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Friday — May 7, 2010

What the Industry Reads First

Volume 21 / No. 088

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 Source: The Nielsen Company. Most upscale: HH 75k+, W18-49, VPMH
 Youngest median age base W2+, Fastest Growing: L7, W18-49, [000]. Statements based on [12/29/08-12/27/09], L7, M-Su 8p-11p, Oxygen vs. Lifetime, LMN, WE & Soapnet, unless otherwise noted. Growth since acquisition: 10.10 vs. 1007
 [12/28/08-03/28/10 vs. 01/01/07-04/01/07], L7, M-Su 8p-11p, W18-49, W18-34, [000].
 Subject to qualifications upon request.

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Nuclear Fallout: Industry Wrangles Over Whether 'Third Way' is Right Way

Couple the newly proposed "Title II Lite" regulation with a colossal market meltdown tied to Greece's credit crunch, and it's safe to assume many in the industry wished they would have stayed in bed Thurs. FCC chmn *Julius Genachowski* is describing his proposal as a "Third Way" between Title I and Title II to give the FCC the same authorities it was thought to already have. Despite reporting solid 1Q results Thurs, **Cablevision** saw shares close down 7% for the day. "We don't think that operating under 19mln laws—utility type regulation—makes any kind of sense for any length of time. So, that's disappointing if that does in fact happen," said CVC COO *Tom Rutledge* said of the FCC proposal, noting that CVC has 100Mbps+ broadband service available to its entire customer base. "I think even harder than operating under those rules is trying to be a regulator under those rules, so we do have some sympathy for his position." Genachowski said his approach a gives the Commission "only the modest authority it needs to foster a world-leading broadband infrastructure for all Americans while definitively avoiding the negative consequences of a full reclassification and broad application of Title II." It would only apply 6 sections of the rules under Title 2, with the chmn proposing the FCC regulate the transmission part of Internet lines but not "information services" such as email, online content, etc. "The underlying legal principle is that, when the Commission classified residential broadband services as solely and entirely information services despite their substantial transmission component, the Commission unintentionally went too far in limiting its ability to protect consumers and small businesses," said FCC gen counsel *Austin Schlick*, who bases much of the approach on Supreme Court Justice *Antonin Scalia's* dissenting view in the **Brand X** case that permitted the FCC to classify cable modem service as an information service in '05. But broadband providers are concerned that the door is wide open for further regulation, like rate regulation, by moving the service under Title II. "We firmly believe that the case for new regulation of the Internet has not been made," said **NCTA's** *Kyle McStarrow*. "Any Title II approach is still fraught with legal uncertainty and practical consequences which pose real risks to our ability to provide the high-quality and innovative broadband services that our customers expect, thus undermining the very investment and innovation goals we share with Chairman Genachowski and upon which the National Broadband Plan depends." **Verizon** raised similar concerns, saying that the regulatory and judicial proceedings that will ensue can only

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bring confusion and delay to work to build the broadband future. Comcast, which got the ball rolling on Title II Lite by successfully challenging the FCC's authority in the **BitTorrent** case, said it was disappointed the agency isn't leaning toward Title I regulation but is prepared to work with the FCC to determine whether there is a Third Way. Public interest groups such as **Free Press** and **Public Knowledge** were happy but already indicating they'll push for more regulation. "The Chairman's plan appears to preemptively abandon important provisions of the law that serve consumers," Free Press said. Republicans, both on the Commission and Hill, came out strong against the proposal. It's expected to be put out for comment in the next month or so.

CVC Earnings: Despite programming spats with **Disney-ABC** and **Scripps** in 1Q that included 3 weeks without **Food** and **HGTV**, **Cablevision** posted growth in all RGUs, including a gain of 900 of those elusive basic subs. "Amazingly, Cablevision has more video subscribers now than it had when FiOS launched service in Cablevision's territory in 2003," **Sanford Bernstein's Craig Moffett** said in a note that called CVC's results "outstanding." Digital net adds handily beat expectations with a 12K net gain (vs consensus of 2K). HSD came in strong at +42.6K, while voice netted 42.3K adds. Not a lot of new info on its remote storage-DVR, but there was an assurance from COO **Tom Rutledge** that it won't disable the fast-forward feature. "We're going to make it work as a consumer product the same as a physical DVR," he said. Rutledge said work continues on devices that would switch back and forth between cellular and WiFi networks. "There clearly is an opportunity to build a product there that could be provided both by cable companies and bypass the cable and or cellular company," he said. "I think an integrated product with our existing voice service at reasonable pricing could be a really attractive additional value to our customer." The MSO has thrown around a \$30/mo price point in a survey to some customers (**Cfax**, 3/29). Plans are underway for a June or July trial of its PC-to-TV service. Overall, consolidated rev was up 5.2% to \$1.75bln. The cable business posted a 5.6% increase in rev to \$1.3bln and a 7.8% spike in adjusted operating cash flow of \$539mln. Rainbow's net revenue increased 6.3% to \$265.1mln while AOCF rose 7.3% to \$76.7mln. Cablevision announced that it is raising its quarterly dividend to 12.5 cents/share from 10 cents—the 1st hike since it was implemented in Aug '08.

DirectTV: The Wed closing price of **DirectTV's** shares is a good indicator of the DBS op's 1Q performance, as the stock fell just 0.8% (see Business/Finance section below) amid a maelstrom of negative activity on Wall St. In fact, said CFO **Pat Doyle**, the co performed "as good as any quarter in history" from a financial perspective, highlighted by a near tripling of earnings and a more than 100% surge in FCF. But even as CEO **Mike White** said there's "still plenty of growth in the TV market" and asserted the co will meet or exceed its FY guidance, sub



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metrics showed some softness. The key “Q1 miss was gross additions,” wrote **Sanford Bernstein** analyst *Craig Moffett*, noting a 15.9% YOY decline (excluding the 1Q09 benefits from the DTV transition). Also, net adds of 100K were the DBS op’s worst ever, and churn rose to 1.48%. “With normal 2Q seasonality, a material subscriber loss is quite possible, or even probable, in the second quarter,” wrote Moffett. White said churn levels, affected largely by competitive activity in **FiOS** and **U-verse** markets, were indeed higher than he would’ve liked but added that the trend so far in 2Q is “very encouraging.” Sub totals were also impacted by lower contributions from telco partners, who contributed approx 20% of gross adds compared to the typical 25%. Still, White said DirecTV is seeing solid strength in uptake of premium nets and PPV movies/events, and advertising improved ahead of a near-term focus on interactive and addressable ads. **Wells Fargo Securities’ Marci Ryvicker** underscored “significantly better” ARPU growth of 6.4% as offsetting the churn and sub disappointments, and expects DTV shares “to be strong” as FCF growth suggests the DBS op may institute a dividend this year. It’s sticking with share buybacks currently. “Overall, the results make a strong case for the triumph of value over growth,” wrote Moffett. “But flagging growth will likely restrain enthusiasm, at least to a degree.”

Competition: **DISH** and **Univision** partnered to offer interactive RFI ads on the net nationally. The DBS op’s DVR subs will be able to select via remote an overlay displayed during spots and that directs them to a page featuring info about specific products and services.

On the Hill: **Discovery** pres/CEO *David Zaslav* was on the Hill Thurs to testify about the importance of building a high-tech workforce and talked up his company’s involvement in Pres *Obama’s* “Educate to Innovate” initiative. He previewed for the Sen Commerce cmte a 6-day/week commercial-free kids block called “Head Rush” that will launch on **Science Channel** in Aug. “We need to begin moving beyond traditional educational materials like the static textbook and toward engaging classrooms and living rooms that are alive with compelling visuals and storytelling,” Zaslav said.

Carriage: **Comcast’s** “Freedom Region” (North, West and Norwest Philly) launched 50 new HD nets, including **BET HD**, **Lifetime HD** and **MSNBC HD**.

Earnings: **Charter** pres/CEO *Mike Lovett* cited growth in bundled penetration, HSD, commercial services and advertising as key reasons for the MSO’s postage of a 4.4% rise in overall rev (+3.8% residential) and net income of \$24mln, compared to a loss of \$205mln a year ago. “We’re driving a value message but also a superior product message with the Internet product, and I think the combination of the two is very powerful,” said Lovett. Charter shed 23K basic subs (most of them video-only) but counted net sub adds of 96K digital (highest since 1Q08), 104K HSD (+45%) and 67K phone (flat). Video rev was flat as ARPU increased 4.3%, HSD rev grew by 10% and phone rev by 12%. Advertising contributed 9% growth, commercial 10%, and VOD orders, interestingly, were up 30%. As of Mar 31, Charter counted approx 5.3mln subs and 12.9mln RGUs (4.8mln basic, 3.3mln digital, 3.2mln HSD and 1.6mln phone). -- No word from **CBS** on a potential news partnership with **CNN**, but speaking loudly was the co’s ent segment, which delivered ad rev growth of 25% on a strong scatter market, the Super Bowl telecast and 19% growth in CBS Interactive display ad rev. **Showtime**, **Smithsonian Net** and **CBS College Sports** combined for 8% rev growth on rate increases and sub adds for Showtime and College. The respective nets count 62.7mln, 5.1mln and 35.7mln subs. -- **WWE’s** 1Q rev from rights fees grew 18% to \$29.4mln and from PPV more than 100% to \$32.4mln. Digital rev fell 7%, however, and VOD rev declined by 13% on a loss of domestic subs. -- **Playboy’s** domestic TV rev was flat at \$13.4mln as gains in Playboy TV monthly subs were offset by a decline in VOD buys. -- **Outdoor Channel Holdings** saw ad rev fall 6.4%, owing mainly to a decrease in the number

CableFAX’s Customer Experience Management Guidebook

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BUSINESS & FINANCE

of time-buy programs due to their being contracted during '09's weak ad market. Sub fee rev inched up 2% as overall rev rose by 5% on the co's acquisition of **Winnercomm**.

Research: More than 20mln global TV homes will be viewing 3DTV within 5 years, according to **Informa Telecoms & Media**, led by 9.2mln North American HHs. The firm expects 1.6% of all homes will adopt 3DTV by '15, aided by the planned showcase of the tech during the World Cup. Limiting factors include a lack of content, high prod costs, scarcity of channels, bandwidth constraints and the high cost of 3DTVs.

Programming: **Style** greenlit a 2nd season of "Jerseylicious," its most-watched 1st season in net history among women 18-34 and 18-49.

Business/Finance: The carnage was everywhere on Wall St after Wed's meltdown, with cable stocks unable to dodge the undertow even after a batch of stellar earnings. Investors may want to shield their eyes to the following downside examples: **Time Warner Cable** (-8%), **Comcast** (-6.2%), **Cablevision** (-7.1%), **Mediacom** (-10.3%), **Disney** (-3.8%), **Time Warner** (-3.1%), **Discovery** (-3.4%), and **Viacom** (-3.5%). On the bright side, between 2-3pm the Dow plummeted more than 1K points (some reports blamed automated trading and/or a computer glitch for the massive drop) only to rebound resiliently, so the results could've been much worse.

CableFAX Daily Stockwatch

Company	05/06 Close	1-Day Ch	Company	05/06 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
BRITISH SKY:	34.90	(1.31)	APPLE:	246.25	(9.73)
DIRECTV:	34.94	(0.29)	ARRIS GROUP:	11.80	(0.33)
DISH:	21.20	(0.62)	AVID TECH:	14.09	(0.41)
DISNEY:	34.01	(1.33)	BIGBAND:	3.22	(0.16)
GE:	17.31	(0.79)	BLNDER TONGUE:	1.13	(0.07)
NEWS CORP:	16.21	(0.78)	BROADCOM:	32.50	(1.34)
MSOS					
CABLEVISION:	24.91	(1.9)	CISCO:	25.49	(1.06)
COMCAST:	18.51	(1.23)	CLEARWIRE:	7.99	0.43
COMCAST SPCL:	17.59	(1.14)	COMMSCOPE:	28.99	(1.45)
GCI:	6.01	0.07	CONCURRENT:	5.59	0.08
KNOLLOGY:	12.75	(0.05)	CONVERGYS:	11.90	(0.59)
LIBERTY CAPITAL:	41.60	(2.59)	CSG SYSTEMS:	21.86	(0.62)
LIBERTY GLOBAL:	25.30	(1.17)	ECHOSTAR:	18.38	(0.22)
LIBERTY INT:	14.68	(0.31)	GOOGLE:	498.67	(11.09)
MEDIACOM:	5.91	(0.68)	HARMONIC:	6.70	(0.09)
RCN:	14.57	(0.1)	INTEL:	21.51	(0.66)
SHAW COMM:	17.93	(0.51)	JDSU:	10.94	(2.76)
TIME WARNER CABLE:	50.60	(4.39)	LEVEL 3:	1.27	(0.16)
VIRGIN MEDIA:	16.43	(0.73)	MICROSOFT:	28.98	(0.87)
WASH POST:	488.50	(12.32)	MOTOROLA:	6.68	(0.19)
PROGRAMMING					
CBS:	14.96	(0.62)	PHILIPS:	29.79	(1.39)
CROWN:	1.80	0.00	RENTRAK:	22.50	(0.02)
DISCOVERY:	36.32	(1.27)	SEACHANGE:	8.18	(0.07)
GRUPO TELEVISA:	18.32	(0.67)	SONY:	33.20	(0.08)
HSN:	29.42	(2.54)	SPRINT NEXTEL:	4.16	(0.02)
INTERACTIVE CORP:	21.16	(0.61)	THOMAS & BETTS:	39.93	(0.75)
LIBERTY:	33.92	(1.91)	TIVO:	16.18	(0.62)
LIBERTY STARZ:	52.40	(2.04)	TOLLGRADE:	6.37	0.06
LIONSGATE:	6.72	(0.21)	UNIVERSAL ELEC:	20.53	(0.24)
LODGENET:	5.59	(0.36)	VONAGE:	1.64	(0.1)
NEW FRONTIER:	1.98	(0.02)	YAHOO:	15.92	(0.57)
OUTDOOR:	6.28	(0.46)	TELCOS		
PLAYBOY:	4.06	(0.19)	AT&T:	25.14	(0.63)
RHI:	0.23	(0.04)	QWEST:	5.21	(0.21)
SCRIPPS INT:	44.80	(0.75)	VERIZON:	28.01	(0.67)
TIME WARNER:	30.90	(0.98)	MARKET INDICES		
VALUEVISION:	2.55	(0.3)	DOW:	10520.32	(347.8)
VIACOM:	36.34	(1.33)	NASDAQ:	2319.64	(82.65)
WWE:	16.21	(1.49)	TECHNOLOGY		
ADC:	7.69	(0.04)			
ALCATEL LUCENT:	2.59	(0.43)			
AMDOCS:	30.44	(0.66)			
AMPHENOL:	43.36	(0.75)			
AOL:	21.68	0.55			

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PROGRAMMER'S PAGE with Chad Heiges and Seth Arenstein

L.A. Stories

As the industry prepares to descend on L.A. for **The Cable Show** next week, programmers have myriad issues on which to masticate. The ad market's on the mend (phew!), but the breadth of content quality that's become a cable hallmark has produced intensified competition among cable nets for audience share, perhaps even adding more import to ratings growth as advertisers dissect the industry to determine the most efficient uses for their dollars. In my eyes, though, the critical topics remain the slow but steady adoption of online video, time-shifted viewership, interactive tech opportunities and mobility (smart phones). Fortunately, insight and discourse on these and other germane topics is available at the show, so allow me to highlight a few sessions as must-attends. *Original Appeal: The Power, Promise & People of Original Cable Programming* (Tues, 4:30): since the strong current of compelling content flows beneath and can ameliorate all vexing programming issues, do not miss this panel. A bang up speaker slate, but it may be wise to pay particular attention to *Nancy Dubuc*. What she has accomplished with **History** is nothing short of phenomenal, and if **Lifetime** begins to make similar strides under her leadership she may just warrant her own session next year. *EBIF Nation: The Building of a New Interactive Platform* (Wed, 3:30): there's little doubt interactive apps will lead to fresh sources of ad dollars, but innovation in program-specific apps may also drive live viewership and soften the impact of time-shifted viewing (and ad skipping). **Canoe Ventures'** *Arthur Orduña* should be interesting. *Changing Channels: Assessing New Possibilities for Content Delivery* (Thurs, 10:30): learning best practices is important to any facet of business, yet it's an imperative for programmers regarding non-linear platforms. **ESPN, The Weather Channel** and **Turner**, stalwarts in multiplatform plays all, are repped. *CH*

Highlights: "Broad St Bullies," Mon, 8:30a, ET, **HBO East**. On one level, HBO's brief look at hockey's Broad St Bullies, aka The Philadelphia Flyers of '72, is a hoot, loaded with footage from when ice hockey was played sans helmets and teeth. Some, rightly, will say the piece glorifies the use of goon tactics to win hockey games—owner *Ed Snider* admits he drafted the most physical players available after the Flyers were manhandled in consecutive post-season series. Fortunately, HBO notes an ironic aspect of the Bullies' legacy—their relentless pugilism resulted in the NHL fattening the rulebook with regulations against fighting. -- "The Tudors," Sun, 9p, **Showtime**. Sure, it bears little resemblance to English history, but this chilling episode, where *King Henry's* young wife and entourage meet an awful end, is terrific viewing. Your subs should watch it even if they've never seen this series. -- "The Pacific," Sun, 9p, **HBO**. Same advice for "The Tudors," this ep and next week's concluding piece are self contained and arguably the series' best. *SA*

Worth a Look: "Ashes to Ashes," season II premiere, Tues, 10p, **BBCA**. The sophomore run of this time-traveling detective series begins strong. *SA*

Notable: **Military Channel** commemorates VE Day (May 8) beginning at 8p and including "End of the 3rd Reich" (10p). *SA*

Basic Cable Rankings (4/26/10-5/02/09) Mon-Sun Prime			
1	TNT	2.5	2474
2	USA	2.4	2378
3	DSNY	1.7	1659
4	NAN	1.5	1523
5	FOXN	1.3	1319
5	HIST	1.3	1288
7	TBSC	1.1	1121
7	TOON	1.1	1061
9	ESPN	1	1011
9	DISC	1	955
9	FX	1	917
12	HGTV	0.9	929
12	A&E	0.9	927
12	TRU	0.9	834
12	VS	0.9	698
16	FOOD	0.8	773
16	FAM	0.8	751
16	AMC	0.8	749
19	TLC	0.7	726
19	CMDY	0.7	724
19	LIFE	0.7	722
19	SYFY	0.7	719
19	MSNB	0.7	634
19	NKJR	0.7	541
25	TVLD	0.6	591
25	MTV	0.6	582
25	CNN	0.6	575
25	SPK	0.6	571
25	BET	0.6	569
25	HALL	0.6	517
25	LMN	0.6	482
32	APL	0.5	515
32	BRAV	0.5	490
32	EN	0.5	462
32	VH1	0.5	448
32	OXYG	0.5	389
32	NGC	0.5	332
38	HLN	0.4	447
38	ESP2	0.4	379
38	TRAV	0.4	345
38	ID	0.4	237
42	CMT	0.3	264
42	TWC	0.3	264
42	SOAP	0.3	260
42	WGNA	0.3	244
42	GSN	0.3	235

*Nielsen data supplied by ABC/Disney

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