

# CableFAX Daily™

Tuesday — May 3, 2011

What the Industry Reads First

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## Good News Lights A Fuse: DISH Shares Ignite On TiVo Pact, 1Q Results

While Sun was May Day, Mon emphatically become DISH's day as the DBS op announced an end to its nearly decade-long litigation with TiVo and reported premium 1Q results. And if that weren't enough, CEO *Charlie Ergen* provided some heavily-anticipated color to the company's strategic direction (see "Hello, Ergen" below). Investors drank in all the news and felt a buzz, sending DISH shares soaring 16.7%. DISH's \$500mln settlement with TiVo was a key driver. "In the end, the TiVo settlement was for far less than we had expected. And it finally eliminates, after nearly five years, a significant overhang that in a worst case scenario could have meant disablement of potentially millions of DVRs, triggering a consequent exodus of DVR subscribers," said **Sanford Bernstein's** *Craig Moffett*. Under the settlement's terms, DISH wired \$300mln to TiVo on Mon and will pay the balance in 6 equal annual installments between '12 and '17. All pending litigation has been dismissed. TiVo granted DISH a license to use its contested Time Warp patent until its expiration in '18, plus a related license to design and make certain DVR-enabled products solely for DISH and a pair of international customers. Further, **EchoStar** granted TiVo a license under certain DVR-related patents for TiVo-branded, co-branded and ingredient-branded products. TiVo shares added 3.2%. As nearly every analyst said the settlement amount is much smaller than expected, Ergen intimated the chief reason for that by saying DISH had a strong patent workaround argument and likely would've been granted a new trial. But "certainty from a DISH perspective was important," he said, adding that a loss of the workaround argument would've meant disablement of millions of DVRs and no chance of selling them, leaving ongoing litigation a "terrible risk." Going forward, Ergen is bullish on the newfound TiVo alliance. "Without question, we can put the best DVRs in the business out there," he said. TiVo will help DISH promote the **Blockbuster** digital video service, and he believes further cooperation may arise. In the traditional competition for MVPD subs, meanwhile, DISH hasn't altered its tactics—Ergen refuses to chase subs with deep discounts or overpay for programming—yet managed to rebound greatly from a disappointing 4Q. The DBS added 58K net subs after shedding a worst-ever 156K a period ago and while enacting a price increase of \$3-5 on most packages in Feb. Wall St had expected a loss of 58K, and **Wells Fargo Securities' Marci Ryvicker**, who expected -118K, called DISH's operational results "significant." And important to Ergen, DISH turned the tables without discounting, achieving success mainly through a reduction in churn to 1.47%, compared to a 1.75% consensus number. Evp, sales, marketing and programming *Tom Cullen* said the company's retention spend has escalated, but SAC plummeted 13.7%. "If you're a long-term investor I think you'll like what we do," said Ergen, referencing his no-chase strategy that stems from increasing traditional/online competition and the evolution of the video marketplace. "It's not like people have to be in front of their TV at 7 o'clock anymore." DISH's financials impressed, too, including rev of \$3.22bln (+5.5% YOY), EBITDA of \$1.23bln (+75%) and net income of \$549mln, versus \$231mln a year ago.

**Hello, Ergen:** *Charlie Ergen* said DISH is employing "the Seinfeld strategy" with **Blockbuster**, its existing spectrum assets and those pending from **DBSD**—as in, the overall strategy is "hard to explain" but will come together, as the

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series often did, in the final stages. "We know here we want to go... each of these assets is going to open other doors for us," said Ergen, but "it doesn't always work out the way you planned." For the skeptics out there, Ergen quipped that "it could be a strategy about nothing," yet added the component parts will ultimately fit together. Recently named pres, Blockbuster, *Michael Kelly* said the company's acquisition offers DISH the opportunity to "break into the digital business a little bit heavier." Ergen said where the brand goes digitally "will depend on the studios," whether they'd like Blockbuster to transition online or maintain an ample bricks-and-mortar presence. Perhaps there's even a better financial model that Blockbuster could offer the studios, he said, adding a streaming service that competes directly with **Netflix** is unlikely given NFLX's "formidable lead" that may be "insurmountable." Buildout of a wireless network is unlikely without bringing in an experienced partner, and DISH's spectrum fits well with **LightSquared**, said Ergen. DISH isn't required to build out its 700Mhz spectrum until '17. DBSD's license doesn't require additional buildout and its satellite is currently capable of mobile video, he said, noting terrestrial spectrum use isn't in DISH's short-term plans.

**Carriage:** **FEARnet** began a linear carriage rollout with **Comcast**. As previously reported, it also secured a carriage deal with **Time Warner Cable** that includes VOD, and SD and HD linear (*Cfax*, 4/5). FEARnet's linear channel is now available on FiOS nationwide. The deals should propel FEARnet HD to more than 10mln HHs within the next year. It has 26mln VOD HHs. Meanwhile, the net's launching a horror-comedy block this summer featuring 2 scripted series. -- **The Africa Channel** is expanding distribution in Detroit, Chicago and the D.C. area by the end of July and launching in the **Comcast** markets of Northern Santa Barbara County, CA; Savannah, GA; Charleston, SC; and South FL later this year. It will grow Africa Channel's distribution by 2mln. -- **Outdoor Channel** launched on **Charter** in TX as part of its Sports View Plus package.

**In the States:** **Cablevision** launched the "Ultimate Triple Play," which offers new customers an advanced wireless router and its PC-to-TV relay service "Optimum Link." Also included is Optimum Online Boost Plus HSD, delivering up to 50Mbps downstream, 8Mbps upstream. For new customers, the bundle is \$99.80/mo for the 1st year. The new level of HSD is available to any existing CVC sub for an additional \$15/mo. Optimum Link is an additional \$5/mo for existing subs.

**At the Portals:** The FCC's Video Programming Accessibility Advisory Committee will meet Thurs, with topics expected to be discussed including IP captioning, video description and access to emergency info.

**Ratings:** **CNN** delivered 4.14mln total viewers for its 5 coverage hours (10pm-3am ET) of *Osama Bin Laden's* death to lead cable news nets, including 7.76mln during the 11pm hour in which *Pres Obama* announced the news. CNN's coverage was also tops among 25-54s (2.10mln). -- Approx 22.77mln Americans watched the Royal Wedding Fri morning (6-7:15am ET) across 11 nets including **BBC America**, **CNN**, **MSNBC**, **Fox News**, **E!** and **TLC**. BBCA tallied more than 7.2mln viewers for its coverage on Fri, CNN 1.66mln from 4-10am, and E! rode nuptials coverage to earn its most-watched Fri ever with an avg of 477K homes in total day. Also, **E! Online** broke with 23.6mln its single-day record for most page views on a Fri. -- **NFL Net** posted its best-ever **NFL Draft** viewership through an avg of 566K viewers over 3 days. -- **TNT** set cable records in ratings and total viewership for its 1st-round coverage of the **NBA** playoffs, averaging a 2.7 HH rating and 4.18mln total viewers over 23 games. Affluent viewers (\$100K+) powered much of the growth across 18-34s, 18-49s and 25-54s.

**Mobile:** It's official. The **HBO Go** app is available for download on iPad, iPhone, iPod Touch and select Android devices. It's still a no go for **Time Warner Cable** and **Cablevision** subs as the providers haven't launched the service.

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# BUSINESS & FINANCE

**Over-the-Airheads:** NBC is launching **NBC CA Nonstop**, a round-the-clock local/regional news and lifestyle channel Tues. It will debut on the digital channels of **NBC4 L.A.**, **NBC Bay Area** and **NBC San Diego**. NBC Stations in Dallas and Miami also will launch Nonstop Channels this week. One **Comcast-NBCU** promise was beefed up local news coverage.

**Programming:** 3net debuts "Bull-proof," a 3D "sportumentary" series that features bullfighters of the Championship Bull Riding circuit.

**Honors:** **Comcast**, **Scripps Nets** and **The Walt Disney Co** are among *DiversityInc's* "25 Noteworthy Companies." The list features companies that are either above avg or significantly improving in the 4 areas measured: CEO commitment, human capital, corporate and organizational communications and supplier diversity. 68% of the 25 companies listed have CEOs who sign off on exec compensation tied to diversity goals.

**People:** **Charter** tapped *Don Pulter* of **ViaWest** as svp, commercial ops.

**Business/Finance:** We're one step closer to **Liberty** spinning off **Liberty Capital** and **Liberty Starz** tracking stocks with a DE Court of Chancery ruling Fri that the split off does not amount to a disposition of all or substantially all the assets of **Liberty Media**. Some bondholders, led by the **Bank of NY**, led the challenge. They can appeal the court's decision.

## CableFAX Daily Stockwatch

Company	05/02 Close	1-Day Ch	Company	05/02 Close	1-Day Ch
<b>BROADCASTERS/DBS/MMDS</b>					
DIRECTV:	48.80	0.21	CLEARWIRE:	5.07	0.21
DISH:	29.79	4.75	CONCURRENT:	5.79	(0.14)
DISNEY:	43.27	0.17	CSG SYSTEMS:	21.34	0.11
GE:	20.48	0.03	ECHOSTAR:	34.99	(2.09)
NEWS CORP:	18.84	(0.06)	GOOGLE:	538.56	(5.54)
<b>MSOS</b>					
CABLEVISION:	35.34	0.11	HARMONIC:	8.08	(0.2)
CHARTER:	59.30	0.36	INTEL:	22.91	(0.24)
COMCAST:	26.68	0.47	JDSU:	20.83	(0.01)
COMCAST SPCL:	24.98	0.43	LEVEL 3:	1.64	0.08
GCI:	11.13	(0.37)	MICROSOFT:	25.66	(0.26)
KNOLGY:	14.90	(0.35)	RENTRAK:	22.66	(0.28)
LIBERTY CAPITAL:	81.04	(1.23)	SEACHANGE:	10.44	(0.27)
LIBERTY GLOBAL:	46.23	(0.27)	SONY:	28.79	0.48
LIBERTY INT:	17.76	0.28	SPRINT NEXTEL:	5.19	0.01
SHAW COMM:	21.20	0.04	THOMAS & BETTS:	57.39	(0.58)
TIME WARNER CABLE:	77.91	(0.22)	TIVO:	9.86	0.29
VIRGIN MEDIA:	30.20	(0.06)	TOLLGRADE:	10.09	UNCH
WASH POST:	440.00	4.10	UNIVERSAL ELEC:	27.46	(0.23)
<b>PROGRAMMING</b>					
CBS:	25.70	0.48	VONAGE:	5.07	(0.09)
CROWN:	2.15	(0.05)	YAHOO:	18.14	0.44
DISCOVERY:	44.65	0.39	<b>TELCOS</b>		
GRUPO TELEVISA:	23.68	(0.04)	AT&T:	31.21	0.09
HSN:	34.64	1.46	VERIZON:	37.56	(0.22)
INTERACTIVE CORP:	36.45	0.34	<b>MARKET INDICES</b>		
LIBERTY:	43.09	(1.17)	DOW:	12807.36	(3.18)
LIBERTY STARZ:	76.45	(0.4)	NASDAQ:	2864.08	(9.46)
LODGENET:	3.43	(0.08)	S&P 500:	1361.22	(2.39)
NEW FRONTIER:	1.77	0.00			
OUTDOOR:	6.98	(0.17)			
SCRIPPS INT:	51.96	0.54			
TIME WARNER:	37.84	(0.02)			
VALUEVISION:	6.32	(0.06)			
VIACOM:	58.21	0.07			
WWE:	10.83	0.32			
<b>TECHNOLOGY</b>					
ADVANTAGE:	3.05	(0.06)			
AMDOCS:	30.43	(0.32)			
AOL:	20.73	0.35			
APPLE:	346.28	(3.85)			
ARRIS GROUP:	11.61	(0.4)			
AVID TECH:	18.03	(0.55)			
BIGBAND:	2.49	(0.07)			
BLNDER TONGUE:	2.29	0.04			
BROADCOM:	35.22	0.03			
CISCO:	17.58	0.06			

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# EYE ON ADVERTISING

## The Art of Integration

Increasingly, networks are working with companies to create sponsored programming that can appear rather seamless. Miami-based production house **2C Media** has worked with nets from **Cartoon Network** to **Lifetime** to **Travel Channel** to develop such content. 2C chief Chris Sloan takes Cathy Applefeld Olson to the front lines of branded entertainment.

### How does 2C work with cable networks to create sponsored programming?

CS: This arena has really taken off in significance. Marketing and promotion have always been assumed to be a cost center, but now there's this whole notion of integration with branded content, and they've moved to the forefront. Now a lot of networks have created their own solutions departments at this level, and that's who we work with. There's a current project in production I can't mention by name. The network came to us last August and said, "We want to get this particular [brand] on the air. Would you be willing to partner with us to create content to help us?" The process can be long or short. We've had networks say they have a pitch meeting in five days, and they need something to take in that fast.

### Do you ever help create series specifically for a particular sponsor?

CS: With series creation, there's still separation of church and state. We don't create a series only with a sponsor in mind, but we do make them more sponsor-friendly. If you look at the kinds of shows FX has done – like "Nip/Tuck" and "The Shield"—they are a perfect example. Their formula has been to bring to basic cable the kinds of provocative programming HBO does, and they've found a lot of the shows are advertiser-friendly. Even though they may not get the numbers, they can monetize them better.

### What's a recent example of 2C working with a network on sponsored programming?

CS: Lifetime has a show called "Army Wives," and we

worked with their solutions department with Mike Malone [VP of branded content and integration]. Their notion was Outback Steakhouse has a Red, White and Blue [specialty] menu, so we created a mini reality TV show around it. We took 100 army wives, put them on a bus and took them to Outback. They get there, and there's a marching band and then all of a sudden the stars of "Army Wives" show up and talk to them, then they learn that Outback is making a huge donation not only to give them makeovers, but to do things like help to get nannies for their kids. We filmed it, and Lifetime promoted it as a pro-social piece of content that seamlessly integrates with "Army Wives." That's the whole secret. It doesn't look like a straight out commercial.



### With the rise of integrated branded entertainment, are the upfronts losing their relevance?

CS: What's changing is the approach. Telemundo asked us to do a piece for them called The New America, and there is not one piece of Telemundo content on the reel. It was all about making the case for the Latin market. We're starting to do a lot of work like that for networks. Instead of being so first-person and banging their own drum, they are banging the drum for the entire marketplace.

### Best advice to a cable net looking to do more branded content?

CS: The two areas that are diametrically on opposite poles are sales and creative. So they need to create that kind of relationship where they can work together. A lot of people in promotions want to be doing commercials or longform content. And, you'll notice a lot of these places like the Lifetimes and USAs who do this really well have brought in people from the ad agency and commercial production worlds to work in their branded departments. It's key to find someone to make that bridge.

*(Longtime entertainment industry reporter Cathy Applefeld Olson is delighted to be documenting media's wild ride into the 21st century).*

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