number of good people that we have identified at AT we believe we havc the process and systems and structure and people to succeed.

The third principal is to immediately change the priorities of the combined company. Cash flow will be job one. We will focus on video not telephone and we will move quickly to rebuild the rest of ATT in two years. The next principle is to have an intense focus on stopping the basic subscriber loss. We believe this is definitely achievable and after cash flow it will be our highest priority. The next principle is to increase revenues by repackaging and remarketing digital and premium services. Further we plan on improving customer service and transactional selling by bringing calls back in-house and in market as soon as possible.

The next principal will be over time to rightsize staffing in the field in line with Comcast benchmarks. The final principal is to closely follow the progress by disciplined financial reporting and monthly reviews. In summary I think we have made a lot of progress putting together an operating structure. We have the people in place for life post close and we have a very clear sense of what we have to do to improve cash flow and stop basic sub loss. At this point we're looking forward to getting the deal closed and getting moving. Brian.

MR. BRIAN ROBERTS:
I am very excited that we havc been able to have the complete thorough operating results as successful as we have in the third-quarter, double-digit in every one of our categories cable, commerce and content and the model works. This has been a big source of investor question

going hack and revisiting their comfort with the EBITDA, the free cash flow model. I think for this our third straight quarter with more than half of the free cash flow coming from cable, $262 million of free cash flow and $660 million year-to-date, I am convinced the model really works.

Our new company we believe will he able to generate free cash flow on a combined basis by '04. We really have taken that model and said okay, let's rebuild the ATTsystems, let's approach our business process and hopefully on a postmerger basis he able to hit the ground running as quickly as possible, none of anything has been able to begun yet obviously until we get to closing but we are hopeful that that is going to be some time in November. Let me just comment on that. At this point there really are only two major issues remaining on the long checklist when we started on this journey, and they are obviously the final governmental approval of the FCC, in particular, and the bondholder exchange and consent process. Both of those hopefully point to as I said to sometime in November closing.

We also are fortunate that we haven't taken our eye off of the hall for the other parts of the company. The content division, as John described, if you do it on a pro forma basis had a terrific quarter and even with our startup new networks and some of the investments we are making we continue to helieve if advertising rebounds and the networks that you can grow from lower distribution to more distribution as we have done in every one of our networks that that model really pays dividends. QVC, what can you say about another incredible quarter of EBITDA growth. Even in these challenging environments QVC finds a way to once again be a star of Comcast business. All in all we are at the hopefully, the final stages. We are very excited about what Steve talked about, having our priorities focused, having the management team and committing people to uproot their lives and help integrate the ATTopportunity.

We will certainly learn more as we go hut one of the lessons that we went and talked to many executives who have been through large integrations and said, if you had to do it over again what would you do differently and we got one answer every time. I wish I had moved faster. That is one of the mistakes that we hopefully will not look back. It doesn't mean that you will get everything right but we are very excitcd. We're probably more excited today about what we think we can do than we were at the time we signed upjust because ofthe additional knowledge that we have. With that, let's turn it over to questions.

THE OPERATOR:
(CALLER INSTRUCTIONS) Douglas Shapiro (phonetic) with Bank of America

THE CALLER:
If you couldjust talk about the hasic subscriber numbers which were down a little bit sequentially. Typically in the third-quarter you are up a little bit. If you couldjust talk about what is going on there. Secondly, it seems you are on track to pretty much blow through the guidance you've given on high-speed data units by the end of the year unless you think things are going to bc down a fair degree sequentially in the fourth-quarter. I was wondering if you could ralk about that as well.

MR. BRIAN ROBERTS:
I think in the case of basic subscribers we think we are on track to hit our numbers. We had a very strong September, over 50,000 subs net ad. We are right where we want to he in the

October start to the fourth-quarter. So I think we are right in line with where we thought we would he and feel pretty confident about the rest of the year. In terms of guidance on all of the other metrics we continue to bc bullish about the business but I think at this one it is premature to change.

MR. JOHN ALCHIN:
That doesn't imply any softness in the product in the fourth-quarter. We still expect a very strong fourth-quarter but the change wasn't meaningful enough from the four to five hundred to warrant an expansion of that but I think every expectation is for a very strong quarter. The product is doing extremely well.

MR. BRIAN ROBERTS:
And fourth quarter is a good high speed data quarter because there is some seasonality related to Christmas.

THE CALLER:
Great, thank you very much

THE OPERATOR:
Naraj Gupta (phonetic) with Salomon Smith Barney

THE CALLER:
Steve, just following up on Doug's question on basic subs, could you Just talk a little bit in terms of just how you see the competitive environment vis-a-vis DBS and just in general do you think the competitive environment has gotten a little bit tougher since the I guess the permanent implementation of the new WOW (phonetic) campaign with Dish and whether or not you see any varied performance among the individual Comcast markets? Second, sometime ago you said you expected VOD to ultimately allow you to recapture material basic subs. Do you still hold that view and over what time do you think that plays out?

MR. STEPHEN BURKE:
I totally understand the question and it is a question that we have been asked. As other MSO's have lost subscribers, I think there has been a concern on the part of Wall Street, some on Wall Street, that perhaps what is going on between satellite and cable is dramatically different than it was and therefore we have problems. We do not believe that that is the case. We think we are in very good shape. If you look at our subscriber growth it was one percent two years ago, one percent last year. It is .7 percent this year. The delta between .7 and I percent on our business is about 25,000 subscribers.

So we do not believe that it is a material difference and we believe that our business continues to he in good shape if you take care of the fundamentals which we have been doing over the last five years, rebuild, digital, customer service, etc. and the notion that somehow the competition has dramatically changed our competitive landscape we don't think holds true. Our pricing over the last two years has been moderate, sort of in the 5 to 6 percent range. We think we can continue to stay in that range in the future and the real key to our business is to focus. If you are looking at price value versus satellite, to really start to focus more on the value side of the equation. What we really want to do is take the offensive. I think the cable industry traditionally has been on the defensive as satellite has had things, whether it was 200 channels or PVR's or something else that we could not provide.

Our feeling is [hat video on demand with the kind of expansive model that we are talking about and rolling out in Philadelphia as wc speak, potentially allows us to go on the offensive and our goal would be to find some kind of consumer proposition that would allow **us** to win back more customers from satellite. We think potentially that could be video on demand, but I think if you look at the companies that have taken care of their customers, who have rebuilt, who have rolled out digital in an intelligent way, they are gaining subscribers and we are certainly in that category.

THE OPERATOR:
Richard Velatti (phonetic) with Morgan Stanley

THE CALLER:
A question for Steve and Brian. Thinking to the next step of pricing strategy what is the ability to bundle digital and data'? In other words your data product is very strong. What is the capability -- how many of these customers that have data also take digital and then from another angle *of* bundling if your test in Philadelphia goes well, how quickly could you begin to bundle the voice product with the data product'? In other words is that a relatively rapid rollout of the bundle voice and data or a longer-term term'? Really a question about bundling, how can you use and strengthen the data product to drive other services.

MR. STEPHEN BURKE:
If you look at a situation where 15 percent or so of our video customers have high speed data there is no question that that product makes people think differently about their cable company and feel more loyal to their cable company. We have always had a strategy of encouraging people to take those products. If you arc a -- if you are a video customer and take high-speed data you pay a lower-price than if you are a nonvideo customer that takes high-speed data. I think over time we will get more sophisticated as we cross-market these products. I do not believe that bundling and cross-marketing is necessary to stave off competition bur I think it is a real upside in our business used intelligently.

Many customers when you do the research, look at bundling as really a way to get a bigger discount but I think using bundling in a positive way, proactive way, is going to be a big part of our future.

MR. BRIAN ROBERTS:
I believe that the opportunity with the data customers also to create enhanced versions of the data business, if you think you the early days of cable as basic expanded, as more and more programmers got created, it was a cycle of success. The question is how do we replicate that cycle of success in the broadband business, in the broadband space broadly defined? We are now beginning to see content companies thinking of ways and the other broadly beyond content applications for that broadband platform. So we are excited about the multiple ISPs. We're excited about some of the enhanced versions of those ISPs to offer richer content to the *user* and so it goes beyond the bundle I think, Rich, as to how the revenue model for the business goes the next few years.

And what is so exciting is that right now whereas we thought there might have been a slowdown in new products there has actually been some continuation (indiscernible) in the actual acceleration *of* the rate of growth. It is a wonderful moment and I think it will attract more people to stand up and take notice of these categories and invest some RDas to how to lake advantage ofthe new platform that is getting rolled out everywhere

THE CALLER:
Thank you.

THE OPERATOR:
Raymond Katz (phonetic) of Bear Steams.

THE CALLER:
Brian, as a follow-up to what you just talk about, to create the next generation of data products, could you or Steve or someone talk to us about the rollout of 1.1 right now in your systems, when you think you can phase that in? And Steve, looking down the road how you could leverage that to do exactly what Brian said about the next generation?

MR. BRIAN ROBERTS:
We are starting to rollout 1.1 as we speak and that will continue. We are not in a tremendous tush. We want to do it in an intelligent way. Just to amplify what Brian said, if you look at the high-speed data platform I don't think it is altogether different than the cable platform in that there is a percentage of the customers, and maybe it is half, we don't really know, that just want high-speed connectivity and always on, but there should be a percentage of those customers who want incremental services and we have spent a lot of time working on a product roadmap, some of which would require DOCSIS 1.1 and eventually some of which would require 2.0. that will allow us to offer people more than just their basic $39.95 service and layer in new products over time and eventually allow us to package and grow that platform and when you have 1.3 million, speaking for Comcast, and after the deal closes 3.5 million or there abouts, high-speed data customers, if you can then start to layer in the next HBO and Showtime whether it is video gaming, video streaming packages, home networking, video chat, that business starts to get very attractive. Then you have got growth from there. We have a version of the product that we rolled out in some of the markets, At HomePro, that for the work at home market that gives you higher speed and more IP addresses. Whether it is wireless home networks which are really getting cheaper and more reliable it makes the cable modem product more attractive. These are all of the things that we are working on. ESPN made an announcement a number of us saw, where they are going to have sori of a television station concept going with ads and their broadband content. Other programmers have talked the same way. You can just feel momentum building around the space, around the success of cable modems and when you add almost 170,000 new net subscriptions in a quarter, you are getting in one company, you're going to see scale just as when basic cable got going.

THE CALLER:
Thank you.

THE OPERATOR:
Laura Warner (phonctic) of Credit Suisse First Boston

THE CALLER:
I Just wondered. Steve or John, if you could update us on your results in lelephony in Detroit. I know that you were obviously applying the approach that 1 would imagine you will apply to ATT systems once the deal is closed. Are you -- has you net ad rate grown, shrunk and what has happened to the cash flow per sub in that territory?

MR. STEPHEN BURKE:

We just reviewed the Midwest division's budget for next year so I am pretty familiar with the numbers. There are two major efforts that we have put in place in our business in Michigan which for those of you who don't know is a fairly small telephony footprint of about 20,000 subscribers, slightly more than 20,000 subscribers. Job number one was improving the profitability and that is a business now that in terms of operating cash flow is throwing off $3 to $4 million a year. Job number two for us has been to experiment with hybrid IP phone, which is basically using a circuit switch and then having a gateway between the switch and the customers premise that allows you to then use IP technology and experience the benefit of having IP economics at the customer premises.

The good news is that is working and that test so far has been successful. Obviously we have a huge vested interest once the two companies are put together to figure out a way to make IP phone or hybrid IP phone work and so we have been using this Michigan system as a test bed and I think the initial results are good. But both on a cash flow basis and a technology basis things have been good. Our goal has not been to aggressively ramp subscribers, so subscribers are essentially flat over the last quarter or two in Michigan.

THE CALLER:

Great, thank you.

THE OPERATOR:

Richard Greenfield (phonctic) of Goldman Sachs.

THE CALLER:

Steve, could you comment as you have gone around and looked at the systems all across the country that ATT has, if you maybe just give us a greater sense of what is driving the underperformance of those systems versus of how Comcast is doing, what are the key things that need to he changed out? And then maybe just also talk about, you mentioned the success that you have had in Michigan, maybe apply that to what you see your strategy toward telephony being now that you have looked at their telephony operations across the country?

MR. STEPHEN BURKE:

Rich, I gave a list of priorities when I spoke during the introduction and if I really wanted to give you all of the details it would be much longer than this call could afford. I think I will pass in terms of giving you too much more color commentary until after the deal is done and that would apply to both how we would manage the video business and telephony.

MR. BRIAN ROBERTS:

I just want to state that in Steve's priorities what you can sense is a sense of urgency around basic subscribers which I think was the thrust of your question perhaps. As you said each market has a different dynamic, a competitive dynamic or some state of the rebuild or whatever and as to telephony, I think the Michigan experience in the previous question still is our view that this business longer-term is going to be a profitable part of the company. The question is you are seeing a technological shirt occurring right before our eyes and how to take advantage and use that shift while we know this new company has a major set of priorities to integrate right now, postmerger. I think what rightfully we are trying to suggest is that keeping our eye on the basic sub ball is number one.

THE CALLER:
That was perfect, thanks

THE OPERATOR:
Karecm (indiscernible) with Deutsche Bank

THE CALLER:
If I look at the video revenue it looks like ARPU for analog specifically is growing about 3 percent which is below the price increase rate you mentioned before. I am wondering if there is any economic effect you are seeing on pay revenue or anything else unusual that would explain that? And then secondly for John or Steven, could you just give an update on the ATTsystems you picked up last year and then talk about how that may translate into your expectations for the margin evolution over the next 12 months?

MR. JOHN ALCHIN:
We haven't broken out the ATTsystems that we acquired at the beginning of last year more than we have in those slides that we have done in recent investor presentations. I don't want to go any further on that at this point in time. I think in terms of ARPU average video revenue per sub in the third quarter is $46.29, up from $43.93 a year ago. So you are not seeing -- it is a 5.4 percent increase year-over-year.

THE CALLER:
I was pulling digital revenue out of that, John

MR. JOHN ALCHIN:
You pulled digital revenue out and you are sort of seeing slightly modest decline that is corning a little bit out of the equipment sector and to a lesser degree out of pay.

MR. STEPHEN BURKE:
But we are not seeing anything in our tun rates that are out ofthe ordinary or that would cause any reason for concern.

THE CALLER:
Any comment on the margin outlook for next year on AT

MR. JOHN ALCHIN:
No. Unanimous no.

THE CALLER:
Thanks.

THE OPERATOR:
Jessica Reescohen (phonetic) from Merrill Lynch

THE CALLER:
We are seeing extraordinary strength in advenising across broadcasting and cable. Could you discuss trends that you are you are seeing in the fourth-quarter? And secondly, I hate to do this to you, but if you could just go back to the basic sub issue, penetration is down 120 basis points. Is there something going on'? Homes growth were up 2.7 percent. What happened in

July and August if September was so strong?

MH. STEPHEN BURKE:
Let me start with the advertising. We, because of the calendar year difference in terms of number of weeks, had a very strong third quarter. We looked at the fourth-quarter as being sort of split between October and early November which is before the election and then the second half of the quarter being a little bit harder to figure out at this point. So I think our sense is the fourth-quarter is going to be in line with the third quarter, but frankly the visibility once you get out beyond the election into December is just too early for us to know.

The good news is and John mentioned it during his introduction, is that the regional and national business is is what is driving a lot of our growth. That was up over 30 percent. That is a share increase and really sort of driving our business in the future because we are not only enjoying the benefit of the business turning around but also the benefit of gaining share.

MR. JOHN ALCHIN:
Then the penetration issue, Jessica, we saw homes growth quarter over quarter of 2.7, subscriber growth of 0.7. We are certainly in a competitive marketplace, but when you look at the rate at which new products are growing, that is the driver of the business now and going forward. As Steve then gets into the point of rolling out video on demand and HDTV, I think we are going to see a bit of a shift in those statistics.

MR. STEPHEN BURKE:
I have to just add one point Jessica, between the last question and this question, we are pretty pleased, very pleased, with this quarter. Basic revenue growth, revenue growth for the company is fantastic from the cable division. Cash flow, what John said is, if you take some amount of integration cost it wouldn't have happened without the deal which I think is certainly realistic, you are around 14 percent cash flow growth. We're adding basic subs but the new products as Steve pointed out, 10 or 20,000 basic skews these percentages fairly dramatically.

We are adding 400,000 give or take, new products a quarter. It is a fairly dramatic healthy business which is what is driving revenue growth. In fact, if you really look at modems and I would suggest that you really focus on modems, what happened this quarter and realize that there is no programming costs in the cable modem business and that basically as we scale we are able to then get lower cost over the network. Putting our focus on modems when there is a competitor in DSL and getting and getting the kind of marketshare that we are getting both as a company and I think as an industry, we have our emphasis just right. You can all see what you want to see in the quarter, but I personally saw it as a solid quarter on all fronts, but modems setting the groundwork that when you actually look at modem revenue for a full year basis it is a bigger category than paid television.

THE OPERATOR:
(indiscernible) with UBS Warburg.

THE CALLER:
It is related to the bridge financing. How much roughly do you expect you have drawn on the bridge financing at closing and then you mentioned no need to access the capital markets this year. How do you expect to fill that bridge facility outstanding'?

MU. JOHN ALCHIN:
That will depend upon the success and the degree of success on the consent and exchange offer to the extent that we are somewhere at or just above the minimum level that would be ncedcd to get the consents that we need, you can expect to draw or an exchanged amount of about $4 billion, which the way the math works that would be about the amount of the drawn then under the bridge facility. The other point that I was making in my commentary was that from the proceeds of AOL Time Warner cash, from the proceeds of modernization of AOL Time Warner stock, and from the sale of other nonstrategic assets such as the ATTstock and the Sprint PCS stock that we hold, you see somewhere between **$4** to ***$5*** billion of proceeds generated from those sales. That would be more than sufficient to pay off the bridge and the bridge is the only twelve month maturity that we will have in our capital structure. That was why I was saying that we wouldn't be in a position where we would need to go to the capital markets in 2003.

THE CALLER:
So the components of the asset modernization above and beyond the AOL stake are related to ATTstock and what else?

MR. JOHN ALCHIN:
ATTstock, Sprint PCS stock and the cash from modernization of the AOL Time Warner cash and stock position.

THE CALLER:
Okay, thank you.

THE OPERATOR:
Tom Stem of Chieftan (phonetic) Capital

THE CALLER:
I wonder if you could comment on what your expectation is for your cash flow deficit next year from your operating businesses? And I also wonder if you can comment at this point on what you think capital spending will be for the combined company over the next two **to** four years'?

MR. JOHN ALCHIN:
We will be giving guidance for 2003 probably sometime during the first quarter of 2003 or maybe around the time that we do an investor meeting soon after the first quarter. I think at this point in time to be giving any further detail than that is premature.

MU. BRIAN ROBERTS:
I would just like to add to that that our plan here has been, we have been very consistent with not changing any of our guidance from when we first announced the merger. We hope to get **the** closing in November as I mentioned. We are optimistic that all of the hurdles are going to be met that there will not be any significant changes in our optimism of what we can do, continues to look at the 22 million sub footprint and think that this is a pretty exciting opportunity. We are starting to think about ways that the business can change and grow. Steve's team is ready to hit the ground running. **You** got a pretty good update on that exercise. That has all gone well and our plan would then be to take a couple of months to make sure we know everything and then to sit and have a longer, a full day kind of investor meeting, where

we are able to go in great detail into all of the markets as well as all of the business updates. So that is sort of the blueprint that we are operating on. John, back to you for the final word.

MR. JOHN ALCHIN:
I think on that point we stand by comments that we have made at previous investor meetings, where we expect on a consolidated basis to report negative free cash flow for 2003, but fully expect 2004 will generate a strong positive number for the full year. In fact we may even be at a point on a tun rate basis in the fourth quarter of 2003 where we could be free cash flow positive, but we stand by the statements made at previous meetings. I think with that thank you all for joining us and see you next quarter.

THE OPERATOR:
There will be a replay immediately following today's conference call and it will run through tomorrow night at midnight. The dial in number is 630–652–3000. The pass code is 625–2271. Once again the number for the replay is 630–652–3000 and the pass code is 625–2271. A recording of the conference call will also be available on the company's Web site. This concludes today's teleconference. Thank you for participating. You may now disconnect.

(CONFERENCE CALL CONCLUDED)

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