

## How to Talk Money (And What Not to Say)

### *For Non-Financial Communicators*

#### **About ACCbriefs:**

Designed for cable communicators in public relations, marketing communications, public affairs, government relations, executive office and other staff positions, this issue provides a overview of key financial terms and concepts cable communicators should understand when they speak directly or indirectly about corporate or industry financial issues.

Even if communications professionals are not a company's primary spokespeople on financial issues, there are two key reasons why it is important for communications professionals to "talk" as well as "understand" money.

First, money is the language of business. It is a key metric that is used in keeping score in the game of business. If communications professionals do not understand the scoring system, it will be difficult for them to fully comprehend the issues and challenges of the enterprise, let alone make a meaningful contribution to help address these business challenges.

Second, as a representative for the company, the communications professional will invariably encounter questions from the media and regulators about the company's financial issues. In these situations, the communications professional needs to know what financial disclosures are appropriate to make as well as what financial questions to defer to someone in investor relations.

The purpose of this paper is to provide the reader with some basics on "talking money."

# Money Basics

## Economic Models:

An important starting point in understanding how to “talk money” is to figure out the company’s economic model; that is, how the company makes money. In the cable industry, the economic model depends on the type of company – MSO, programmer, supplier hardware, or other vendor.

In general, MSOs have four basic sources of revenue – namely subscription revenue, equipment rental revenue, transaction revenue, and advertising revenue. The typical residential and commercial subscription revenues are from video, voice, and data services. Equipment rentals include mostly charges for set-top boxes and modems, whereas transaction fees include VOD movie charges as well as commissions from product sales on home shopping channels. MSOs also derive revenue from selling advertising that is inserted on various cable networks and space on web portals. The major expenses for cable operators are programming costs, personnel costs, capital costs (depreciation and amortization), and interest expenses. A simplified example of an MSO’s profit and loss statement is as follows:

**Table 1**

	Amount in millions	% of Revenue
Subscription Revenue*	\$22,200	88.8
Advertising Revenue	1,100	4.4
Other Revenue	1,700	6.8
<b>Total Revenue</b>	<b>\$25,000</b>	<b>100%</b>
Operating Expenses	\$15,500	62
Operating Cash Flow (Revenue minus operating expenses)	9,500	38
Depreciation & Amortization Expenses	4,500	18
Interest Costs	1,250	5
Other Expenses & Taxes	1,750	7
<b>Net Income</b>	<b>\$2,000</b>	<b>8%</b>

\* Subscription revenue includes equipment rental and transaction revenue

The economic model for a programmer is simpler than an MSO in that programmers typically have only two revenue streams – license fees and advertising revenue. The mix of these two will vary among programmers. Basic programmers will typically generate 50 percent or higher of their revenues from advertising whereas premium programmers do not generate any advertising revenue from their programming. Likewise, basic analog networks will have a greater mix of advertising revenues as compared to networks that are carried on digital channel line-ups. The major expenses for programmers are production and program licensing costs, marketing and administrative costs, and personnel costs. A sample profit and loss statement for a basic programmer is as follows:

**Table 2**

	Amount in millions	% of Revenue
Advertising Revenue	\$900	60
Affiliate Fees	525	35
Other	75	5
<b>Total Revenue</b>	<b>\$1,500</b>	<b>100%</b>
Production & Program Licenses	\$375	25
Marketing & Advertising	195	13
Personnel Costs	255	17
Other	210	14
<b>Total Operating Costs</b>	<b>\$1,035</b>	<b>69%</b>
Operating Cash Flow	465	31
Depreciation & Amortization	90	6
Interest	75	5
Other Expenses & Taxes	150	10
<b>Net Income</b>	<b>\$150</b>	<b>10%</b>

The economic model for hardware and other cable industry vendors is typically a product sales and service model. For example, hardware vendors, comparable to Cisco, will generate revenue from the sales of such products as set-top boxes and routers. In addition, Cisco will earn revenues by providing support services and maintenance

agreements to its customers. The primary expenses for a vendor such as Cisco will be product costs, service costs, research and development, and sales and marketing costs.

A sample profit and loss statement for a hardware vendor is as follows:

**Table 3**

<b>Sample Hardware Vendor Profit and Loss Statement</b>		
	<b>Amount in millions</b>	<b>% of Revenue</b>
Product Revenue	\$8,500	85
Service Revenue	1,500	15
<b>Total Revenue</b>	<b>\$10,000</b>	<b>100%</b>
Product Costs	\$2,900	29
Service Costs	700	7
<b>Total Cost of Sales</b>	<b>\$3,600</b>	<b>36%</b>
Gross Margin	\$6,400	64
Research & Development	1,500	15
Sales & Marketing	2,200	22
General & Administrative	300	3
Other Operating Costs	200	2
<b>Total Operating Costs</b>	<b>\$4,200</b>	<b>42</b>
Operating Cash Flow	\$2,200	22
Depreciation & Amortization	100	1
Interest	100	1
Other Expenses & Taxes	300	3
<b>Net Income</b>	<b>\$1,700</b>	<b>17%</b>

### Sources of Financing:

Companies need money, e.g. capital, to execute their business plans. The primary sources of money are reinvested profits, trade credit from suppliers, loans from various lenders, sale of stock to investors, sales of assets, and the drawdown of cash resources (see Appendix I for more background on sources of capital).

The mixture of financing that a company has will depend on the following factors:

- **Stage in Life Cycle** – Companies that are more mature will typically rely on reinvested profits and trade credit

whereas companies that are in an earlier stage will rely on external sources of funds such as loans and sales of stock to investors.

- **Growth Plans** – Companies that are undertaking major expansion or acquisitions will generally have to use both internal as well as external source(s) of funds. Note: Cable companies have been growth companies; however, in recent years most have reached a point where they are free cash flow positive. That is, where their internal cash flows are sufficient to their fund operations and capital needs.
- **Borrowing Capacity and Risk Tolerance** – Companies that have stable cash flows are generally able to borrow more than firms that have fluctuating cash flows. Even though firms may have substantial borrowing capacity, they may not use a lot of debt because they do not have the need for the funds and/or they are risk averse and prefer to avoid the financial risks of debt financing.
- **Dividends and Share Repurchase Plans** – Some companies pay dividends to shareholders as well as use some of the funds generated from operations to repurchase shares. The more money a firm commits to dividends and share repurchase, the less funds are available for internal financing.

A few cable telecommunications companies – primarily larger MSOs, programmers and vendors – are owned by the public. That is, their shares are traded on a stock exchange, allowing stockholders to sell the shares they own or to buy additional shares whenever they like. In contrast, many cable telecommunications firms are privately owned. There is no public market for the shares of private companies. As a consequence, these shareholders cannot increase or decrease their ownership without special buy or sell agreements with the principals of the company. Although the pros and cons of being a public company are beyond the scope of this paper, it is clear that a primary motivation for becoming a public company is the need to raise significant amounts of capital to fund major growth opportunities.

## Understanding Financial Reporting and What Not to Say

### Financial Reporting:

The financial reporting cycle and financial disclosures vary depending upon whether the company is public or private. A public company is required to disclose its financial perfor-

mance at the end of each quarter. In general, this disclosure begins with the earnings release. This release presents a summary of the financial and operating performance for the latest quarter and is typically made public approximately one month after the end of the quarter (see Appendix I for web links to recent earnings releases for Comcast, Disney, CSG Systems and Time Warner Cable).

Along with the earnings release, many public companies will also update their earnings guidance for the remainder of the year. These two releases are followed by an earnings conference call, wherein the senior management of the company briefs the investment community and answers questions regarding the company's performance and outlook (see Appendix II for web links to Time Warner Cable, Disney and CSG's most recent webcasts). Typically, security analysts will update their investment recommendations after the quarterly earnings release and conference call. Frequently consumer business and industry trade publications will publish a story summarizing the company's recent performance, outlook, and include key comments of senior management and security analysts (see Appendix II for web link to a *Multichannel News* article published after Time Warner Cable's fourth quarter 2008 earnings conference call).

Within 40 days after the end of the quarter and 75 days after the end of the year, the company will file its complete quarterly and annual earnings reports, respectively, with the Securities and Exchange Commission (SEC). The quarterly filings are referred to as 10Q reports and the annual filing is called a 10K report.

The formal reporting process for private companies is substantially different since these public disclosures are not required. The only exception to this is if the company has publically traded debt in the form of bonds. In this situation, the company will file the 10Q

and 10K reports. Additionally, the financial disclosures for private companies are limited to the information that the firms decide to disclose or to what is minimally required in regulatory filings such as cable franchise agreements.

### **What Not To Say:**

Invariably communications professionals will be asked questions about a company's financial performance and it is important to understand how your company expects you to handle these inquiries. For instance, if you work for a privately held firm that is not required to report specific business metrics, the company's policies will undoubtedly limit the type of information that is disclosed.

Financial disclosures for public companies are complicated and can vary. Firms may choose to volunteer additional information beyond the minimally required disclosures mandated by the SEC. In general, public companies are required to report financial statements for the entire company. In addition, the firm will have to disclose selected information (i.e. revenue, operating income, assets, depreciation/amortization, and capital expenditures) for its various business segments. Beyond these minimal disclosures, a company may choose to volunteer more detailed operating and financial data. Typically additional/supplemental information is included in the earnings release and in the conference call. Communications professionals should be well versed on these disclosures as they often contain some very interesting or relevant information.

As a general rule, the company's communications professionals should consult with the company's investor relations group before providing any additional information beyond these minimal disclosures. Indeed, communications professionals forge close, integrated relationships with their investor relations colleagues. The closer aligned the two groups are in the standard course of business, the more effective the company's external communications on financial matters can be.

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## Key Financial Terms and Concepts

### Cable Financial Terminology is Different:

The cable industry's financial terminology is somewhat different from other industries since historically, the industry has experienced negative profitability. That is, after subtracting all company expenses (cash and non-cash) from its revenues, many cable companies ended up with a negative net income or bottom line. The primary expenses that accounted for this negative profitability were depreciation and amortization. These two costs are the direct result of investments that allow the company to grow and operate in the future. Hence, the more a company invests, the higher the charges. This mixture of current expense with future growth expense rendered the traditional metric of net income or earnings as a less useful measure of profitability. As a consequence, the cable industry adopted a metric that includes earnings before interest, taxes, depreciation and amortization (EBITDA) as a measure of profitability. Note: various companies use different names for EBITDA. Some use operating income before depreciation and amortization (OIBDA) and others use operating cash flow.

As cable companies' growth rates slow down over time, the industry will begin to adopt the traditional metrics of profitability, namely, net income and earnings per share.

### Key Profitability Terms and Metrics:

As noted above, the key measure of financial performance currently used in the cable industry is EBITDA. As illustrated in Table 4, EBITDA is not directly reported on Time Warner Cable's fourth quarter 2008 income statement. In fact, EBITDA is not directly reported on any public company's income statement. EBITDA is not in the SEC version of income statements, but it is included in the press release version. It is considered a non-GAAP (Generally Accepted Accounting Principles) measure and has to be reconciled to the nearest GAAP measure. All the public MSOs do that in their press releases and state why they use EBITDA.

In order to determine a company's EBITDA, one can add its operating income to its depreciation, amortization, impairment costs and loss on sale of cable systems. For example, for the year ended December 31, 2008,

Time Warner Cable reported an EBITDA of \$6,186 million (i.e.  $-\$11,782 + \$2,826 + \$262 + \$14,822 + \$58$ ). This was an improvement over the same time period in 2007 as the EBITDA for this period was \$5,742 (i.e. the sum of  $\$2,766 + \$2,704 + \$272 + \$0 + \$0$ ).

The EBITDA margin is another key measure of profitability. This metric is calculated by dividing EBITDA by revenue (i.e.  $\text{EBITDA}/\text{Revenue}$ ). This ratio indicates the percent of every dollar of revenue that remains after a company pays its operating expenses. As of the year 2008, Time Warner Cable had an EBITDA margin of 36%, calculated by  $\$6,186/\$17,200$ . By comparison, its EBITDA margin was 36% (i.e.  $\$5,742/\$15,955$ ) for the same period in 2007. This profitability metric indicates that Time Warner Cable generated 36 cents in operating profit for every dollar of revenue in 2008. This was the same as 2007. Clearly, the higher this margin is, the more profitable the business.

### Key Debt Metrics:

As noted earlier, a company can choose to finance a part of its operation with borrowed money. Using debt to finance a business makes sense because debt or financial leverage:

- provides funding for growth
- enhances the profitability opportunity for the shareholder
- reduces income taxes

However, financial leverage increases a company's risk level since the firm may not generate sufficient revenues to pay its principal and interest expenses.

There are two key metrics that the cable industry uses to measure the debt profile of a firm. The first metric of long-term debt/EBITDA is an indicator of the leverage level of the firm. The higher this ratio is, the greater the degree of debt the company holds.

As illustrated on Time Warner Cable's balance sheet in Table 5, the company had \$17,727 million in long-term debt as of December 31, 2008. By contrast the company's long-term debt level was \$13,577 million one year earlier. By calculating the long-term debt/EBITDA ratio for these two years, one can see that there was only a slight increase in Time Warner Cable's leverage ratio. That is, this ratio increased from 2.36 ( $\$13,577/\$5,742$ ) to 2.87 ( $\$17,727/\$6,186$ ). The higher this ratio is, the greater the

amount of debt that the firm is employing.

The second key leverage metric is the coverage ratio. This is calculated by dividing EBITDA by interest expense (i.e. EBITDA/interest expense). The higher this ratio, the greater is the firm's ability to service its debt.

In calculating the ratios for Time Warner Cable using the information in Table 4, one sees that the company's coverage ratio improved from December 2007 to December 2008: the coverage ratio increased from 6.42 (EBITDA/interest expense = \$5,742/\$894) to 6.70 (\$6,186/\$923).

As Appendix I notes, firms with low leverage ratios and high coverage ratios receive higher bond ratings than firms with high leverage ratios and low coverage ratios. Since becoming a public company in February 2007, Time Warner Cable has attempted to manage its leverage and coverage ratios so as to be rated an "investment grade" company.

### Key Shareholder Metrics:

Shareholder metrics measure the performance of the firm from the perspective of its shareholders. These measures focus on the benefits that the shareholders derive from their investment in the company since the only ways in which a shareholder can profit from his/her investment is through a payment of dividends and/or through stock appreciation.

The common metric for dividends is dividends per share. That is total dividend payments divided by the number of shares of common stock outstanding. However, in the cable industry there are many companies that prefer to repurchase stock from shareholders rather than pay a quarterly dividend. Share repurchases are preferable to shareholders because they may pay a lower tax rate on capital gains on the sale of shares rather than their ordinary tax rate on dividends. Corporate managers also prefer share repurchases since they provide more flexibility as compared to a fixed quarterly dividend payment. The common metric that companies in the cable industry use to measure share repurchase is the percent of free cash flow used for share repurchase. Free cash flow is typically defined as EBITDA minus capital expenditures, interest expenses, cash income taxes, working capital investments, and preferred dividends. Free cash flow is designed to identify how much discretionary cash flow the company has available. The share repurchase percent metric identifies what percent of the discretionary cash flow was used to buy

back shares from shareholders.

The potential for appreciation in a cable company's stock price is commonly measured by a metric called "private market value." This metric is defined as:

$$\text{Private Market Value} = \frac{(\text{Expected EBITDA} \times \text{EBITDA multiple}) - \text{Long term debt}}{\text{Number of common shares outstanding}}$$

In this calculation, the EBITDA that is expected in the coming twelve months is used instead of historical EBITDA. The EBITDA multiple is the current price that cable systems are trading for in the private market.

Security analysts will compare a company's private market value to its current stock price. If private market value is greater than the current stock price, the security analyst may recommend that the stock be purchased. Likewise, if the private market value is less than the current stock price, then the analyst may recommend that the stock be sold.

### Key Operating Metrics for Cable Operators:

A cable operator typically reports a variety of operating metrics that provide insight to its operations. As illustrated in Table 6, Time Warner Cable reports a variety of subscriber and penetration metrics. Each public cable operator will differ as to the amount of data that they report in public disclosure. Here again, it is important for communications professionals to work with investor relations to determine what operating metrics are shared with the public.

The weblink for Time Warner Cable's 4th quarter 2008 earnings release is in Appendix II. This earnings release includes the definitions for the most common operating ratios used by cable operators. However, there is one key metric that is not included in this list and that is ARPU – average monthly revenue per basic customer. This metric is calculated as follows:

$$\text{ARPU} = \frac{\text{Total Revenue}}{\text{Ending Basic Customers}}$$

This metric indicates how successful the company is in selling its products to its customers. To clarify, companies can increase ARPU a few ways: "upgrade" the service level of a product, including programming tiers, DVR/HD, faster speeds, home networking, etc.; sell the same customer more product (adding high speed data or phone to a video home)

– bundling greatly increases total ARPU; or price increases. During 2008, Time Warner Cable's ARPU was \$109.67 (e.g. \$17,200 million/13,069 thousand). Typically, companies focus on the growth in ARPU as well as the level of ARPU.

Note: For some companies, ARPU is measured as average monthly revenue per unit. In those cases, ARPU is determined by dividing total revenue by ending "units." Hence, in addition to total ARPU, companies also report video ARPU, high speed data ARPU and phone ARPU.

## Ideas for Building Your Financial Acumen

Learning how to "talk" and "understand" money requires practice. By working with the terms and concepts contained in this paper, you will gain confidence in your understanding. Listed are some ideas for building your financial acumen:

1. Constantly read financial information and seek out opportunities to hear financial presentations.
2. Make a list of all the things that you did not understand for #1.
3. Find finance people in your organization who will answer your questions.
4. Pick a public cable company that you are interested in and experience the next financial reporting cycle:
  - a. Read the earnings release
  - b. Read the guidance release
  - c. Listen to the webcast
  - d. Read a security analyst investment update
  - e. Read the articles in the trades regarding the company's earnings release

After you build your financial acumen, you may find that you "enjoy" your ability to "talk" money.

Table 4

<b>Time Warner Cable Inc.</b>				
<b>Consolidated Statement of Operations (Unaudited)</b>				
	Three Months Ended December 31,		Year Ended December 31,	
	2008	2007	2008	2007
(in millions except per share data)				
Revenues:				
Subscription:				
Video	\$ 2,646	\$ 2,552	\$10,524	\$ 10,165
High-speed data	1,077	970	4,159	3,730
Voice	<u>435</u>	<u>336</u>	<u>1,619</u>	<u>1,193</u>
Total Subscription	4,158	3,858	16,302	15,088
Advertising	<u>244</u>	<u>231</u>	<u>898</u>	<u>867</u>
<b>Total Revenues</b>	<b>4,402</b>	<b>4,089</b>	<b>17,200</b>	<b>15,955</b>
Cost and Expenses:				
Costs of revenues*	2,048	1,897	8,145	7,542
Selling, general & administrative*	693	626	2,854	2,648
Depreciation	703	703	2,826	2,704
Amortization	66	65	262	272
Merger-related and restructuring costs	1	3	15	23
Impairment of cable franchise rights	14,822	---	14,822	---
Loss on sale of cable systems	13	---	58	---
Total Costs and Expenses	<u>18,346</u>	<u>3,294</u>	<u>28,982</u>	<u>13,189</u>
Operating Income (Loss)	(13,944)	795	(11,782)	2,766
Interest Expense, Net	(276)	(213)	(923)	(894)
Minority Interest Income (expense), Net	1,166	(48)	1,022	(165)
Other Income (expense), Net	(366)	_8	(367)	_156
Income (loss) before Income Taxes	(13,420)	542	(12,050)	1,863
Income Tax Benefit (provision)	<u>5,256</u>	<u>(215)</u>	<u>4,706</u>	<u>(740)</u>
Net Income (loss)	<u>\$ (8,164)</u>	<u>\$ 327</u>	<u>\$ (7,344)</u>	<u>\$ 1,123</u>
Basic net income (loss) per common share	<u>\$ (8.36)</u>	<u>\$ 0.33</u>	<u>\$ (7.52)</u>	<u>\$ 1.15</u>
Average basic common shares outstanding	<u>977.00</u>	<u>976.90</u>	<u>977.00</u>	<u>976.90</u>
Diluted net income (loss) per common share	<u>\$ (8.36)</u>	<u>\$ 0.33</u>	<u>\$ (7.52)</u>	<u>\$ 1.15</u>
Average diluted common shares outstanding	<u>977.00</u>	<u>977.40</u>	<u>977.00</u>	<u>977.20</u>

\*Costs of revenues and selling, general and administrative expenses exclude depreciation.

Table 5

<b>Time Warner Cable Inc. Consolidated Balance Sheet (Unaudited)</b>		
	December 31, 2008	December 31, 2007
	(in millions)	
Assets		
Current Assets:	\$ 5,449	\$ 232
Receivables, less allowances of \$90 million and \$87 million as of December 31, 2008 and 2007 respectively	692	743
Receivables from affiliated parties	161	2
Deferred income tax assets	156	91
Prepaid expenses and other current assets	<u>201</u>	<u>95</u>
Total current assets	6,659	1,163
Investments	895	735
Property, plant and equipment, net	13,537	12,873
Intangible assets subject to amortization, net	493	719
Intangible assets not subject to amortization	24,094	38,925
Goodwill	2,101	2,117
Other assets	<u>110</u>	<u>68</u>
Total assets	<u>\$ 47,889</u>	<u>\$ 56,600</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 546	\$ 417
Deferred revenue and subscriber-related liabilities	156	164
Payables to affiliated parties	209	204
Accrued programming expense	530	509
Other current liabilities	1,432	1,237
Current liabilities of discontinued operations	<u>---</u>	<u>5</u>
Total current liabilities	2,873	2,536
Long-term debt	17,727	13,577
Mandatorily redeemable preferred membership units issued by a subsidiary	300	300
Deferred income tax liabilities, net	8,193	13,291
Long-term payables to affiliated parties	---	36
Other liabilities	522	430
Minority interests	1,110	1,724
Shareholders' equity:		
Class A common stock, \$0.01 par value, 902 million shares issued and outstanding as of Dec. 31, 2008 and 2007 respectively	9	9
Class B common stock, \$0.01 par value, 75 million shares issued and outstanding as of Dec. 31, 2008 and 2007 respectively	1	1
Paid-in-capital	19,507	19,411
Accumulated other comprehensive loss, net	(174)	
Retained earnings (deficit)	<u>(1,886)</u>	<u>5,459</u>
Total shareholders' equity	<u>17,164</u>	<u>24,706</u>
Total liabilities and shareholders' equity	<u>\$ 47,889</u>	<u>\$ 56,600</u>

Table 6

<b>Selected Subscriber and Penetration Data for Time Warner Cable</b>				
	<b>9/30/08</b>	<b>Net Additions (Declines)</b>	<b>Acquisitions (Dispositions)</b>	<b>12/31/08</b>
<b>Subscriber Data:</b>				
Revenue generating units	34,151	175	(126)	34,200
Customer relationships	14,750	(84)	(84)	14,582
Double play subscribers	4,811	(5)	(12)	4,794
Triple play subscribers	2,992	110	(3)	3,099
Bundled subscribers	7,803	105	(15)	7,893
Homes passed	26,830	207	(271)	26,766
Basic video subscribers	13,266	(119)	(78)	13,069
Digital video subscribers	8,607	44	(24)	8,627
Residential high-speed data subscribers	8,339	124	(19)	8,444
Commercial high-speed data subscribers	295	(11)	(1)	283
Residential digital phone subscribers	3,621	130	(4)	3,747
Commercial digital phone subscribers	23	7	---	30
	<b>9/30/08</b>		<b>12/31/08</b>	
<b>Penetration Data:</b>				
Customer relationships	55.0%		54.5%	
Basic video	49.4%		48.8%	
Digital video	64.9%		66.0%	
Residential high-speed data	31.3%		31.8%	
Residential digital phone	14.0%		14.4%	
Double play	32.6%		32.9%	
Triple play	20.3%		21.2%	
Bundled	52.9%		54.1%	

## APPENDIX I

### The Ins and Outs of Raising Capital

#### The Stock Market and Common Stocks

The common stocks of public companies are traded on one or more of the stock exchanges. Typically, however, firms are traded on only one stock exchange. There are two basic types of stock markets: 1) organized exchanges which include the New York Stock Exchange (NYSE), American Stock Exchange (ASE), and several regional exchanges (i.e., Pacific, Chicago, Philadelphia, and Boston Stock Exchanges), and 2) the over-the-counter market, which is a virtual market (i.e., telephone/computer) as opposed to a physical market like one of the organized exchanges.

Frequently, stocks traded in the over-the-counter market are said to be traded on National Association of Security Dealers Automated Quotation System (NASDAQ). NASDAQ is the computerized trading market used by the brokers and dealers who make up the over-the-counter market. Quotations from the NASDAQ system appear daily in newspapers. A firm receives cash from the sale of stock only during a public offering process. When the company initially goes public through an initial public offering (IPO), the firm receives cash. If a public company chooses to sell additional shares to the public through a secondary offering (i.e., a subsequent public sale of shares of a company that is already public), the company would receive additional cash.

#### Debt Securities

A significant portion of the financing of telecommunication companies is borrowed money. Commercial banks have historically been one of the primary lenders to commercial enterprises, particularly cable television companies. Although the terms vary by the type of borrowing and the type of loan, commercial bank loans are generally short or intermediate term (i.e., six months to ten years) and are floating rate loans. That is, the interest rate is variable as opposed to being a fixed rate instrument.

Some cable telecommunications companies, particularly those that are mid-sized/large, borrow funds directly from institutional investors (i.e., pension funds, insurance companies, etc.) or hedge funds. These loans may be fixed or floating rate-type instruments.

Mid-sized and larger cable telecommunications firms may also utilize the public bond markets to issue corporate notes and bonds. Typically, corporate notes have maturities of seven to ten years, and bonds have maturities in excess of ten years.

Frequently, corporate notes and bonds are fixed rate instruments. Corporate notes and bonds are often rated by bond rating agencies like Moody's and Standard & Poor's (S&P). As Appendix Table I illustrates, the highest rated bonds carry an Aaa or AAA rating by Moody's and S&P, respectively. Bonds rated by Moody's as Ba or B and S&P as BB or B are often referred to as "junk bonds" or "high yield bonds." The primary difference between "high quality" and "junk bonds" are: 1) junk bond firms are more highly leveraged (i.e., high debt/cash flow ratios), and 2) junk bond firms have much lower interest coverage ratios than "high quality" firms. Historically, many telecommunication firms, particularly cable television companies, have exclusively utilized the "junk bond" market.

**Table I**

Moody's and Standard & Poor's Ratings							
	High Quality		Investment Grade		Junk Bonds		
					Substandard	Speculative	
Moody's	Aaa	Aa	A	Baa	Ba	B	Caa C
Standard & Poors	AAA	AA	A	BBB	BB	B	CCC D

Note: Both rating agencies use modifiers for bonds within a category as well. For example, Moody's uses 1, 2 or 3 designation, with 1 being the strongest and 3 the weakest (i.e., A1 is a stronger credit rating as compared to A3). Standard & Poor's uses a + and - system (i.e., A+ is a stronger credit than A-).

## APPENDIX II

### Web Links to Financial Data

#### Earnings Releases:

1. Comcast Fourth quarter and Full Year 2008 earnings release announcement  
<http://www.cmcsk.com/phoenix.zhtml?c=118591&p=irol-newsArticle&ID=1241526&highlight=>
2. Disney First quarter 2009 earnings release  
[http://corporate.disney.go.com/news/corporate/2009/2009\\_0203\\_q1fy09earnings](http://corporate.disney.go.com/news/corporate/2009/2009_0203_q1fy09earnings)
3. CSG Fourth quarter and Full Year 2008 earnings release  
<http://ir.csgsystems.com/phoenix.zhtml?c=113558&p=irol-newsArticle&ID=1248889&highlight=>
4. Time Warner Cable 2008 Full Year and Fourth Quarter earnings release:  
<http://www.timewarnercable.com/Corporate/about/inTheNewsDetails.ashx?PRID=2464&MarketID=0>

#### Webcasts:

1. Time Warner Cable Full Year and Fourth quarter 2008 webcast  
<http://ir.timewarnercable.com/eventdetail.cfm>
2. Disney First quarter 2009 webcast  
<http://corporate.disney.go.com/investors/archive.html>
3. CSG Fourth quarter and Full Year 2008 webcast  
<http://ir.csgsystems.com/phoenix.zhtml?c=113558&p=irol-EventDetails&EventId=2064154>

*Multichannel News Article for Time Warner Cable regarding Fourth Quarter 2008 Earnings:*  
[http://www.multichannel.com/article/173762-Losses\\_Hit\\_TW\\_Cable.php?rssid=20062&q=big+media+losses](http://www.multichannel.com/article/173762-Losses_Hit_TW_Cable.php?rssid=20062&q=big+media+losses)

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