

CableFAX Daily™

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What the Industry Reads First

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Weird (and Welcome) Science: Discovery Achieves Ad Growth

On Mon, Wall St handsomely rewarded **Discovery Comm** for more than tripling net income in 1Q and more than doubling FCF, sending DISCA shares up 8.6% while extending the impressive rally of cable-related equities that commenced last week after solid quarterly results from **Comcast** and **Time Warner Cable**. But a lone metric perhaps makes Discovery's results the most striking so far: domestic ad rev growth of 2%. This as the company's international ad revenue, recently a hedge against the struggling US market, fell 12%, and after **Time Warner's** 1Q ad rev was flat, **Viacom's** dipped 9% and Comcast's programming ad rev fell 8%. Helping Discovery, said CFO *Brad Singer*, is a "portfolio effect across all of our nets" whereby advertising declines on male-skewing nets such as **Discovery Channel** can be assuaged or even offset by better results for female-leaning ones such as **TLC** and **Animal Planet**, and vice versa. Also, because DISCA produces nearly all of its own programming, said pres/CEO *David Zaslav*, "we can work more uniquely with advertisers." Coupled with affil fee improvement of 11%, ad rev helped the company's US nets post rev of \$509mln (+5%) and OIBDA of \$275mln (+7%). Despite its recent success, however, Discovery—like the overall industry—has almost no reliable visibility into advertising's future. "It really is an odd market," said Zaslav. "We don't really have a sense of the upfront." 3Q cancellations are running 13-14%, he said, or in-line with 2Q and "meaningfully more" than in prior years. Still, some of the losses were recouped in the scatter market, said Zaslav, noting a lot of excitement for cable from advertisers, particularly vs broadcasters. 2Q ad rev is expected to be flat or slightly below last year's numbers, which jumped 10% over '07. Meanwhile, Discovery Channel (+8%) and Animal Planet (+13%) are up this year in 25-54 delivery after facing '08 adversity, and DISCA's emerging nets are enjoying a double-digit rev growth rate. "Animal Planet has significant upside, [but] it's going to take us a while" to maximize the brand, said Zaslav, who envisions rapid overall improvement for **Discovery Kids** under the recently-announced jv with **Hasbro** (*Cfax*, 5/1). DK has been an "underperformer," he said, deriving approx 90% of its rev from sub fees versus a company-wide goal of 50%.

DirectTV/Liberty: In a complex transaction typical of *John Malone*, **DirectTV** plans to merge with **Liberty Ent** when the unit is spun off from **Liberty Media**, and through the deal will assume majority ownership of **GSN**, full ownership of **FSN Pittsburgh**, **FSN NW** and **FSN Rocky Mountain**, approx \$30mln in cash and \$2bln in debt. Following the merger, parent DirecTV Group's Class A shares are expected to trade on the NASDAQ market under the ticker DTV while its Class B shares won't be traded on any exchange. *Chase Carey* will retain his post as DirecTV's Pres/CEO, and Malone, his wife and associated trusts will hold approx 24% of the company's total voting power. Malone will serve as chmn of DirecTV's post-merger board. Additionally, Liberty Media assets including **Starz Ent**, 37% of **WildBlue** and approx \$650mln in cash will not be part of the spin-off/merger, but instead form **Liberty Starz**, shares of which are expected to be listed on NASDAQ under LSTZA and LSTZB. "Our existing equity structure was less

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than ideal," said Carey in a release. "The transaction will improve our ability to pursue strategic initiatives that can enhance value for all DirecTV shareholders [and] we are acquiring valuable assets that fit in well." Other positives include less overhang by other non-related assets over DirecTV shares, but **Sanford Bernstein** analyst *Craig Moffett* believes DirecTV had to pay heavily for a streamlined structure. "We estimate that consummating this transaction may have cost the company just under \$400mln when considering value surrendered and value received," wrote Moffett, who nonetheless called the transaction "essentially a neutral event."

VOD: **Time Warner Cable** will discontinue **Lifeskool** (recently renamed **MagRack**) from its VOD lineup next month. Entrepreneurs *Joe Covey* and *Matthew Davidge* bought Lifeskool, which they are operating under the nets' previous MagRack moniker, late last year from **Rainbow**. According to Davidge, they inherited an expired TWC contract. He said that interactivity is a big part of their plans for the net and that they'll be talking to TWC about the net's future path. The 2 also bought **Concert.tv** in Jan. Each VOD net is now available to about 25mln HHs (excluding TWC), Davidge said.

In the Courts: *John* and *Timothy Rigas* are still appealing their respective 15- and 20-year prison sentences for convictions on securities fraud, conspiracy to commit bank fraud and bank fraud in '07 and '08. Oral arguments are set for Tues at the US Court of Appeals for the 2nd Circuit.

At the Portals: As promised, **AT&T** is appealing the denial of a program access complaint against **Cox** (*Cfax*, 3/10). The Media Bureau said that federal law does not require Cox to make **Cox-4**, which airs **San Diego Padres** games and local news, available to **U-Verse**. AT&T argues that the issue is about anti-competitive conduct, which it says can involve terrestrially delivered programming.

Technology: **Macrovision** signed a multi-year tech and patent licensing deal with **Vizio** for its IPG technologies. The HDTV maker can use the guide in future products.

Advertising: **Bravo** counts **TRESemmé**, **Propel**, a major wireless carrier and a health & beauty company as sponsors for the premiere season of "The Fashion Show," which bow Thurs at 10pm. -- **CBS** has launched "Only CBS," a natl media campaign aimed at advertisers that highlights the broadcast net's ratings growth this year and leadership in prime. Ahead of CBS' May 20 upfront presentation, the campaign spans across platforms and includes natl print media. -- **McDonald's**, **Ford** and **State Farm** have signed on as sponsors of **CNN's** "Black in America 2," the 2nd installment of the net's doc series examining the African-American experience. The latter 2 companies will also sponsor the net's online coverage.

Ratings: **TNT's** coverage of game 6 between the Celtics-Bulls earned a 3.5 HH rating and 5.35mln total viewers to become the most-watched 1st-round **NBA** playoff game in cable history. Game 7 of the same series averaged a 10.1 rating and 484K homes on **Comcast SportsNet New England**, easily a Celts record for the RSN.

Programming: **Spike TV** has started working on a special ep of upcoming series "Surviving Disaster" that will look at surviving the swine flu and other pandemics. -- Production commenced Mon on the 3rd season of **AMC's** "Mad Men," which returns in Aug. -- **A&E** original "Obsessed" (May 25) chronicles the tribulations of individuals suffering from extreme anxiety disorders such as Obsessive Compulsive Disorder and Panic Disorder.

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CableFAX: The Magazine

Top Operators Award Program

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www.CableFAX.com/TopOps

Entry Form
Entry Deadline: May 15, 2009

MSO AWARDS

- MSO of the Year
- Best Community Service (By An Individual System)
- Best Tech Innovation or Innovator (By Individual System or System-Wide)
- Best Customer Service Innovation (By An Individual System or MSO-Wide)
- Best Commercial Sales Team of the Year
- Project Launch of the Year (could be in sales, technology, community service, customer service, employee relations or anything else; the project must have been launched in calendar year 2008)
- Regional Executive of the Year
- Lifetime Achievement

INDEPENDENT OPERATOR AWARDS

- Independent Operator of the Year
- Marketer of the Year
- System Executive of the Year
- Strategic Thinker of the Year
- Best Community Service
- Customer Service Innovation or Innovator
- Project Launch of the Year
- Lifetime Achievement

Category details available at
www.CableFAX.com/TopOps

How To Enter: There is no fee to enter. Use this form or visit www.CableFAX.com/TopOps for entry form copies, additional category information, and to view the 2008 Winners. Fax or Mail your entries and supporting materials by May 15, 2009 to:

Fax: 301-309-3847 or Mail Entries to:
Mary Lou French
CableFAX Top Operators Awards
Access Intelligence
4 Choke Cherry Rd, 2nd Floor
Rockville, MD 20850

What to Enter: You should submit an essay of not longer than 500 words explaining, with as much specificity as possible, why the candidate or team should be considered. You can supplement your essay with news clips, photos or other materials. When submitting multiple entries please use a separate entry form for each.

Category: _____
Title of Entry: _____
Company: _____

Contact Information *(All Required)*

Name: _____
Company or Agency/Title: _____
Address: _____
City: _____ State: _____ Zip: _____
Telephone: _____
Fax: _____
E-Mail Address: _____

www.CableFAX.com/TopOps

Winners will be honored in the July 2009 issue of CableFAX: The Magazine Top Operators Issue



BUSINESS & FINANCE

Editor's Note: Time is running out! This Fri, May 8 is the late entry deadline for the much-awaited **CableFAX Program Awards!** Don't forget to send us your nominations for the best shows and people in the cable content business. We'll honor the finalists and name the winners at our Sept 16 luncheon in NYC, so this is your chance to get your shows and people in the running! More info at <http://www.cablefax.com/cfp/awards/Program2009/>.

Earnings: Retrans rev for **E.W. Scripps** rose 41.5% in 1Q to \$4.2mln. But YOY revenue overall dropped 21% to \$122mln. Advertising revenue was down 28.6% to \$85.8mln.

On the Circuit: **CTAM Educational Foundation** named its '09 Diversity Fellows for the CTAM Exec Management Program at Harvard Business School. They are: **Gospel Music Channel's Angela Cannon**, **ABC Studios' J. Christopher Hamilton**, **Ibis Comm's MaryAnne Howland** and **TV One's George Lima**.

Public Affairs: **The Verizon Foundation** gave a \$1.5mln grant to develop programs at the planned **National Law Enforcement Museum**. Ground-breaking is slated for fall '10 in DC.

People: **ION Media** promoted **Brett Jenkins** to vp, tech, where he'll support ION's development of advanced TV technology biz models and oversee implementation of digital TV and mobile programs.

CableFAX Daily Stockwatch

Company	05/04 Close	1-Day Ch	Company	05/04 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
BROADCASTERS/DBS/MMDS			AMPHENOL:	35.15	1.03
BRITISH SKY:	29.86	0.80	APPLE:	132.07	4.83
DIRECTV:	23.93	(0.64)	ARRIS GROUP:	10.85	0.05
DISH:	14.85	0.47	AVID TECH:	12.03	0.37
DISNEY:	22.86	0.92	BIGBAND:	6.25	0.51
GE:	13.10	0.41	BLNDER TONGUE:	1.30	(0.01)
HEARST-ARGYLE:	4.48	0.02	BROADCOM:	23.94	0.88
NEWS CORP:	9.85	0.59	CISCO:	19.50	(0.08)
MSOS					
CABLEVISION:	18.17	0.71	CLEARWIRE:	5.90	0.27
COMCAST:	16.65	0.29	COMMSCOPE:	26.22	0.73
COMCAST SPCL:	15.70	0.22	CONCURRENT:	4.46	(0.24)
GCI:	8.00	0.40	CONVERGYS:	10.58	0.46
KNOLOGY:	7.35	0.09	CSG SYSTEMS:	14.19	(0.24)
LIBERTY CAPITAL:	12.99	0.76	ECHOSTAR:	16.92	0.88
LIBERTY ENT:	25.21	0.88	GOOGLE:	401.98	8.29
LIBERTY GLOBAL:	18.03	1.33	HARMONIC:	7.73	0.12
LIBERTY INT:	6.05	0.52	INTEL:	16.66	0.85
MEDIACOM:	5.88	0.08	JDSU:	5.15	0.39
SHAW COMM:	16.52	0.97	LEVEL 3:	1.10	(0.04)
TIME WARNER CABLE:	35.02	1.46	MICROSOFT:	20.19	(0.05)
VIRGIN MEDIA:	8.24	0.34	MOTOROLA:	5.71	0.17
WASH POST:	352.36	(13.52)	NDS:	62.93	0.00
PROGRAMMING					
CBS:	7.20	0.01	OPENTV:	1.47	(0.01)
CROWN:	3.14	0.02	PHILIPS:	19.51	1.40
DISCOVERY:	20.21	1.60	RENTRAK:	9.90	0.01
EW SCRIPPS:	1.89	(0.23)	SEACHANGE:	6.52	0.09
GRUPO TELEVISA:	16.73	0.97	SONY:	27.23	0.82
HSN:	6.87	0.12	SPRINT NEXTEL:	5.00	0.33
INTERACTIVE CORP:	16.03	0.00	THOMAS & BETTS:	32.38	0.87
LIBERTY:	27.33	2.14	TIVO:	7.62	0.17
LODGENET:	4.44	0.42	TOLLGRADE:	5.50	(0.23)
NEW FRONTIER:	2.05	0.04	UNIVERSAL ELEC:	19.49	0.91
OUTDOOR:	7.72	0.06	VONAGE:	0.41	(0.02)
PLAYBOY:	3.23	0.21	YAHOO:	14.18	0.04
RHI:	3.42	0.33	TCLCOS		
SCRIPPS INT:	29.55	2.10	AT&T:	26.69	0.68
TIME WARNER:	24.44	1.60	QWEST:	4.24	0.18
VALUEVISION:	0.69	(0.04)	VERIZON:	31.04	0.49
VIACOM:	21.42	0.70	MARKET INDICES		
WWE:	11.29	0.48	DOW:	8426.74	214.33
TECHNOLOGY					
3COM:	4.15	0.03	NASDAQ:	1763.56	44.36
ADC:	8.09	0.60			
ADVANTAGE:	1.85	0.04			
ALCATEL LUCENT:	2.61	0.13			
AMDOCS:	21.60	0.42			

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EYE ON ADVERTISING

Interactive Advertising Reaching for the Masses

Advanced, interactive advertising is top of mind for most operators and networks these days. The field is ripe with possibilities, but there are disparate pieces that need to be streamlined on the back end for them to realize maximum benefits.

This Technology, a relative newcomer offering software that manages metadata and advertising supply, raised the curtain on its solution at this year's Cable Show.

Now founder Jeffrey Sherwin enlightens Cathy Applefeld Olson about why he thinks even **Canoe** can't complete the puzzle alone and how, with proper data management, advanced ads can thrive in both linear and VOD environments.



How are cable networks benefitting today from inserting advanced advertising in a VOD environment?

JS: Today, in order for networks to really get the value of an ad business on VOD, they are stitching advertisements into the entertainment content. The problem with that is some of the reporting capabilities aren't really there, and you can't distinguish between where the ad ends and the content begins because the VOD system is not set up to report that way. So if they want to change those ads on a daily or weekly basis, they have to res-titch the entire content.

How can operators and programmers be more empowered to manage their VOD playlists?

JS: They both need to be able to take advantage of VOD playlisting. Our software has the capability to help them manage metadata and author playlists across different content preparation tools. The cable operators have the say about which ad creative goes with VOD on which weeks. But it also gives networks a way of saying, "Here's the amount of space we can make available to stream content." It can all be done within the operator's

own environment, and the operator can have the ability to really capture some of that inventory [data] in exchange for doing that.

Do operators want to manage this type of content themselves, based on your conversations?

JS: Operators like to have the ball and run with it. And they are coming to the conclusion that there is a moment where I have control of experience prior to automated decisions being made. But when you talk to the people at Canoe, you very quickly begin to realize it's not just about the operators making decisions. The networks have decisions to make, too. Canoe is less about the decision and more about the ability for decisions to be communicated between network and operators in an automated way.

You demonstrated your ad management software with OpenTV at the Cable Show. What kind of reaction did you get?

JS: We typically get three reactions to our software: The first is, "I don't understand anything you are saying to me." This comes from operators, networks and vendors who don't yet know there are all these pieces that need to be addressed. The second response is, "OK, I understand what this is, but who in my organization gets to make the decision of what gets put where for ads?" And the third is from companies that have walked down the path a little further and are ready to talk about a solution.

Which operators and/or networks are you negotiating with now?

JS: There's nothing I can talk about at this point, though we've had a lot of fast and pretty intense discussion, and the companies we are talking to are not small.

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

CableFAX Daily will publish a special supplemental Mid-Day Report, June 11, profiling the winners of the Sales Executive of the Year Awards and the Sweet 16—with special mention of the 2009 Hall of Fame Inductees. For event information and list of Honorees go to: www.CableFAX.com/SEOY.

A Generous Distribution of the Mid-Day Report Will Include:

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