

CableFAX Daily™

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What the Industry Reads First

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Tough Act to Follow: Comcast Elevates Cable's Early-Year Bar

Like its hometown Phillies franchise has done often in recent seasons, **Comcast** hit one out of the park Wed. The MSO's 1Q performance is virtually unassailable, gilded by improvement in nearly every important financial and operational metric. HSD, though, was arguably the quarter's power hitter. "One of the real striking stories" is the reacceleration of growth in the 10-yr-old broadband business, said COO *Steve Burke*. "The need for very, very large broadband capacity... seems to continue to grow steadily." Comcast added 399K net broadband subs, compared to 329K last yr and Wall St consensus of approx 282K, and notched its 2nd straight Q of YOY growth. "Our real product superiority over DSL [is] translating into significant share gains," said Burke, a notion underscored by **Sanford Bernstein's Craig Moffett**. "Cable is—once again—unmistakably taking share in the broadband market," wrote Moffett. "Consider that Comcast's quarterly subscriber total is actually 16% higher than the sum total of **Verizon** and **AT&T** combined." Burke credits the rollout of DOCSIS 3.0 to approx four-fifths of the MSO's footprint as a key factor in broadband's resurgence, and noted the following: Comcast's adding 2.5x more higher-speed customers than lower-speed subs, more than 20% of its HSD subs receive speeds greater than 16Mbps, and it now offers 50Mbps services to 40mln homes with a launch of an 100Mbps option imminent. Approx 70% complete, the MSO's move to all-digital also helps drive broadband adoption and upgrades, said execs, as does the growing popularity of online video. Advertising and FCF results warrant mentions as well. Overall ad rev jumped 23.5%, representing Comcast's 1st growth in the metric since 1Q08, and programming-specific ad rev increased by 6%. "The first quarter marked a real turnaround in advertising, which helped our results in both cable and programming," said chmn/CEO *Brian Roberts*. FCF soared to \$1.9bln, up 38% YOY, owing mainly to decreasing capital intensity. And importantly, Comcast's cash could continue to stack higher and higher. "With [Comcast's] all-digital transition (Project Cavalry) well along, this trend looks not only sustainable, it looks potentially improvable," wrote Moffett. Nitpickers will likely spotlight Comcast's continuing loss of basic subs (-82K), but Roberts argued against a disturbing trend in the area and instead pointed to overall ARPU, which rose by 6%. Comcast shares gained 1.73% Wed.

On the Hill: NCTA chief *Kyle McStarow* will warn Congress that rigid technology mandates are most likely the wrong response for the dynamic video distribution business. That's according to the testimony he's prepared to deliver Thurs to

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the **House Communications** subcommittee hearing on the FCC's proposals for creating a competitive set-top market. McSarrow stresses that cable fully supports the FCC's NOI last week seeking comment on a long-term solution that will enable consumers to purchase smart video devices that will work with all MVPDs. His entire testimony repeatedly applauds the FCC's NOI for its open-endedness, saying that cable is ready to work with the agency. Calling for "regulatory humility," McSarrow warns that any tech mandates run the risk of being outdated, such as the rarely used firewire connection in plug and play rules. McSarrow says the FCC appropriately recognized this risk when it issued its NPRM last week on Cable-CARDS by proposing that operators have greater flexibility in choosing appropriate outputs to include in their set-tops.

More Set-Top Talk: The **FCC** appears likely to ban the set-top as it currently exists, says a report from **IMS Research**. "The effects of a ban on traditional pay-TV set-top boxes would be massive, as this regulation would enshrine what was already an extremely disruptive technology," said IMS sr analyst *Stephen Froehlich*. "Such a ban would directly effect more than 40mln set-top box shipments and \$4.7bln worth of sales annually. It would also enable much more rapid adoption of the same model in other countries." But he notes that almost all of the industry participants he has spoken with understand that the move to open standards adds value for consumers and pay-TV ops and are therefore preparing for the transition. The FCC issued an NOI last week aimed at allowing any box to access all pay TV providers' content. The potential rule could significantly decrease the overall cost of CPE by minimizing the number of MPEG decoders and associated intellectual property fees, but it all depends on how the rule is written, Froehlich concluded.

Beta: Discovery Channel proved its weight with the cable audience in **Beta's** brand identity study, as 52% of viewers named the net 1 of their favorite channels. **History** and **Food Net** followed with 50% each, while **Nat Geo** (48%), **HGTV** (47%) and **Investigation Discovery** (47%) completed the top 5. **ESPN** (27%), meanwhile, was deemed by viewers as having the most compelling online content, ahead of **ESPN2** (26%), **Disney XD** (25%) and **Investigation Discovery** (25%). Viewers are more likely to purchase wares featured on **DIY Net** (29%) **HGTV** (28%) and **Food Net** (25%) than all other nets, and **Nat Geo** (52%), **Discovery Channel** (51%) and **ESPN** (50%) lead the list of nets featuring content viewers would like to see in HD.

In the States: The avg American home now has 2.93 TV sets, up from 2.86 in year, **Nielsen** said. The number of homes with 3 or more TVs increased to 55%. 28% have 2 sets and 17% have 1. -- **DirectTV** became the 1st provider to offer national distribution of **Univision HD** and **TeleFutura HD**. It's also launching local stations in HD in top Hispanic markets.

Heads Up: The **FCC** reminded video distributors Wed that they were supposed to have provided contact info to the Commission for resolving closed captioning concerns by Mar 22. This rule even applies to those providers currently exempt from providing closed captions. The FCC said many have not submitted this info, which could result in enforcement action.

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Source: Beta Research, Brand Identity Study, 3/10
Among persons 25-54 Food Network #1, DIY and HGTV tied #2 and Travel #5

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HGTV

diy

food

COOKING

Travel

GAC

BUSINESS & FINANCE

People: The Weather Channel

Cos tapped *Shirley Powell* as evp, corp comm. -- *Glenn Oakley* joined **Discovery Comm** as evp, media technology, prod and ops. -- **ABC Family** promoted *Laura Kuhn* to svp, strategic sales insights. *Mark Rejtig* expanded his current roles as svp, natl sales manager, with the direct marketing group now reporting to him. The changes follow *Joe Gallagher's* departure as svp, sales strategy and planning.

Business/Finance: **NBCU** priced an offering of \$4bln aggregate principal amount of sr unsecured notes due in '15, '20 and '40 as part of the \$9.1bln of financing the co must raise in connection to the proposed **Comcast** deal. Following the offering's closing, NBCU will use portions of the proceeds to repay \$1.7bln of its outstanding debt and grant GE an intercompany loan. Comcast chief *Brian Roberts* said Wed the offering is oversubscribed. -- **Lionsgate** shares jumped 3.8% Wed to \$6.87 following news of the **British Columbia Security Commission's** decision against the co's proposed shareholder rights plan, which includes an anti-takeover measure drafted in effect to quash *Carl Icahn's* recent acquisition overtures. LGF plans to appeal the decision, and continues to encourage shareholders to vote against Icahn's latest offer of \$7/share.

CableFAX Daily Stockwatch

Company	04/28 Close	1-Day Ch	Company	04/28 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
BRITISH SKY:	36.48	(0.61)	APPLE:	261.60	(0.44)
DIRECTV:	35.71	(0.35)	ARRIS GROUP:	12.44	0.06
DISH:	21.73	(0.28)	AVID TECH:	14.92	(0.15)
DISNEY:	36.29	(0.03)	BIGBAND:	3.45	0.10
GE:	18.95	0.25	BLNDER TONGUE:	1.09	0.01
NEWS CORP:	17.88	(0.1)	BROADCOM:	35.41	0.59
MSOS					
CABLEVISION:	26.45	0.13	CISCO:	27.04	0.03
COMCAST:	18.81	0.35	CLEARWIRE:	7.79	0.28
COMCAST SPCL:	17.83	0.30	COMMSCOPE:	30.73	(0.42)
GCI:	6.22	0.22	CONCURRENT:	5.63	(0.3)
KNOLLOGY:	13.66	0.19	CONVERGYS:	12.82	(0.39)
LIBERTY CAPITAL:	43.81	1.47	CSG SYSTEMS:	23.03	0.49
LIBERTY GLOBAL:	27.10	(0.31)	ECHOSTAR:	19.20	0.05
LIBERTY INT:	15.30	(0.11)	GOOGLE:	529.19	0.13
MEDIACOM:	7.04	0.16	HARMONIC:	6.90	0.01
RCN:	14.72	0.04	INTEL:	23.26	(0.09)
SHAW COMM:	18.89	(0.08)	JDSU:	13.15	(0.06)
TIME WARNER CABLE:	53.13	(0.15)	LEVEL 3:	1.58	0.07
VIRGIN MEDIA:	17.53	0.01	MICROSOFT:	30.91	0.07
WASH POST:	525.03	7.52	MOTOROLA:	6.92	0.01
PROGRAMMING					
CBS:	16.08	0.23	PHILIPS:	33.54	(0.25)
CROWN:	1.89	0.06	SEACHANGE:	8.39	0.08
DISCOVERY:	36.25	0.16	SONY:	34.70	(0.55)
GRUPO TELEVISA:	20.20	0.45	SPRINT NEXTEL:	4.26	0.17
HSN:	31.77	0.73	THOMAS & BETTS:	41.45	0.08
INTERACTIVE CORP:	22.60	(0.57)	TIVO:	17.64	(0.1)
LIBERTY:	37.26	(0.12)	TOLLGRADE:	6.45	0.05
LIBERTY STARZ:	54.08	(0.08)	UNIVERSAL ELEC:	21.94	0.08
LIONSGATE:	6.87	0.25	VONAGE:	1.64	0.02
LODGENET:	6.61	0.24	YAHOO:	16.75	(0.17)
NEW FRONTIER:	2.00	0.00	TELCOS		
PLAYBOY:	4.38	0.00	AT&T:	25.91	(0.04)
RHI:	0.37	(0.03)	QWEST:	5.26	0.04
SCRIPPS INT:	44.10	(0.09)	VERIZON:	29.12	0.37
TIME WARNER:	33.06	0.39	MARKET INDICES		
VALUEVISION:	3.11	0.02	DOW:	11045.27	53.28
VIACOM:	39.02	0.08	NASDAQ:	2471.73	0.26
WWE:	18.73	(0.04)	TECHNOLOGY		
TECHNOLOGY					
ADC:	8.10	0.32			
ADDVANTAGE:	2.56	0.09			
ALCATEL LUCENT:	3.13	(0.11)			
AMDOCS:	31.27	0.02			
AMPHENOL:	46.36	0.45			
AOL:	23.96	(4.05)			

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Room 409

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Room 404

Cable 101: How It All Works, presented in conjunction with One Touch Intelligence

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The Flip Side

I pointed out last week that the proponents of government imposed “net neutrality” are starting, hopefully, to appreciate that there is a “flip side” to many of their arguments when other policy issues are debated. The same countries they point to as “models” for promoting broadband are now also proposing government restrictions on Internet use for games, advertising, gambling and the like. A “free, open Internet”? Not as easy as it is to say.

The FCC’s release of it’s latest Notice of Inquiry on a technical proposal to promote the use of broadband for video distribution, the “AllVid” idea, once again raises some fascinating policy issues. Forget the technology for a moment, that’s not the point. Let’s assume the underlying objective was achieved and “broadband” became an integrated, “over the top” (I really don’t like that term, but since everyone seems to now use it, so will I) form of video delivery.

Let’s go even further. Let’s assume that the objective in fact was to achieve, by technical requirements, what has not been accomplished by other policy efforts; a disaggregation of channel delivery by cable. A la carte. A “smart video” technology that allows consumers to create their own program guides and “select” from a variety of video sources, merging them on the screen. Obviously this would change most business models and would lead to an entirely new set of models for video distribution. Hopefully these new models would be more successful, economically, than what has happened in the music business, but let’s assume that’s the case. Now what?

Well, here comes the “flip side” of that dream proposed by those who see broadband “OTT” and “net neutrality” as the ultimate goals: What happens to things like the Emergency Alert System? Do we require it to be on the

Internet feeds as well, or do we restrict tornado warnings just to local broadcast and cable channels? We could just hope that “over the top” “smart video” viewers somehow get the word before the tornado hits. Alternatively, how would you expand EAS to broadband? The Internet is not location-centric and neither are the network access points that deliver ISP data. The only way to localize the emergency notices would be through knowing exactly where the signals were all going... and the only way to do that would be through “deep packet inspection”. anathema to the “net neutrality” folks.

So how does all this work if the grand objective of a free flow of video from everywhere comes to pass? What about “lowest unit charge” requirements on political advertising? Will the video “speech” on the broadband delivered “OTT” channels be restricted, conditioned or monitored the way broadcast and increasingly cable channels are (think children’s advertising rules, for instance.) Do we put a requirement for a “V-Chip” or its successor on all new “smart” devices, including computers of course, and then require that all “video” on the Internet have encoded content flags? If so, who enforces those rules? Who decides if one program (a YouTube segment?) is PG or X-rated and requires an appropriate flag before it can be sent over broadband? And then there’s the question of jurisdiction.

The bottom line here is most folks haven’t thought through yet what happens to “net neutrality” and the concepts that lie behind it if the other objective, of “promoting broadband” and “OTT” delivery of multichannel video, really succeeds. They may, in fact, be the “flip side” of each other when considering whether the broadband Internet is heavily regulated or allowed to be “free”



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