

CableFAX Daily™

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What the Industry Reads First

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Q&A: Talking Cable Economics with Entertainment Studios' Byron Allen

Byron Allen is one of the most influential and outspoken content players in Hollywood, producing more than 30 syndicated shows through **Entertainment Studios**. He also owns 6 HD cable networks. **CableFAX** exec editor *Michael Grebb* recently sat down with Allen at his Culver City studios in Los Angeles to discuss cable economics, cord cutting and why Allen thinks content production costs must come down. And with channel drops and rising programming costs increasingly in the news over the last couple weeks, we thought what better time to hear from someone thinking outside the box on the issue? **When you look at over-the-top, is cable asleep at the wheel or reacting appropriately?** The traditional cable networks—they're not asleep at the wheel. They're going to continue to do what they've been doing, which is to push for higher sub fees. The cable operators—they are in a very bad position. The cable operators are paying way too much for content. The pricing is out of control, and they have to significantly reduce their programming costs—probably by as much as 80 or 90 percent. **That's pretty extreme. How do they do that?** Well, I can tell you this. Over time, it will shift to the Web where the cost is much lower. There are people out there who don't have cable at all, and they're very happy with Netflix at 8 bucks a month. They just reduced their cable bill by 90 percent. **Many ops say video sub losses mostly don't stem from cord cutting. Are you saying they're just in denial?** Listen. They sound very similar to the people who used to own record stores. They sound very similar to the people who used to own bookstores. I'd say that we've seen this before... I think that sometimes people in publicly traded entities have the incentive to paint a rosy picture so they can keep their jobs and collect their bonus checks until it's apparent that it's ugly... How does Netflix go from zero to 23 million subs in less than 5 years. How does that happen? I think it's interesting that it took them 5 years to accomplish something that it took Comcast to accomplish in 50. **It seems unlikely cable operators will go out of business, considering the infrastructure they've built.** I don't think they go out of business. I've never said that. I've just said that they are in trouble, and they need to significantly reduce their programming costs. Now the good news is that they only have to pay based on the per sub. So if the subs go away, they don't owe any money. But I just feel like they need to significantly reduce their programming costs so they can pass that savings on to the consumer to bring down the cost... Our number one mission is to bring that efficiency to the content cost and to bring that cost down so those cable and satellite operators



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can realize greater enterprise value. That is what we're here to do. We're here to provide them the content to increase their value. **So what's the takeaway here?** The distributors have made a huge mistake allowing too few companies to provide them content... My recommendation would be that you really need to foster competition, and you really need to turn to the independents. You need to support the independents rather than shutting the door to the independents... That's just smart business. Cable is in a great position to really re-invent itself as the go-to digital platform, but they're not going to capture that opportunity with the old traditional business model of continuing to overpay a few media companies that have consolidated large cable networks. **[Go to www.cablefax.com to read the full interview, including some interesting debate about Hollywood's cost structure].**

CNN News: This time, the breaking news comes from CNN's own top exec, worldwide president *Jim Walton*, who announced he's leaving at year-end after 30 years at the net. It's been a tough year, with 2Q ratings at a 21-year low. In a memo to staff, Walton said "CNN needs new thinking. That starts with a new leader who brings a different perspective, different experiences and a new plan, one who will build on our great foundation and will commit to seeing it through."

TWC-NFL: Former **Insight** subs could lose **NFL Network** and **NFL Red Zone** Tues night, when the net's contract expires with the MSO, which **Time Warner Cable** bought for \$3bln earlier this year. TWC has never carried NFL. Looks like talks aren't going well. NFL said "there are no current negotiations with Time Warner Cable, which remains the only TV provider among the top eight in the country which refuses to offer its customers NFL Network." A TWC rep, however, said the MSO has held discussions but still has no agreement. An NFL spokesman added that "we are not asking for new terms... we would extend the agreement as is for the next five years... same terms that Insight has been happy with for years..."

Earnings: Crown Media, which owns the **Hallmark Channels**, posted 2Q net income of \$13.47mln, slightly higher than the same period a year ago. Ad rev's a bright spot: It's up 15% year-over-year to \$66.5mln, helped by audience growth. **Hallmark Movie Channel** ad rev was up 40% year-over-year to \$11.5mln in the quarter. Meanwhile, **Hallmark Channel's** new daytime programming posted CPMs 80-100% above off-net daytime fare. Upfront negotiations have been positive, with Hallmark Channel getting 36% price increases, and Hallmark Movie Channel getting 34% increase, CEO *Bill Abbott* said during the earnings conf call Fri. Programming expenses fell 5% to \$34.5mln, and sub fee rev increased 10% year-over-year to \$19.9mln. Growth aside, Abbott does see signs of softness in the scatter market. "There's no question that the third quarter is softer than we would like," he said. For the full year, he still expects mid-to high single digit rev growth.

Google Channels: Bernstein analysts are skeptical of **Google's** fiber initiative in Kansas City (MO and KS). "Can Google make money after installation costs, set-to boxes, and a give-away Nexus 7? Will customers be interested in a \$300 upfront connection fee? And what happened to Google's revolutionary low-cost broadband and access-only business model?" they asked. That last question relates to Google's attempts to sign carriage deals with programmers for an IPTV service. But with many majors still missing in the channel lineup, Bernstein said "doubtful Google will be able to attract core TV viewers and get them to switch from traditional cable."

Programming: AMC's "The Killing" won't be back for a 3rd season. The critically acclaimed series debuted in April '11.

In the Courts: The DC Circuit denied **NAB's** petition to block the **FCC's** online political file rules, which requires stations to post online political documents, including ad prices. "Petitioner has not satisfied the stringent requirements for a stay pending court review," the court said. NAB claimed the rules, taking effect Aug 2, will place NAB members "at a distinct disadvantage to their non-broadcast competitors, who will not be required to post rate information on the Internet."

Paul Lee at TCA: ABC Ent pres *Paul Lee*, who we'll always consider a cable guy for his work at **ABC Family** and **BBC America**, on Fri told critics that retrans fees have become vital to the bcst net's efforts to fund new content production. "[With retrans], you really have the opportunity to get more revenue streams," he said during a press scrum after the exec session where he veered into the creative process, singing the praises of serialized shows vs self-contained eps. "[Serialized shows] tend to get higher CPMs because it's appointment television," he said, noting that such shows use a "different model" that can sell better in foreign markets. And he doesn't apologize for ABC's tendency toward soapy dramas either, noting the success of hit "Revenge," which he said "has really made soaps cool again."

People: DirecTV named *Fazal Merchant* as svp/treasurer. He's formerly managing director of the **Royal Bank of Scotland**, svp/treasure. -- **Fox Networks** Group hired *Phillip Woodie* as vp, **MundoFox** national spot sales.

CableFAX Week in Review

Company	Ticker	7/27 Close	1-Week % Chg	YTD %Chg
BROADCASTERS/DBS/MMDS				
DIRECTV:	DTV	49.48	2.38%	15.72%
DISH:	DISH	31.00	5.12%	8.85%
DISNEY:	DIS	50.04	2.98%	33.44%
GE:	GE	20.95	5.41%	16.95%
NEWS CORP:	NWS	23.53	5.85%	29.43%
MSOS				
CABLEVISION:	CVC	15.11	3.71%	6.26%
CHARTER:	CHTR	76.31	2.61%	34.02%
COMCAST:	CMCSA	32.32	0.44%	36.31%
COMCAST SPCL:	CMCSK	31.75	0.05%	34.74%
GCI:	GNCMA	9.60	(0.31%)	(1.94%)
LIBERTY GLOBAL:	LBTYA	52.15	(0.17%)	27.10%
LIBERTY INT:	LINTA	18.96	3.21%	16.89%
SHAW COMM:	SJR	19.78	2.91%	2.12%
TIME WARNER CABLE:	TWC	84.51	(0.34%)	32.94%
VIRGIN MEDIA:	VMED	27.39	9.08%	28.11%
WASH POST:	WPO	345.08	(4.55%)	(8.42%)

Company	Ticker	7/27 Close	1-Week % Chg	YTD %Chg
PROGRAMMING				
AMC NETWORKS:	AMCX	43.05	(0.51%)	14.56%
CBS:	CBS	33.65	6.86%	23.99%
CROWN:	CRWN	1.89	25.17%	56.20%
DISCOVERY:	DISCA	52.09	3.93%	27.14%
GRUPO TELEVISA:	TV	23.27	3.77%	10.52%
HSN:	HSNI	43.10	1.94%	18.86%
INTERACTIVE CORP:	IACI	54.03	11.26%	26.83%
LIONSGATE:	LGF	14.16	1.36%	70.19%
LODGENET:	LNET	0.71	(19.32%)	(70.29%)
NEW FRONTIER:	NOOF	1.56	(1.89%)	51.46%
OUTDOOR:	OUTD	7.29	1.53%	(2.28%)
SCRIPPS INT:	SNI	54.91	1.99%	29.44%
TIME WARNER:	TWX	39.07	0.54%	8.11%
VALUEVISION:	VVTV	1.98	(9.17%)	5.32%
VIACOM:	VIA	49.47	1.17%	(7.24%)
WWE:	WWE	7.90	1.94%	(15.24%)

Company	Ticker	7/27 Close	1-Week % Chg	YTD %Chg
TECHNOLOGY				
ALCATEL LUCENT:	ALU	1.02	(10.53%)	(34.62%)
AMDOCS:	DOX	29.58	(0.37%)	3.68%
AMPHENOL:	APH	59.98	3.09%	32.14%
AOL:	AOL	31.54	13.41%	108.87%
APPLE:	AAPL	584.81	(3.23%)	44.40%
ARRIS GROUP:	ARRS	12.88	(5.47%)	18.99%
AVID TECH:	AVID	7.89	2.47%	(7.5%)
BLNDER TONGUE:	BDR	0.91	(11.54%)	(25.32%)
BROADCOM:	BRCM	33.76	6.77%	14.99%
CISCO:	CSCO	15.71	(3.97%)	(13.11%)
CLEARWIRE:	CLWR	1.09	6.86%	(43.81%)
CONCURRENT:	CCUR	4.33	3.59%	14.25%
CONVERGYS:	CVG	15.09	2.86%	18.17%
CSG SYSTEMS:	CSGS	17.73	0.97%	20.53%
ECHOSTAR:	SATS	28.72	10.55%	37.15%
GOOGLE:	GOOG	634.69	3.91%	(1.74%)
HARMONIC:	HLIT	4.26	6.23%	(15.48%)
INTEL:	INTC	26.02	1.96%	7.30%
JDSU:	JDSU	9.99	7.42%	(4.31%)

Company	Ticker	7/27 Close	1-Week % Chg	YTD %Chg
LEVEL 3:	LVL	18.75	(9.94%)	10.36%
MICROSOFT:	MSFT	29.81	(1%)	14.83%
RENTRAK:	RENT	18.47	(2.94%)	29.34%
SEACHANGE:	SEAC	7.45	(2.74%)	5.97%
SONY:	SNE	12.39	2.57%	(31.32%)
SPRINT NEXTEL:	S	4.33	32.67%	84.83%
TIVO:	TIVO	8.35	0.72%	(6.91%)
UNIVERSAL ELEC:	UEIC	13.00	(0.84%)	(22.94%)
VONAGE:	VG	1.65	(13.16%)	(32.65%)
YAHOO:	YHOO	16.15	2.35%	0.13%

Company	Ticker	7/27 Close	1-Week % Chg	YTD %Chg
TELCOS				
AT&T:	T	37.22	5.47%	23.08%
VERIZON:	VZ	44.89	0.90%	11.89%

Company	Ticker	7/27 Close	1-Week % Chg	YTD %Chg
MARKET INDICES				
NASDAQ:	IXIC	2958.09	1.12%	13.55%
S&P 500:	GSPC	1385.97	1.71%	10.21%

WINNERS & LOSERS

THIS WEEK'S STOCK PRICE WINNERS

COMPANY	CLOSE	1-WK CH
1. SPRINT NEXTEL:	4.33	32.67%
2. CROWN:	1.89	25.17%
3. AOL:	31.54	13.41%
4. INTERACTIVE CORP:	54.03	11.26%
5. ECHOSTAR:	28.72	10.55%

THIS WEEK'S STOCK PRICE LOSERS

COMPANY	CLOSE	1-WK CH
1. BIGBAND:	0.00	(100%)
2. LIBERTY STARZ:	0.00	(100%)
3. MOTOROLA MOBILITY:		0.00 (100%)
4. THOMAS & BETTS:	0.00	(100%)

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