

CableFAX Daily™

Thursday — July 29, 2010

What the Industry Reads First

Volume 21 / No. 145

That's Good, But...: Comcast's Operations Still Overshadowed

A consensus opinion can reasonably be tied to **Comcast's** 2Q results and operations, with several analysts agreeing that the MSO continues to: excel financially through growth in virtually every metric; crush the telcos in broadband adds even if its 2Q total (118K) was light relative to expectations and recent Qs; smartly counterbalance basic losses (-265K) with digital momentum (+394K) through a focus on high-end customers; and enjoy a bright future due to ramping rollouts of all-digital and DOCSIS 3.0. Indeed, investors responded favorably to the results Wed on down day, and chmn/CEO *Brian Roberts* said the MSO's "striking a good balance between revenue, cash flow and customer growth." Even so, there's still no such consensus of opinion concerning the ultimate effects Comcast may face from its biggest unknowns: potential broadband reclassification and the **NBCU** jv with **GE** that's dogged by questions of possible conditions for closure and the breadth of true synergies. On the regulatory front, Roberts is "pleased with the constructive dialogue between the FCC and a number of stakeholders" and remains heartened that "it seems like the extreme scenarios are off the table." **Sanford Bernstein's** *Craig Moffett*, however, believes Comcast's broadband success vis a vis **Verizon** and **AT&T** "will make the political will for regulation only more resolute," and thus foresees reclassification as the outcome. And that, he said, "would create—almost by definition—an asymmetry; unlimited downside risk, but starkly capped upside." As Moffett has Comcast tagged with a 'market perform' rating, **S&P** cited both the "lingering regulatory overhang on broadband Internet, and questionable synergies for NBCU deal" in maintaining its 'strong sell' opinion on Comcast shares—even while finding the MSO's 2Q performance favorable. Comcast COO *Steve Burke*, who has been waist-deep in the NBCU deal for months, continues to grow more enthusiastic with each passing presentation. Synergistic opportunities keep cropping up, said Burke, adding that "advertising's got to be... the biggest headline." As Comcast's cable and programming ad rev jumped a respective 23% and 21% in 2Q, "the turnaround in the advertising business has been dramatic," said Burke. The MSO already pulls in approx \$2.5bln in annual ad rev, he said, but once NBCU joins the fold that number should balloon to approx \$10bln. Burke also likes "the very attractive rates" the deal parties have received in its debt funding. But \$59mln in 2Q costs related to NBCU hurt Comcast's bottom line, and as \$88mln total has been sunk since Jan, the deal's closing date looms large. Execs still see closure before '11, but **Wells Fargo Securities' Marci Ryvicker** continues to



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CABLEFAX DAILY (ISSN 1069-6644) is published daily by Access Intelligence, LLC ● www.cablefaxdaily.com ● fax: 301.738.8453 ● Editor-in-Chief: Amy Maclean, 301.354.1760, amaclean@accessintel.com ● Exec Editor: Michael Grebb, 301.354.1790, mgrebb@accessintel.com ● Assoc Editor: Chad Heiges, 301.354.1828, cheiges@accessintel.com ● Asst VP, Ed Director: Seth Arenstein, 301/354-1782, sarenstein@accessintel.com ● Publisher: Debbie Vodenos, 301.354-1695, dvodenos@accessintel.com ● Assoc Publisher: Amy Abbey, 301.354.1629, aabbey@accessintel.com ● Marketing Dir: Carol Brault, 301.354.1763, cbrault@accessintel.com ● Prod: Joann Fato, 301.354.1681, cdaily@accessintel.com ● Diane Schwartz/VP and Group Publisher ● Subs/Client Services: 301.354.2101, fax 301.309.3847 ● Group Subs: Carol Brault, 301.354.1763, cbrault@accessintel.com

believe that a year-end close is optimistic. Ryvicker remains long on Comcast shares.

Mr ABC: All eyes are on **ABC Family** head *Paul Lee*, who is expected to head up **ABC** programming following **ABC Ent** chief *Steve McPherson's* resignation Tues. Lee has developed a strong reputation at Family, where he has introduced several popular originals like "Huge" and "Secret Life of an American Teenager." Given the momentum of ABC Fam, there is a lot of interest in who might get that gig. Possible candidates include ABC Fam programming chief *Kate Juergens* and **SOAPNet's** *Brian Frons*.

TWC-DIS: **Time Warner Cable** sent its 1st direct message on **Disney-ESPN** to subs, sending customers an email Tues night about its contract negotiations with the programmer. The missive said the 2 are in the middle of contract negotiations and Disney is "demanding a huge increase" in fees. It also warned against switching providers, saying they will eventually face the same demands for fee increases from Disney or another big network. "In today's economy, consumers need to stand up and speak out," the email said, directing subs to RollOverorGetTough.com. "Don't let Disney drive up the price of cable television."

At the Portals: **Comcast** planned to file comments Wed saying it was OK with a request by **ACA** and others for a 2-week extension to the **FCC** filing deadline for comments on Comcast and **NBCU's** 599-page filing defending their transaction. The MSO expects the 180-day transaction review clock to continue ticking though.

Deals: **Miller Tabak** reiterated its "buy" rating on **Knology** shares following reports that it's close to winning KS-based **Sunflower Broadband**. *McNews* 1st reported the news, putting the price at 8-8.5 times OCF (\$120mIn-\$127.5mIn). "We think Sunflower could be a rational acquisition for KNOL as it would be within the market demographic characteristics known to be KNOL's strategy," Miller Tabak told clients. "Sunflower is not in an 'NFL town,' which insulates the business model from incremental competition from the telcos that have been taking some cable video and internet share in recent years, thereby supporting margins for the intermediate term." Knology shares closed down 3% Wed.

Indy Show Notebook: **ACA** bestowed its Eagle Award, which goes to a member with 15 years of cable service whose achievements have benefited the industry, to **Shen-Heights** CEO *Martin Brophy*. **Bevcomm** asst gen counsel *Jim Beattie* received the Lyn Simpson Grassroots Spirit Award. Other honorees: Dave Baum, formerly of **Jet-Broadband** (ACA Board Service Award), **WOW!'s** *Colleen Abdoulah* (ACA PAC Individual Leadership Award) and **Buckeye** (ACA PAC Leadership Award). -- At the show, **Motorola** announced its switched digital video portfolio will now be available to small ops via a hosted solution operated from Moto's Secure Operations Center in San Diego. -- Despite talk of cable customers "cutting the cord," *Stewart Schley*, **One Touch Intelligence's** senior dir, industry

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intel, on Wed told Independent Show attendees that “the number of people who actually would cut cable service in favor of Internet video is less than 4 percent.” He also predicted that most now offering free online video will follow **Hulu**’s lead and start to charge for content within the next 2 years. However, he noted threats from the likes of the iPad, with 3mln of the devices sold to date and so many TV-oriented apps available. “At some point, cablecos need to learn to deal with these new devices,” Schley said, suggesting ops sell TV-oriented consumer electronic gear in retail establishments. “Why should **Google** be the cool entity with the new box in the house that gets all the glory,” he said. “You can make this kind of functionality available. Sell this stuff. You already have the customer.” -- Meanwhile, **ACA** and **NCTC** again graciously allowed our sister pub **CableFAX: The Magazine** time during its Independent Show dinner to honor its Independent Operator of the Year, which this year was **NewWave**. Thanks to **NBCU** for sponsoring the dinner, whose décor was inspired by **Syfy** themes; and kudos to **MTVN** and **Comedy Central** for supplying comedian *Tommy Johnagin*, whose prepared and ad lib material was terrific.

3DTV: Turner Sports is joining with the **PGA** to feature 3D coverage of the **PGA Championship** through **PGA.com** and ops including **Comcast**, **Cox** and **DirectTV**. Slated for Aug 12 and 13, the coverage will focus on the 12th and 17th holes, both par-3s, and past tourney champion *Rich Beem* will help provide commentary and analysis. -- Beginning Fri, **History** will deliver its initial 3D broadcast on **DirectTV**’s **n3D** channel, the season 5 debut of “The Universe.” The DBS op’s **The 101 Network** will present a 2D version of the ep later that day. -- **WealthTV** and **CMT** joined with **Corkscrew Media** to record the 1st exclusive 3D concert of country artist *Doc Walker*.

Survey Says: The industry’s still talking about a survey of **NCTA** board members on cable’s various organizations and their programs (*Cfax*, 7/27). **WICT** pres *Maria Brennan* said her group was pleased and not surprised it fared well overall in the report. Its **Betsy Magness Leadership Institute** was the highest-rated program in the survey by the NCTA board’s Cable Industry Organization Review Committee. Like other groups, WICT said it will use the data from the committee as well as its own findings to evaluate offerings. WICT’s annual PAR report, which ranks participating companies on pay equity, advancement opportunities and resources, received a so-so ranking. The group had previously decided based on its own assessment to change PAR to a 24-month survey vs an annual survey to give companies more time to share best practices. “Based on the [NCTA board committee’s] report, we will continue to embark on ways to further streamline the PAR initiative,” Brennan said.

Comcast Notebook: **Comcast** COO *Steve Burke* remains bullish on the prospects for VOD, even if chief *Brian Roberts* admitted that **Netflix** has “done a nice job... they have a nice product.” As Roberts said Netflix particularly excels in providing customers with useful content search and recommendations—which he said current IPGs can’t match—Burke noted how day-and-date titles still offer tremendous upside for cable VOD. Approx half of the on demand movies Comcast now offers are day-and-date, he said, and “as that 50% gets closer to 100%... I think there’s a chance for a big jump.” Burke also said he hasn’t seen a shred of evidence suggesting that day-and-date windows cannibalize DVD sales, and that **Universal** will play a healthy role in the future of Comcast VOD.

On the Circuit: **ACC** announced the finalists Wed for its Beacon Awards honoring excellence in cable communications and public affairs. The winners will be announced during a Beacon lunch, Sept 16, NY. The awards lunch is the concluding event of ACC annual Forum conference. See the finalists at cablecommunicators.org.

In the States: **Charter** now offers **Epix** subs access to net programming on the Web through **Charter.net/epix**. -- **Cincinnati Bell** is deploying **Motorola**’s multi-room DVR to its subs.

People: **NBCU** upped *Jeff Fleeher* to svp/CFO, TV Networks Distribution & Digital Distribution Divisions -- **Crown**

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BUSINESS & FINANCE

evp, CFO *Brian Stewart* will resign from his post, effective Aug 20. He's the 2nd high profile **Hallmark Channel** exec to leave in recent months, with evp, affil sales *Janice Arouh* leaving at the end of Apr to join **Entertainment Studios**. -- **Discovery Comm** tapped *Bruce Campbell* as chief dev officer/gen counsel to replace the departing *Joe LaSala*, and *Lee Bartlett* as svp, global prod management, biz and legal affairs. -- *Diana Mogollon* was named gm, **mun2**. -- **Veria** tapped *Haroon Khan*, former finance dir for Sen *Christopher Dodd* (D-CT), as its adviser for public affairs, reporting to Veria CEO *Subroto Bhattacharya*.

Business/Finance: **Starz** is trying to raise \$1bln of off-balance-sheet financing for original programming, *The Hollywood Reporter* reported, citing unnamed sources. THR said the deal proposed would have partners create a new company that would license to Starz all domestic and some intl rights. -- **Wedbush** initiated **Time Warner** with a 'neutral' rating due in part to an unclear valuation versus peers. The firm said TWX trades inline versus peers on P/E and at a premium on EV/EBITDA. -- IP video solution provider **Envivio** secured \$15mln in a mezzanine investment from venture capital and banking sources. -- **Disney** agreed to purchase social game developer **Playdom** in a deal that could eventually total \$732mln.

CableFAX Daily Stockwatch

Company	07/28 Close	1-Day Ch	Company	07/28 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	37.67	0.25	ARRIS GROUP:	11.49	(0.43)
DISH:	20.11	(0.03)	AVID TECH:	12.97	(0.69)
DISNEY:	34.04	(0.24)	BIGBAND:	3.14	(0.08)
GE:	16.05	(0.13)	BLNDER TONGUE:	1.25	0.04
NEWS CORP:	14.69	(0.27)	BROADCOM:	37.47	(0.06)
MSOS					
CABLEVISION:	26.70	0.44	CISCO:	23.39	0.09
COMCAST:	19.56	0.23	CLEARWIRE:	7.15	0.05
COMCAST SPCL:	18.49	0.23	COMMSCOPE:	26.07	(0.3)
GCI:	8.45	(0.22)	CONCURRENT:	5.00	0.01
KNOLOGY:	11.56	(0.36)	CONVERGYS:	10.96	0.03
LIBERTY CAPITAL:	45.50	(1.1)	CSG SYSTEMS:	19.54	0.28
LIBERTY GLOBAL:	29.03	0.45	ECHOSTAR:	19.08	(0.69)
LIBERTY INT:	11.53	(0.15)	GOOGLE:	484.35	(8.28)
MEDIACOM:	7.14	(0.16)	HARMONIC:	6.17	(0.13)
RCN:	14.93	0.01	INTEL:	21.33	(0.25)
SHAW COMM:	19.42	(0.1)	JDSU:	10.80	(0.16)
TIME WARNER CABLE:	55.99	0.40	LEVEL 3:	1.12	0.02
VIRGIN MEDIA:	20.22	0.70	MICROSOFT:	25.95	(0.21)
WASH POST:	423.92	(6.85)	MOTOROLA:	7.68	(0.06)
PROGRAMMING					
CBS:	14.62	(0.26)	RENTRAK:	25.57	(0.19)
CROWN:	1.78	(0.02)	SEACHANGE:	8.76	(0.27)
DISCOVERY:	37.85	(0.13)	SONY:	29.56	(0.16)
GRUPO TELEVISIA:	18.84	0.02	SPRINT NEXTEL:	4.84	0.01
HSN:	28.79	(0.3)	THOMAS & BETTS:	40.28	0.03
INTERACTIVE CORP:	24.78	1.05	TIVO:	8.50	(0.43)
LIBERTY:	36.98	(0.19)	TOLLGRADE:	6.45	0.20
LIBERTY STARZ:	54.90	(0.2)	UNIVERSAL ELEC:	18.18	(0.3)
LIONSGATE:	6.79	(0.21)	VONAGE:	2.34	(0.04)
LODGENET:	4.09	(0.06)	YAHOO:	13.87	(0.08)
NEW FRONTIER:	1.57	0.00	TELCOS		
OUTDOOR:	5.89	(0.12)	AT&T:	26.20	0.05
PLAYBOY:	5.40	0.01	QWEST:	5.62	(0.02)
SCRIPPS INT:	42.06	(0.18)	VERIZON:	28.91	0.32
TIME WARNER:	31.27	(0.45)	MARKET INDICES		
VALUEVISION:	1.96	0.14	DOW:	10497.88	(39.81)
VIACOM:	37.07	(0.02)	NASDAQ:	2264.56	(23.69)
WWE:	16.15	0.09	TECHNOLOGY		
ADC:	12.69	(0.01)	ADDVANTAGE:	2.78	(0.07)
ALCATEL LUCENT:	2.69	(0.07)	ALCATEL LUCENT:	2.69	(0.07)
AMDOCS:	27.43	0.00	AMDOCS:	27.43	0.00
AMPHENOL:	44.88	(0.17)	AMPHENOL:	44.88	(0.17)
AOL:	20.93	(0.33)	AOL:	20.93	(0.33)
APPLE:	260.96	(3.12)	APPLE:	260.96	(3.12)

Most Powerful Women 2010 in Cable

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Who are cable's most powerful women executives?

Help us decide by nominating the executives you think should be included in our annual list of the Most Powerful Women in Cable. We will rank the top 50 most powerful women, and run a list of the second 50, in the November 2010 issue of CableFAX: The Magazine. Nominations are open to all cable operators, programmers, vendors and trade associations.

Nominations Due: **Friday August 13, 2010**
 Nominate Now at: www.cablefax.com/2010powerfulwomen

Questions: Jessica Clegg at jclegg@accessintel.com

Advertising Information:

Debbie Vodenos, Publisher, dvodenos@accessintel.com or 301.354.1695
 Amy Abbey, Associate Publisher, aabbey@accessintel.com or 301.354.1629

Publication Date: November 2010

Think about that for a minute...

599

That's the reported number of pages Comcast used to "respond" to all of the filings at the FCC taking issue with the proposed Comcast/NBCU merger. We're no longer killing trees, we're killing entire forests! The process is seriously out of whack and needs to be changed.

Step back a moment and look at the bigger picture of what the purpose is behind a "review" of a proposed merger by the FCC, or the Justice Department, before delving into the specific case. As I have said on this page



Steve Effros

on more than one occasion, I favor moving more toward a factual review of individual events to determine if corrective government actions are needed rather than the current FCC format of broad regulatory brush strokes.

The "net neutrality" battle is an excellent example of why. There really is little if any market failure that anyone

can point to, and the few instances of questionable actions or reactions have all been worked out very quickly and amicably for all involved. As an example, BitTorrent is working with Comcast to figure out better ways to deal with network congestion caused by P2P applications. That's the way it should work. An individually identified problem, open discussion of how to respond to conflicting needs, and solutions worked out. To the degree the government needs to get into the middle of that process at all, it is simply to assure "transparency." And even that has limits since the government's own "sunshine" laws have proved to have a negative impact on the ability of the government itself to operate well.

So if I favor case-by-case regulatory oversight, more on the design of the FTC than the FCC's broad-brush rule-making and preemptive assumptions regarding markets, technology, etc., why should I be upset by the current "case" approach to dealing with the Comcast merger?

Well, that gets back to the question of what it is they are supposed to be looking at. In mergers, it is, unfortunately, a two-fold question. First, is the merger a violation of the antitrust laws, which are designed to protect market functioning, and second, will it in some way harm "the public interest." That's the one that is so undefined it creates all sorts of mischief.

The antitrust laws have a long history and lots of precedent. Justice is looking at that question in this merger proposal, and the issues are pretty straight-forward as to whether the merger will create such a dislocation in any particular market that some form of corrective action is needed. The FCC, on the other hand, is looking, as it always does, at the "public interest."

Now let's remember that the Commission can't really define that term. It changes depending on the administration. Heck, even the definition of "broadband" changes. So judging the approval or disapproval of a merger (not policy issues) becomes part of a much larger, self-serving and uglier game of "what's in it for me." That's happening now in embarrassing excess. It should be stopped.

Everyone who can articulate any potential "harm" caused by a larger competitor is coming forward to decry the merger, but then suggest that it might be OK, if only.. take your pick... millions of dollars were spent on this, or contract guarantees were granted, or television stations were sold to specific groups, or certain programmers got preferences, and the list goes on. This is like government abetted extortion.

Strong word, yes. But take a look at what's going on, and you'll be hard pressed to find any other. This just isn't the way it should work.

Steve

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