

# CableFAX Daily™

Thursday — February 17, 2011

What the Industry Reads First

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## Fortune Tells? Different 4Q Results For Comcast, CVC

Reaction to Wed earnings results from **Comcast** and **Cablevision** was as disparate as the chief operational difference between the 2 MSOs, namely Comcast's enhanced focus on programming assets with the **NBCU** purchase and Cablevision's movement toward streamlined operations through its planned mid-yr spin-off of Rainbow. Comcast received all the cheers from investors and analysts on improving sub metrics and solid financials, while Cablevision, if not receiving jeers, spurred concern among the 2 camps chiefly due to disappointing sub results. About the only similarity was each MSO's ramp of shareholder returns, Comcast through a 19% dividend hike and acceleration of its stock repurchase program and Cablevision through a doubling of its own buyback program. Comcast's moves reflect a wealth of "confidence and optimism in the future of our businesses," said chmn/CEO *Brian Roberts*. Including a net 292K broadband and 257K voice adds, plus improvement in video losses (-135K), every CMCSA sub metric beat Street consensus. And the MSO's financial performance was good, too. "We get the sense that while the capital returns announced today were 'just enough,' the strength in [Comcast] stock is more a function of financial and operational results, which beat across the board," said **Wells Fargo Securities'** *Marci Ryvicker*. CMCSA shares rose 4.1%. Now, factor in Comcast's 51% ownership of NBCU and continued strength in all-important broadband services, and many analysts see an improving picture going forward. At Cablevision, however, some believe a sputtering of its cable operations lies ahead after years of growth has led to a much more mature market than either Comcast's or **Time Warner Cable's**. CVC's "penetration of virtually every service is already highest-in-class," said **Sanford Bernstein's** *Craig Moffett*. "The risk, of course, is that eventually Cablevision's RGU metrics will hit a wall, and raising prices in an already-overpriced industry will be Cablevision's last and only resort... and here we are." Excluding **Bresnan**, CVC's basic video (-35K), HSD (6K) and voice (9K) adds all missed consensus, and the MSO even shed 15 digital video subs. COO *Tom Rutledge* said the disappointing sub metrics were an "anomaly directly related" to the MSO's high-profile retrans standoff with **Fox**, which had a "significant impact" on 4Q operations and was almost solely responsible for the basic losses. "We thought taking the hit was worth it," said Rutledge, noting how the impasse led to lower programming costs. The business is currently tracking like it was both before and after the skirmish, he said. Ryvicker called that news a "positive." CVC's cable financials weren't world-beating but decent, and Rainbow de-

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livered growth in net rev (+14.1%) and op income (+38%) on respective 20.7% and 7.2% increases in ad and affil rev. Also notable is CVC's lofty 4Q ARPU of nearly \$151. CVC execs are looking to Bresnan, business services and tech advancements to drive operational improvements in '11 and beyond. CVC shares dipped 1.76%.

**Earnings Notebook:** A longtime leader in cable innovation, **Cablevision** continues to advance technologically. Advanced advertising "meaningfully contributed to double-digit advertising growth at cable and Rainbow," said COO *Tom Rutledge*, as advertisers are paying more per spot for the advancements. The MSO's RS-DVR, now deployed in NYC, is expected to offer meaningful opportunities and flexibility, he said, including lower CE costs, a potential for various content storage packages and alternatives in how programmers want to feature their programming. CVC has stopped buying physical DVRs, with existing set tops able to take a download for conversion to RS-DVRs. And expected 1Q rollouts include **Optimum Link**, which will allow subs to watch Internet video without a new set top or Web-connected TV, and allowance of **iPad** users to watch TV on the device. CVC's WiFi network logged 5mln uses in '10. -- New **NBCU** boss *Steve Burke* said "we have a lot of big goals for NBCU," noting the biggest opportunity lies in a turnaround at **NBC**. But as the news div is good and prime programming inferior at the broadcast net currently, Burke said not to expect any notable near-term improvement, and that 5 years out is a reasonable target for success. Meantime, he said, "the cable channels are in fantastic shape." **Comcast Cable** pres *Neil Smit* attributed the MSO's rebound in video subs largely to the passing of DTU rollofs, and said a better product vis a vis the competition is driving HSD gains. Phone represents a value proposition in completing the triple-play, said Smit. One-third of Comcast's video subs take 3 services, helping push ARPU to \$133 in 4Q, up 10.6%. -- After the bell, **CBS** reported a 6% increase in cable nets rev on higher rates and subscription growth at **Showtime** and **CBS College Sports Net** and 10% rise in OIBDA. The ent segment delivered 11% rev growth on a 29% increase in TV license fees and 8% ad growth at CBS, and a 31% uptick in OIBDA. Every CBS segment achieved rev growth in the Q, led by local broadcasting (+21%). Overall ad rev rose 12%.

**On the Hill:** Toeing their respective party lines at a House communications subcmte hearing on Wed, lawmakers both lambasted and praised the **FCC** for its recent net neutrality order, with Republicans arguing the agency overreached and Democrats suggesting it either did the right thing or didn't go far enough in crafting rules designed to preserve an "open" Internet. Subcmte chmn *Greg Walden* (R-OR) blasted the action, arguing the FCC's invocation of sec 706 of the Telecom Act "could be taken to the extreme" by spurring a patchwork of state Internet rules or leading to new oversight of companies like **Netflix**. Subcmte vice chmn *Lee Terry* (R-NE) speculated that the FCC could even regulate the price of Internet service under its section 706 justification. GOPers found reliable allies in Republican comrs *Robert McDowell* and *Meredith Baker*, both of whom dissented from the net neutrality order and reiterated their views that the FCC exceeded its authority. Democratic comrs, however, said the rules were needed because of several complaints in recent years about ISPs blocking traffic, and FCC chmn *Julius Genachowski* argued that private business leaders had even told him they needed clear rules to continue to innovate. But Rep. *Cliff Stearns* (R-FL) pondered why the FCC hasn't closed its Title II proceeding even after devising rules under Title 1, asking Genachowski under what conditions he would close it. "I'd have to think about that and get back to you," Genachowski said. (Copp's chimed in that it should remain open because of uncertainty created by court challenges... Both McDowell and Baker have publicly predicted the courts will overturn the FCC's order). Meanwhile, Democrats mostly praised the FCC for acting, with Rep *Ed Markey* (D-MA) saying "I wish the Commission had gone much further than they did." The hearing got especially interesting when Rep *Anna Eshoo* (D-CA) asked McDowell why—if the rules were so bad—would **Comcast** voluntarily offer to adhere to net neutrality principles as part of the Comcast-**NBCU** jv approval. "I think they were desperate to get the merger done, and they would have agreed to almost anything," McDowell said. Eshoo asked him if Comcast execs actually told him that. "That was pretty much the answer I got," he said, prompting her to ask, "Are you quoting them?" McDowell grinned, clarifying "That's a paraphrase," to scattered chuckles in the room.

**Public Affairs:** **A&E** created "Real Life. Change.," a year-round community outreach initiative bent on spurring people to change their lives in positive ways. Included is a dedicated Website at **RealLifeChange.com**, PSAs from net talent and customizable on-air vignettes. For every change pledged, A&E will donate \$1 to charity.

**New at CableFAXDaily.com:** Just posted for **CableFAX** subscribers only, our "Extras" section features a dissection of **IHS Screen Digest's** analysis of the mobile app market, which has become increasingly important to cable

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operators and programmers as they design apps for their customers. Find out just how much **Google's Android** is eating into **Apple's** dominance, with some interesting global stats. Go to [www.cablefaxdaily.com](http://www.cablefaxdaily.com) for this and other subscriber-exclusive data.

**Obit:** A member of the 1st **Cable Pioneers** class, *Bruce Merrill*, passed peacefully Sun, aged 92. After serving in the Pacific in WWII, Merrill built one of the country's first cable systems, in Globe, AZ. One of cable's tallest, at 6'7", he also had a substantial wireless career. Funeral services will be Fri, LDS Church, 38001 N Basin Rd, Cave Creek, AZ, 10am.

**On the Mend:** We wish a speedy recovery to former **CableFAX** publisher *Nancy Maynard*, who suffered multiple injuries recently from a fall.

**People:** **BBC America** tapped *Mike Neeves* as vp, program scheduling. -- **MTV** upped *Garrett English* to svp/ exec in charge, music prod.

**Business/Finance:** **NewWave Comm** agreed to buy *Avenue Broadband Holdings* for an undisclosed amount. Avenue has operated cable and broadband systems in IN and IL since Dec '07, and all 98 of its employees will join NewWave. -- **Outdoor Channel Holdings** acquired **MyOutdoorTV.com**, which features a library of more than 300 TV shows and 8,400 online videos related to hunting, fishing and shooting.

## CableFAX Daily Stockwatch

Company	02/16 Close	1-Day Ch	Company	02/16 Close	1-Day Ch
<b>BROADCASTERS/DBS/MMDS</b>					
DIRECTV:	43.94	0.08	AVID TECH:	22.28	0.29
DISH:	23.24	(0.14)	BIGBAND:	2.70	UNCH
DISNEY:	43.70	0.61	BLNDER TONGUE:	2.19	(0.04)
GE:	21.44	(0.02)	BROADCOM:	42.45	(0.25)
NEWS CORP:	18.32	0.21	CISCO:	18.58	(0.09)
<b>MSOS</b>					
CABLEVISION:	36.76	(0.66)	CLEARWIRE:	5.38	(0.38)
CHARTER:	46.32	(0.78)	CONCURRENT:	5.79	0.05
COMCAST:	25.13	0.97	CONVERGYS:	14.28	0.14
COMCAST SPCL:	23.74	1.13	CSG SYSTEMS:	19.76	(0.24)
GCI:	12.55	0.01	ECHOSTAR:	31.77	(0.51)
KNOLOGY:	15.63	0.07	GOOGLE:	624.22	0.07
LIBERTY CAPITAL:	73.01	1.36	HARMONIC:	9.74	0.11
LIBERTY GLOBAL:	42.60	(0.28)	INTEL:	21.75	0.30
LIBERTY INT:	17.33	0.30	JDSU:	26.46	1.41
MEDIACOM:	8.80	0.01	LEVEL 3:	1.40	0.10
SHAW COMM:	21.48	(0.02)	MICROSOFT:	27.02	0.06
TIME WARNER CABLE:	72.24	0.98	RENTRAK:	26.73	0.11
VIRGIN MEDIA:	27.90	0.14	SEACHANGE:	9.45	0.15
WASH POST:	438.94	6.85	SONY:	35.82	1.15
<b>PROGRAMMING</b>					
CBS:	22.10	0.45	SPRINT NEXTEL:	4.47	0.01
CROWN:	2.27	0.01	THOMAS & BETTS:	56.23	(1.13)
DISCOVERY:	44.17	0.44	TIVO:	10.56	UNCH
GRUPO TELEVISA:	24.29	0.18	TOLLGRADE:	10.16	0.42
HSN:	29.97	1.14	UNIVERSAL ELEC:	25.78	0.21
INTERACTIVE CORP:	31.71	0.43	VONAGE:	4.64	0.07
LIBERTY:	43.14	0.14	YAHOO:	17.76	0.56
LIBERTY STARZ:	71.60	(0.48)	<b>TELCOS</b>		
LIONSGATE:	6.11	(0.02)	AT&T:	28.30	0.06
LODGENET:	3.42	0.17	QWEST:	7.03	(0.09)
NEW FRONTIER:	2.10	(0.03)	VERIZON:	36.17	(0.29)
OUTDOOR:	7.90	0.01	<b>MARKET INDICES</b>		
PLAYBOY:	6.13	0.01	DOW:	12288.17	61.53
SCRIPPS INT:	53.36	0.76	NASDAQ:	2825.56	21.21
TIME WARNER:	37.30	0.61	S&P 500:	1336.32	8.31
VALUEVISION:	7.41	0.25			
VIACOM:	51.85	0.04			
WWE:	12.25	0.08			
<b>TECHNOLOGY</b>					
ADVANTAGE:	2.91	0.02			
ALCATEL LUCENT:	4.90	0.41			
AMDOCS:	30.03	0.18			
AMPHENOL:	57.47	(0.04)			
AOL:	21.78	0.02			
APPLE:	363.13	3.23			
ARRIS GROUP:	13.50	(0.01)			

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## Think about that for a minute...

### Strike Section 629

By Steve Effros

This should be simple. It won't be, of course, but it should be. At the highest levels of government, there seems to be consensus: excessive regulation and interference in the business marketplace is not good. It's not good for businesses, which, after all, are owned by the public, and it's not good for job growth, which we desperately need. Consumers don't get very much out of it either, especially if it's "excessive"—that is, not really shown to be needed.



The President has said this. The Senate has agreed. The new Republican majority House has certainly campaigned on it. But the FCC has apparently not heard that message yet. Hence we got the "net neutrality" rules, which allegedly address a "problem"

that has yet to be shown to exist. But I'm not going to talk about net neutrality today. There's another focus, and this one can be dealt with easily and quickly. It's the FCC's continued attention on creating "AllVid" requirements.

This is the one where the feds would define a unified technology that all multichannel video program distributors would have to switch to so that all MVPD service could be sliced and diced as it comes into the home and any consumer electronics company, or Internet "edge" company like Google, could take the individual pieces of whatever had been sold as a service package and reorder them, incorporate them, surround them with ads, place them next to different program channels or whatever and in essence use the MVPD programming as a wholesale delivery of individual products for use and profit any way they wanted.

Let's leave aside all the legal stuff about where the heck the Commission or those promoting this sort of idea

(Sony and Google spelled it out pretty clearly a few weeks ago) think they have the right or power to supercede intellectual property contracts, conditions, legal restrictions, etc., to turn what was a retail sales agreement into a wholesale delivery. They don't have that right.

Just as important, where does the Commission claim to have the authority to delve into the entire area of creating a massive industrial policy on the technical design of delivery of video (data) into the home? This is not like the "Carterfone" decision. The MVPD provider is not a common carrier and never has been. The MVPD sells a service. It's a package of selected and created content, just like a newspaper. It has been recognized by the Supreme Court as a First Amendment activity.

The Commission's only grasp on power to allegedly create these broad "AllVid" rules is as a follow-on to the failed CableCARD effort that grew out of Section 629 of the Communications Act. It empowered the Commission to make an effort to create a retail sales component to the MVPD set top box market. It was adopted by Congress at the request of a now defunct single electronics retailer. The entire landscape of viewing and sale of programming in the home, on TVs, computers, the phone, "pad" devices, etc, has massively changed in the 15 years since that misguided effort. What's more, there's even a "sunset" clause in the provision, recognizing that things could change in the future and the Section may not be needed.

Well, it isn't. If the Commission doesn't recognize that on it's own, then Congress should help them out. It would only take a single sentence in an appropriate bill to "strike" Section 629. That would end the issue. Simple, clean and quick. Ask Congress to stop this mess before it happens.

*Steve*

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