

CableFAX Daily™

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What the Industry Reads First

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Tough Choices: Small Ops Lament Rising Content Costs

Only a day after **WOW!** chmn/CEO *Colleen Abdoulah* made the case to Congress about escalating programming costs, the **Indy Show** closed with a panel that included chilling stats on how much the issue has hit home for small operators. "Something's got to change or else the whole model's going to fail," said **Comporium** dir, video content *Karl Skroban*, who said his content costs have been rising at 10.8% per year—well beyond what he could realistically pass on to customers. He joked that right after "Unicorn" in the dictionary comes another mythical thing that doesn't exist: "Video Margin," which in Comporium's case has been decreasing by 2% per year. "Something's got to give," he said. **Cable One** vp, strategic marketing *Jerry McKenna* said retrans fees alone will account for 9% of his programming costs in '12, but he said retrans is just the battle; the war is overall rising license fees. The issue, however, is that many cable nets have developed strong brands and immense viewer loyalty. "That makes it difficult for us to drop a network," he said. "And there are limited substitutes. Is there a substitute for **ESPN**? No. We have to take it." But he noted "a change in the air" marked by recent programming disputes "that normally we wouldn't have seen in the past," including the **DirectTV-Viacom**, **DISH-AMC Nets** and **Time Warner Cable-Hearst** fights. For small ops, the erosion to the bottom line is starting to reach critical mass, said *Rachelle Powell*, product manager, cable television at San Antonio-area op **GVTC**. "We have a digital tier that loses money every month," she said. But she also urged small ops to push back and be creative in finding places to save money, noting that she was able to cut \$150K in annual costs by utilizing NCTC rates (40%), moving channels (12%), being tougher in negotiations (23%) and dropping channels (24%). "Every single contract that comes up, we have tough conversations about whether to continue carrying that channel," she said. *Sandy Hendrick*, marketing supervisor at SC-based **Horry Telephone Cooperative**, suggested treating the network lineup like players on a football team. "Maybe we start cutting them," he said, noting that he now tracks set-top data to find out which nets are actually performing well in his specific market and not paying as much attention to how they rate nationally. As for bundling, "just because your cousin wants to play, doesn't mean I'm not going to put you on my team." In the end, he said it might come down to more of a take-it-or-leave-it attitude. "Maybe we look at it from a profit standpoint and say 'this is all I can afford to pay,'" he said.

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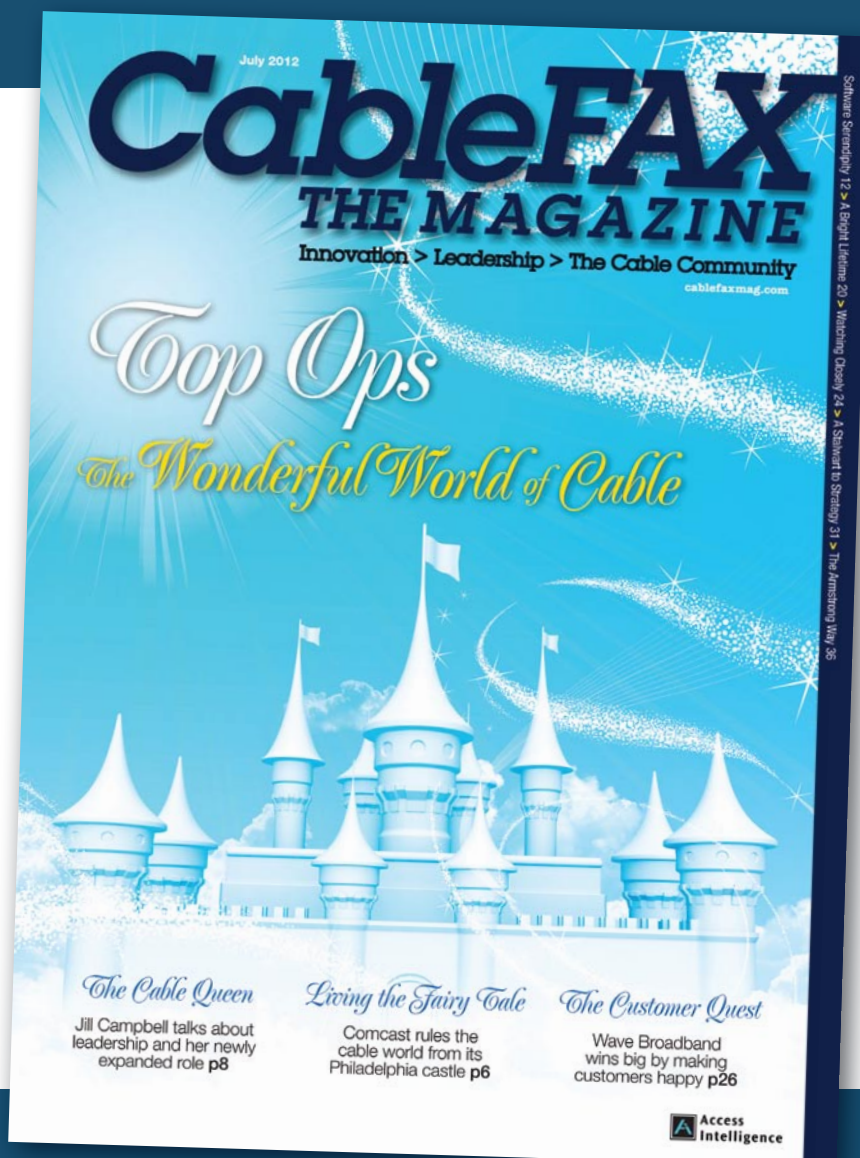
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-- **ACA** pres/CEO *Matt Polka*, who had been in DC for the big Sen Commerce hearing on Tues, was in Orlando Wed morning to give the skinny to members, singing the praises of Abdoulah and showing a video clip of her testimony to applause. "She was wearing white and she was in the middle, and everyone else was wearing black," he noted. Polka predicted more hearings in the fall, including a likely hearing tackling sports costs, before the much anticipated Telecom Act rewrite begins in '13 (after the election, of course). "We need to stay focused," he said. "We need to stay committed... to our grassroots efforts." Polka noted that the '12 Indy Show drew approx 1300 attendees, a new record (total includes families, press, association attendees, etc). The show floor was pretty packed with 511 exhibitors.

Netflix Doings: Looks like a **Netflix/HBO** partnership isn't likely, at least not in the near-term. Despite Netflix' olive branch, HBO quickly nixed the idea. "While we compete for content and viewing time with HBO, it is also possible we will find opportunities to work together—just as we do with other networks," Netflix said in a letter to shareholders Tues. "Consumers who are passionate about movies and TV shows are quite willing to subscribe to multiple services." HBO said it isn't in discussions with Netflix and has no plans to work with the company. Also on Tues, Netflix posted a 91% year-over-year drop in 2Q income. However, the profit was a positive turn for the streaming provider, which started the year with a loss. For the quarter, Netflix picked up 530K US streaming video subs, giving it about 27.6mln subs total. The London Olympics coverage might negatively impact on Netflix viewing and sign-ups. As a result, it expects 3Q domestic net adds to be between 1mln and 1.8mln. Though 3Q is expected to be profitable, Q4 might see a loss with the launch of a 4th international market.

Crypto: The 6 largest cable ops laid 2 options on the table to allow access to the basic service tier encrypted systems, according to an **FCC** filing by **NCTA**. The FCC proposed changes last year that would allow basic tier encryption, which NTCA backs. According to NCTA, encryption shall be allowed if cable can provide an adapter, set-top box, or other equipment with home networking capability, or an encryption solution that allows access of the basic service tier without the need for an op-supplied set-top, DTA or Cable Card. Companies like **Boxee**, which has argued its Internet set-tops relied on unencrypted programming, recently made nice with NCTA member **Comcast**, agreeing on a method for showing encrypted content on its devices.

Wireless WiFi: In a move that could help **Comcast** market its Xfinity Internet to non-subs, the ISP is opening up access to WiFi hotspots in NJ, DE, and Philadelphia area throughout the London Olympics, which kick off Fri and run through Aug 12. Whether you are an Xfinity sub or not, simply look for "xfinitywifi" on wireless device and follow the prompts to start your free WiFi session.

At the Portal: Nearly 400K residents and small business owners in 37 states will gain access to broadband within 3 years thanks to the 1st phase of the Connect America Fund, the **FCC** said. Some \$115mln public funding will be coupled with private investment to expand broadband to rural communities, with many projects starting immediately. All projects must be completed within 3 years.

Programming: "Gossip Girl" is back in style, or on **Style**. Style Media picked up off-net rights to the young-adult series from **Warner Bros** and will start airing it Aug 15 at 8pm. Separately, the net announced it renewed "Big Rich Texas" for a 3rd season while expanding the franchise to include new series "Big Rich Georgia." Additionally, the net's new series "Betsey + Lulu," featuring fashion icon *Betsey Johnson* and her daughter *Lulu*, will start filming in Aug and premiere early '13. New episodes "Giuliana & Bill" and "Tia & Tamera" will premiere in Oct. -- **Lifetime** booked drama pilot "Cinnamon Girl," the story of 4 girls coming of age in the L.A. music and movie scene of the late '60s/early '70s. The impetus for the pilot, produced by actress *Renee Zellweger*, was Zellweger's journey from small-town Texas to Hollywood stardom. -- **MTV** picked up a 3rd season of scripted comedy series "Awkward" which features 20 episodes.

London Olympics: **NBCUniversal** has sold \$1bln of national TV and digital ads for its London Olympics coverage, the most ever for the Olympic Games and about \$150mln more than the total for the '08 Beijing Olympics coverage. The figure includes ad sales across platforms, including TV, online, tablets and other wireless devices, specialty channels and 3D channel.

Contract Talk: **Comedy Central** is eager to keep its late-night duo *Jon Stewart* and *Stephen Colbert*. The net has negotiated 2-year contract extensions with the hosts, which will keep Stewart at the helm of "The Daily Show with Jon



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Stewart” through mid-’15 and take Colbert through the end of ’14 as host of “The Colbert Report.”

Ratings: July has been smoking hot, especially for **Food Network**. The net ranked 7th among all ad-supported cable nets during the period and posted a 0.6 rating among 25-54s (up from 6% in ’11). Among the shows, “Food Network Star” was watched by over 31mln since the May premiere while “Restaurant: Impossible” season 4 averaged a 1.0 rating within its Wed 10pm timeslot, up more than 50% from same time last July.

People: *Peter Liguori*, entertainment industry vet who was most recently **Discovery Communications COO**, joined **Carlyle Group** in a consulting role as an operating exec for the telecom and media team in NY.

On the Circuit: **AMC Networks** CEO *Josh Sapan* will be one of the 2 honorees at the **Paley Center’s** annual L.A. Benefit Oct 22. He will receive the Paley Prize for Innovation and Excellence for providing content to global TV and film audiences that has impacted cultural conversation and resulted in successful brands like **IFC, AMC, Sundance Channel, WE tv** and **IFC Films**.

Business/Finance: **Comcast** declared a quarterly dividend of \$0.1625 a share on common stock. The dividend is payable on Oct 24 to shareholders of record as of COB Oct 3.

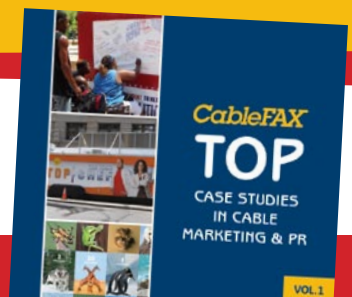
CableFAX Daily Stockwatch

Company	07/25 Close	1-Day Ch	Company	07/25 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	47.53	0.59	CONVERGYS:	14.47	0.05
DISH:	29.16	0.56	CSG SYSTEMS:	17.15	UNCH
DISNEY:	48.30	0.14	ECHOSTAR:	27.10	0.57
GE:	20.00	0.03	GOOGLE:	607.99	0.42
NEWS CORP:	22.27	0.33	HARMONIC:	3.97	0.20
MSOS					
CABLEVISION:	14.70	0.18	INTEL:	25.13	0.12
CHARTER:	74.20	1.28	JDSU:	9.16	0.23
COMCAST:	31.36	(0.04)	LEVEL 3:	18.44	(1.98)
COMCAST SPCL:	30.90	(0.07)	MICROSOFT:	28.83	(0.32)
GCI:	8.96	0.06	RENTRAK:	17.82	0.24
LIBERTY GLOBAL:	51.43	(0.26)	SEACHANGE:	7.24	0.17
LIBERTY INT:	18.25	(0.15)	SONY:	11.26	(0.39)
SHAW COMM:	19.31	0.35	SPRINT NEXTEL:	3.37	(0.08)
TIME WARNER CABLE:	83.30	(0.06)	TIVO:	8.16	(0.1)
VIRGIN MEDIA:	25.90	(0.08)	UNIVERSAL ELEC:	12.75	(0.03)
WASH POST:	344.25	0.41	VONAGE:	1.71	(0.06)
PROGRAMMING					
AMC NETWORKS:	43.56	0.49	YAHOO:	15.50	0.07
CBS:	31.11	0.21	TELCOS		
CROWN:	1.71	UNCH	AT&T:	35.33	0.70
DISCOVERY:	49.39	0.29	VERIZON:	43.72	(0.05)
GRUPO TELEVISIA:	22.01	0.10	MARKET INDICES		
HSN:	41.90	UNCH	DOW:	12676.05	58.73
INTERACTIVE CORP:	51.18	2.88	NASDAQ:	2854.24	(8.75)
LIONSGATE:	13.83	0.08	S&P 500:	1337.89	(0.42)
LODGENET:	0.78	(0.15)			
NEW FRONTIER:	1.56	UNCH			
OUTDOOR:	7.00	UNCH			
SCRIPPS INT:	53.02	0.11			
TIME WARNER:	38.55	0.67			
VALUEVISION:	1.99	0.08			
VIACOM:	47.98	0.25			
WWE:	7.66	0.03			
TECHNOLOGY					
ALCATEL LUCENT:	1.06	(0.03)			
AMDOCS:	28.74	(0.3)			
AMPHENOL:	58.66	0.96			
AOL:	29.48	1.99			
APPLE:	574.97	(25.95)			
ARRIS GROUP:	13.17	0.23			
AVID TECH:	7.29	0.29			
BLNDER TONGUE:	0.97	(0.03)			
BROADCOM:	32.98	2.21			
CISCO:	15.42	0.30			
CLEARWIRE:	0.90	(0.02)			
CONCURRENT:	4.22	0.02			

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