

CableFAX Daily™

Wednesday — February 13, 2008

What the Industry Reads First

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Advantage Cable: DBS Fears HD Must-Carry Burden

As the **FCC** considers a mechanism for slapping digital HD must-carry obligations on DBS operators, cable's favorite *disheveled* duo obviously wants to avoid the kind of must-carry albatross that has chafed cable's neck for years. Interestingly, part of the DBS lobbying push for leniency hinges on cable's technological advantages amid the digital transition. **DISH** in an ex parte filing this week argued that cable operators will be able to save capacity after the transition by converting analog slots to digital but that "the opposite holds for satellite, because the efficiencies of shifting from analog to digital are already reflected in DISH Network's current digital system." DISH said it needs 2 MHz of capacity per SD channel vs cable's ability to squeeze an SD channel into 0.6 MHz. "The disparity carries over to HD capacity as well even taking into account the more advanced MPEG-4 compression used by DBS providers for HD services," DISH continued. "The additional burden on satellite resulting from an HD obligation is substantial, and clearly distinguishable from the impact on cable companies. The Commission should ensure that this higher burden on satellite companies is reflected fully in its rules, and that the 'practical and technical limitations of satellite operations now and in the future' are reflected in the final FCC rules." DISH added that it would take 4 years and cost more than \$1bn to upgrade its facilities to handle HD must-carry obligations. **DirecTV**, meanwhile, has also met with FCC staffers about the issue, noting in its ex parte few details other than that it discussed "how the availability of satellite capacity and ground infrastructure, as well as the ongoing digital transition, would affect its ability to comply with such a requirement."

Program Access: ACA's pursuit of FCC rules that would prevent bundling of networks and require programmers and broadcasters to offer channels on a standalone basis hasn't won it many friends among cable-industry peers—and has even led to defections of some of its own members (*Cfax*, Jan 8). But in reply comments filed Tues, ACA showed no sign of softening its stance and questioned the arguments of many who want the government to leave the current system of private wholesale negotiations in place. "Essentially, they argue that consumers are better off paying for channel packages bloated with undesired channels, and that consumers served by smaller distributors somehow benefit because smaller distributors must pay much more than large distributors for the very same channels," ACA stated. The group also reiterated its view that small and mid-sized ops face "unprecedented—and unconscionable—levels" of price discrimination tied to retrans consent fees, with some broadcasters asking 20 times the fees paid by larger distributors.

Earnings: While surging 4Q net income helped **Qwest** shares closed up 3% Tues, execs said they're pleased with their competitive position. "We believe that we have the right set of products and services to compete with [cable] effectively," said CFO *John Richardson* during the telco's earnings call. Q results included a 5-point increase in bundled penetration to 62%; 8% growth in ARPU to \$55; 44K net **DirecTV** adds; and 95K broadband subs to end '07 with 473K (+22%). Chmn/CEO *Ed Mueller* said these results helped offset declining access lines, said, which totaled 738K in '07. The

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telco said early results of its broadband expansion plan show a "significant increase" in take-rates for its highest-speed offering. Also, **Qwest** realized in 4Q its 3rd straight Q of rev growth in its business segment, and is seeking partners in data and broadband data. -- **WWE's** solid results included a company-record \$486m (+17%) in '07 rev, and the following 4Q numbers: rev of \$133m (+23%), operating income of \$25m (+41%) and net income of \$22m (+39%). The company's live and televised ent segment helped the 4Q cause with 13% growth in net rev to \$82m, including a 6% rise in PPV rev and a 5% increase in TV rights fees rev to \$24m. **WWE.com** realized 27% growth in rev to \$4m.

Competition: **AT&T** launched its U-verse Voice service in CT, which joins Detroit as areas offering the VoIP product. -- With its eyes squarely trained on the MDU market, **Verizon** has purchased a drop cable solution from **Corning** that helps overcome installation challenges in apartment buildings and condo complexes. The solution's fiber is much more malleable than standard fiber, allowing it to bend around tight corners without signal loss.

DTV Transition: 21 members of the House Energy and Commerce Committee, including chmn *John Dingell* (D-MI), on Tues urged the **NTIA** to allow consumers to re-apply for DTV converter box coupons if their initial coupons expire. By law, that occurs 3 months after issuance. "We write to inform you that it is consistent with our reading of the statute for households whose coupons have expired to apply to have them re-issued," the members stated in a letter to acting NTIA chief *Meredith Baker*. -- Meanwhile, **Retirement Living TV** on-air host *Bill Rafferty* ("Retired and Wired") discussed the **NTIA's** coupon program **FCC Comr Deborah Taylor Tate** and acting NTIA chief *Meredith Baker* on Tues at **AARP's** DC studios. -- Calling it a "major glitch," **Centris** claims it has found "serious gaps in digital TV signal coverage throughout the country" that will become apparent once analog signals go dark in Feb '09. "We predict that digital TV signal coverage will be more limited than currently anticipated," said Centris evp *David Klein*, who warned of "serious—and costly—implications for millions of consumers." Centris argues that certain households—such as those surrounded by trees or without rooftop antennas—will face limited or no digital signal coverage. "With so many sets potentially at risk of going dark, network, local and public television, advertisers and agencies will likely be adversely affected," said Centris svp *Barry Goodstadt*.

Technology: **CableLabs** has established at **Java.net** the **OpenCable Project**, a resource site for independent app developers looking to work with **tru2way** interactivity. **Time Warner Cable** has deployed nearly 600K tru2way set tops and **Comcast** has committed to deploy support for tru2way devices system-wide by the end of '08.

5Q with IFC GM Evan Shapiro: With the writers strike ending, there's talk about reassessing the advertising model, ending upfronts, etc. What might happen? With the excitement of **iTunes**, electronic sell-through and things like that, what people lost sight of was that video was primarily a mechanism for carrying advertising. That's not going to change. What they fail to realize is how to translate the advertising model into this new distribution paradigm. People are quick to go non-commercial and charge subscription fees, but that's not what the market will support. **So what can programmers do when viewers can skip ads?** I find it almost quaint that we're having these conversations. We've been doing this on our own air for a long time, and we've just now begun doing it on demand and online, and we're already realizing the benefits of branded entertainment and contextual pre-roll and things like that. We're in the process of reinventing the model. **That includes your daily Web show "Lunchbox" (premieres Mar 10, 12pm ET, IFC.com)?** Yes. We already have a major sponsor for that, which I can't announce

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yet, but we had a line of sponsors waiting for that show. What we do with that show will be the next form of partnership integration online. A few months ago, *The New York Times* wrote that lunchtime is the new prime time online. This show was already in its later stages by that time. We knew this because of our relationship with our viewers through research, behavior patterns and blogs, where they tell us what they want. **Will the Lunchbox look radically different from a linear show?** First, the site will re-launch in about 10 days, so the site will have a new look and feel corresponding to our new mantra: the voice of independent culture. Lunchbox will not be a linear network show. It'll go up everyday at noon and will feel very much like the Web in that every story we do will lead you to more information. So, if you want to go deeper, it will say 'go here now.' It will be a doorway to a great deal more information on the subject. That's how the Web works. **Any more specifics?** Each day will be a different bucket, Tuesdays music, Wednesdays politics, film on Thursdays and IFC's Media Lab (user generated film and content from around the Web) on Fridays. Most days it will be hosted by writers, but we want the content to grow organically too. So if we feel hosts are not the way to go after a few months, we reserve the right to go in a different direction.

Carriage: **WideOpenWest** digitally launched **Outdoor Channel** in Chicago, Detroit, Columbus and Cleveland.

New Uniform: **CSTV** becomes **CBS College Sports Net** next month, and **CBS Sports** will emphasize original content. Anchoring the net's programming slate will be "College Sports Tonight," a twice-nightly show featuring examination of daily news and info in the world of collegiate sports. Additionally, CSTV's existing lineup of online properties will be integrated into the CBS family of Websites. "It's hard to imagine a cable company going forward that will not welcome the CBS Sports branded channel to its cable systems," said CBS News and Sports pres *Sean McManus* in a release.

Austin Bound: **IFC** is a sponsor of the **South by Southwest Film and Music Festival** in Austin (Mar 7-16) for the 3rd straight year, and will launch a multiplatform initiative around the event. Included: "Lunchbox" (Mar 10), the net's 1st daily Web series; festival premieres of original doc "At the Death House Door" and non-fiction film "Heavy Load;" linear programming specials; and event panel participation by evp/GM *Evan Shapiro*. -- **DirectTV** will also be in TX, and is planning special live coverage of the event that will air on its **The 101** channel.

VOD: **Cablevision** expanded its free VOD library by adding new titles from **Discovery Nets**, including **Discovery Channel's** "Man vs. Wild" and "MythBusters," **TLC's** "Trading Spaces" and "LA Ink," and **Animal Planet's** "Orangutan Island."

Ratings: As **WWE** content dominated cable last week, it seems **CNN** is establishing a slight lead in its competitive match against **Fox News** for viewership votes related to presidential campaign coverage. A week after its coverage of the CA Democratic debate delivered big numbers, CNN scored again with Super Tuesday reportage, 3 hours of which (9pm-midnight) averaged a 3.1/2.94mln to hit the telecast top 7. Meanwhile, 3 coverage hours (8-11pm) on Fox News garnered a beaten 2.8/2.59mln avg, although the net laughed last with a #3 prime ranking (1.7/1.63mln) while CNN ranked 9th. -- **USA** (2.0/1.93mln) and **Disney** (2.0/1.88mln) tied for the highest prime perch, followed by **TNT** (1.7/1.67mln), which tied with Fox News for 3rd position. **TBS** (1.5/1.47mln) completed the top 5.

Programming: Following its late-summer theatrical release, animated series "Star Wars: The Clone Wars" will fly to **Cartoon Net** and on to **TNT**. Eps will air weekly on Cartoon beginning this fall, and later on TNT. The 1st Web-only doc chronicling the series' development is available at **Starwars.com**. -- "Hawkeye" Pierce is heading to **ION** this fall, part of **ION Media Nets'** deal with **Twentieth TV** for the telecast rights to "M*A*S*H." -- **E!** greenlit an unscripted series starring actress *Denise Richards* (summer), who will provide viewers access to her private life. -- A Sat (8pm) airing of *Clint Eastwood's* "Letters From Iwo Jima" highlights **AMC's** multi-platform programming campaign "Long, Live, Awards" that also includes original content and related programming at **Amctv.com**. -- **CNN**, **Univision** and the **TX Democratic Party** will

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BUSINESS & FINANCE

jointly host a Feb 21 (8pm ET) presidential debate between *Hillary Clinton* and *Barack Obama* at the Univ of TX. The event airs live on CNN and **CNN Intl**, in Spanish on Univision at 11:30pm ET, and will be streamed live at **CNN.com**. -- Production of **Lifetime's** "Army Wives" will resume shortly, with the series slated to return for its 2nd season in early summer.

On the Circuit: An upcoming phone seminar from **CTAM** (Feb 20) will offer digital transition advice and feature panelists including **Time Warner Cable** evp/CMO *Sam Howe*, **Cox** CMO *Joe Rooney* and **NCTA** svp, comm and public affairs *Rob Stoddard*. For more information visit **Ctamconferences.com**.

People: *Randy Rieland* has been promoted to svp, interactive media, **Discovery Channel** and **Science Channel**, and *Iain Langridge* has been appointed vp, interactive media for the nets. -- **ESPN360.com** has named *Damon Phillips* vp. -- Our best wishes to **WICT** comm dir *Melissa Northern*, who has accepted a position with **Booz Allen Hamilton's** strategic communications team.

Business/Finance: **Deutsche Bank** reaffirmed its "buy" rating and \$33 price target on **DirecTV** shares, calling the satcaster its top pay-TV pick. The firm believes the **Liberty** deal should close within weeks, and likes DirecTV's improving operational execution, strong FCF growth, and its aggressive share buyback practices.

CableFAX Daily Stockwatch

Company	02/12 Close	1-Day Ch	Company	02/12 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
BRITISH SKY:	44.24	1.15	AMPHENOL:	37.87	(0.45)
DIRECTV:	23.88	0.60	APPLE:	124.86	(4.59)
DISNEY:	32.03	0.10	ARRIS GROUP:	8.19	(0.38)
ECHOSTAR:	29.50	0.31	AVID TECH:	21.68	0.70
GE:	34.37	0.36	BIGBAND:	6.12	0.02
HEARST-ARGYLE:	21.93	0.23	BLNDER TONGUE:	1.79	(0.01)
ION MEDIA:	1.44	0.00	BROADCOM:	21.06	(0.62)
NEWS CORP:	20.03	(0.13)	CISCO:	23.43	(0.09)
MSOS					
CABLEVISION:	25.16	0.12	COMMSCOPE:	40.98	(3.82)
CHARTER:	1.00	0.01	CONCURRENT:	0.88	0.04
COMCAST:	17.23	0.20	CONVERGYS:	14.89	0.05
COMCAST SPCL:	17.09	0.25	CSG SYSTEMS:	12.16	0.02
GCI:	6.44	0.35	ECHOSTAR HOLDING:	34.97	0.11
KNOLGY:	10.93	0.05	GEMSTAR TVG:	4.38	0.07
LIBERTY CAPITAL:	112.07	3.39	GOOGLE:	518.09	(3.07)
LIBERTY GLOBAL:	37.24	(0.68)	HARMONIC:	9.02	(0.49)
LIBERTY INTERACTIVE:	15.60	0.00	JDSU:	12.62	(0.97)
MEDIACOM:	4.88	0.24	LEVEL 3:	2.77	(0.08)
ROGERS COMM:	42.97	0.00	MICROSOFT:	28.34	0.13
SHAW COMM:	20.25	0.14	MOTOROLA:	11.56	(0.01)
TIME WARNER CABLE:	24.66	0.22	NDS:	50.53	(0.66)
VIRGIN MEDIA:	14.32	(0.22)	NORTEL:	10.31	(0.58)
WASH POST:	746.00	6.79	OPENTV:	1.04	0.00
PROGRAMMING					
CBS:	24.72	0.20	PHILIPS:	38.10	0.40
CROWN:	5.36	0.31	RENTRAK:	11.45	0.32
DISCOVERY:	21.82	0.09	SEACHANGE:	6.39	(0.04)
EW SCRIPPS:	42.09	(0.01)	SONY:	43.66	0.16
GRUPO TELEVISA:	21.94	0.28	SPRINT NEXTEL:	9.99	0.26
INTERACTIVE CORP:	22.18	0.22	THOMAS & BETTS:	41.33	0.51
LIBERTY:	1.00	0.00	TIVO:	8.51	(0.33)
LODGENET:	16.58	0.33	TOLLGRADE:	5.77	(0.16)
NEW FRONTIER:	4.79	0.00	UNIVERSAL ELEC:	20.43	(0.55)
OUTDOOR:	7.55	(0.07)	VONAGE:	2.03	0.07
PLAYBOY:	8.63	0.01	VVYO:	1.26	(0.11)
TIME WARNER:	16.22	0.59	WEBB SYS:	0.06	0.00
UNIVISION:	36.23	0.00	YAHOO:	29.57	(0.3)
VALUEVISION:	6.24	0.27	TELCOS		
VIACOM:	40.15	0.65	AT&T:	37.51	0.64
WWE:	16.29	0.98	QWEST:	5.28	0.15
TECHNOLOGY					
3COM:	3.81	(0.16)	VERIZON:	37.56	0.77
ADC:	13.94	0.19	MARKET INDICES		
ADDVANTAGE:	4.57	0.06	DOW:	12373.41	133.40
ALCATEL LUCENT:	6.07	0.06	NASDAQ:	2320.04	(0.02)
AMDOCS:	31.57	(0.02)			

GUEST COLUMNIST

Be Careful What You Wish For

In its relatively short life, our industry has lived through several regulatory/deregulatory cycles, so we are all too familiar with the havoc and frustration that government intervention into our business operations causes. Nevertheless, we seem to be running feverishly toward what we have tried so hard to evade since the industry's birth: management by government fiat.

Negotiations between programmers and distributors have never been easy, but have we collectively forgotten that sometimes the remedy may be worse than the disease? Nonetheless, a growing number of companies are looking to the government to provide solutions for seemingly intractable disputes between programmers and distributors. Some programmers are demanding government supervision over affiliation agreement negotiations and terms, and at least one network has asked the government to order a major MSO to immediately commence distribution of its channel on all of the operator's systems.

And it's not just programmers who are complaining. A few distributors are asking the government to require arbitration of some distribution contract terms. Others have sought to have the government preemptively declare specific programmers ineligible for regulatory protection, while a trade association representing smaller operators has asked the government to prohibit certain programming contract conditions.

And if that's not bad enough, we have an FCC that has already started formal proceedings to consider allegations of unfair and anti-competitive programming distribution practices and is more than eager to accommodate the industry's cries for intervention. To top it off, the courts are being asked to tell us how to conduct our programming business, and even various members of Congress apparently think that whether or not football

games are televised is a matter of national security. Don't get me wrong. I've worked with lots of programmers through plenty of programming deals, and I personally know of networks that have been unjustifiably mistreated by distributors. But what concerns me is this: if we invite the government into our business, will we ever be able to get it out again? By asking government to run a part of our business, indeed, one of its most critical components, don't we risk ceding control of all of our business?



Robert Roper

It's one thing for the government to establish rules to make everyone play fair and honest, but if we go even further and concede, for example, that the government has power to order a distributor to carry certain networks, then what's to keep the government from also ordering a distributor to stop carrying certain

other networks? Keep in mind that our industry's First Amendment free speech/free press status has not protected it from giving up significant programming discretion to government mandated must carry and access channels, so what's there to stop the government from intruding even further into our business, especially after we've invited it in?

Since many, if not most of the programmer/distributor disputes are of our own making, we should be able to fix them ourselves, without the government's "help." I've been working in the cable TV business for more than 25 years, and I've dealt with some of the smartest, most sophisticated and creative people I've ever met. With this abundance of talented brain power, can't we come up with faster, fairer and more effective solutions to our programming distribution disagreements than any bureaucrat can?

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