URGENT! PLEASE DELIVER TO: www.cablefax.com, Published by Access Intelligence, LLC, Tel: 301-354-2101

4 Pages Today

CableFAX Daily™

Thursday — August 2, 2007 What the Industry Reads First Volume 18 / No. 149

New Bundle: TW Cable Creating Low-End Offering for Consumers

Time Warner Cable suffered the same fate **Comcast** did last week: basic sub losses and lagging DSL numbers disappointed Wall St, sending shares down 3.8% to $36.78 at close. Execs said typical seasonality, as well as the slumping housing market and overall competition, influenced 2Q results. Time Warner lost 57K basic subs (38K in acquired systems, and more alarmingly, 19K in legacy systems). "This is frankly a little disappointing," said evp, CFO *John Martin*. He noted that it has been some time since the MSO lost subs in those legacy systems, reminding investors that TW's legacy systems have seen sub gains in 8 of the last 10 quarters. The MSO's strategy going forward is to create bundles that appeal to more price sensitive consumers. To that end, it's introducing a local-only VoIP option, as well as an in-state only calling plan. It's also creating 4 standard tiers of HSD service across all divisions—Lite (768kbps downstream), Basic (1.5mbps), Standard (7-10mbps) and Turbo (10mbps or faster). COO *Landel Hobbs* declined to give a price point on the lower-end bundles but said the key would be to upsell subs on the original offer. He added that existing subs' migration to the Turbo service has been strong enough to help mitigate the customers taking Lite or Basic HSD service. The local-only calling plan, aimed at the 15% of customers who don't make long-distance calls, has already rolled out in a few divisions, and TW has launched its unlimited in-state calling available to 2/3 of its divisions. TW Cable beat analyst expectations for profit and revenue. Net profit for the Q fell to $272mln from $292mln a year earlier, while revenue jumped to $4.01bln from $2.52bln, helped by last year's **Adelphia**/**Comcast** acquisitions. The MSO added 188K HSD subs and 184K digital. Digital phone adds totaled 241K, making it the Q's fastest growing service. **Sanford Bernstein**'s *Craig Moffett* called the results "somewhat disappointing" but reiterated his view that TW Cable is markedly undervalued. ***Also Notable***: TW acknowledged that it's bidding on **Insight**, saying it was using discipline to evaluate the opportunity. It offered no further details. The MSO also said that **Sprint** has pulled out of **SpectrumCo**, the jv it created with cable to purchase spectrum in the **FCC**'s AWS auction last year. Sprint owned a 5% interest in the jv. The dissolution of the deal has no implications on the **Pivot** wireless jv with Sprint, CEO *Glenn Britt* said. Sprint called the action "long-planned" and said it "does not reflect a change in strategy or focus for Sprint Nextel or its cable partners."

Enhanced TV: **Time Warner Cable** CEO *Glenn Britt* said the MSO is working on launching the "next evolution of VOD." Dubbed "Enhanced TV," it gives viewers time-shifting flexibility without the DVR (recall **Time Warner** pres/COO *Jeff Bewkes*' remarks at **CTAM Summit** last week). Enhanced TV features Start Over, Quick Clips, Look Back (allows customers to replay a program over a 24-hour window) and Catch Up (allows you to view episodes of a series that you missed). TW will begin trialing Look Back later this year, and Britt said Catch Up is "coming soon." About half of TW's divisions will have Start Over and Quick Clips by year-end. Key is that customers would be unable to forward through advertising.

Retrans: **NCTA** says a retrans paper commissioned by **CBS**, **NBCU**, **Disney** and **Fox** misses the point. The paper, writ-

CABLEFAX DAILY (ISSN 1069-6644) is published daily by Access Intelligence, LLC ● www.cablefax.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 ● Associate Publisher: Amy Abbey, 301/354-1783, aabbey@accessintel.com ●Marketer: Doreen Price,301/354-1793,dprice@accessintel.com ● Marketing Director: Carol Bray, 301/354-1763, cbray@accessintel.com ● Prod: Joann Fato, cdaily@accessintel.com ● Diane Schwartz/VP and Group Publisher ● Online Publisher, Alison Johns, 212/621.4642 ●Paul Maxwell/Columnist. Subs/Client Services: 301/354-2101, fax 301/309-3847 ● Group Subs : Angela Gardner, 757/531-1369, cfaxgroupsub@accessintel.com

ten by *David Leach*, an independent consultant who previously headed Rep *John Dingell*'s (D-MI) telecom staff, concluded that retrans costs aren't driving up cable rates *(**Cfax**, 7/19)*. The paper was in response to a previous **FCC** filing by the **Coalition for Retransmission Consent Reform**. NCTA told the FCC this week that the Coalition was rightfully noting that the FCC needs to consider the costs associated with *all* program services carried by the Big 4 broadcasters (ie, expanded basic cable net)—not just retrans consent broadcast stations. It says Leach focused on minimizing retrans costs to those attributable to broadcast carriage only. Leach estimated that **Comcast**, **Time Warner Cable**, **Charter** and **Cablevision**'s monthly retrans costs are 85 cents—a figure with which NCTA quibbles. -- **Sinclair** estimates that '07 revenue from retrans consent agreements will total $60.5mln, up 138% over last year's $25.4mln. It projects the number will grow to about $66mln next year based on what's currently under contract (that estimate doesn't include the 10% of subs in markets for which there are no longer-term retrans pacts in place). The broadcaster has completed multi-year retrans agreements with video providers covering approx 90% of the subs in its markets. Sinclair saw a significant drop in 2Q profit, with net income totaling $2.2 mln vs $10.3mln a year ago. Weakness at My NetworkTV is partially to blame.

Competition: **Qwest** reported an 11% increase in combined data, Internet and video revenue to $1.25bln for 2Q, and bundle penetration of 60%, compared to 54% a year ago. The telco added 100K broadband subs and 66K net **DirecTV** subs, bringing to 572K the total number of video customers. -- **AT&T** said it will invest $350mln in NC and $250mln in SC to upgrade its network and ultimately offer **U-verse TV**.

Earnings: **Time Warner**'s 2Q net profit rose 5.2% to nearly $1.1bln, while revenue climbed 6% to $11bln. After completing a $20bln share repurchase program in 2Q, the media conglomerate announced a $5bln stock buyback. Time Warner also said it's on track to meet its full year business outlook for adjusted OIBDA growth, free cash flow generation and earnings per share. -- Growth at **ESPN** and the domestic **ABC/Disney** cable nets helped **Disney**'s cable segment deliver a 4% increase in 2Q rev to $2.31bln and a 9% rise in operating income to $1.06bln. Higher affil rev from contractual rate hikes and sub growth powered ESPN, while higher affil and ad rev paced the ABC/Disney nets. But **Pali**'s *Richard Greenfield* and *Mark Smaldon* says ESPN's license fee increases have slowed on an annual basis, thus "increasing ESPN's reliance on advertising growth to sustain profit growth."

Research: Cable has plenty of room to work the bundle, researcher *Howard Horowitz* of **Horowitz & Assoc** told an Independent Show audience, noting the low-teens digital cable box penetration relative to TVs, as well as the low take rates on free VOD and HDTV. But in a focus group study of OH-based **Buckeye Cable**, 60% of some Buckeye customers surveyed couldn't answer a question about the advantages of digital over basic and 65% hadn't a clue about various Internet speeds. But 30% praised the price advantage of cable voice, and 46% said they would find VOD valuable.

Cork Popped: It's celebration time for *Rupert Murdoch*, who finally received approval early Wed to acquire **Dow Jones** for $5.6bln. DJ shareholders must still approve the deal, but that should be a formality. Of course, **FCC** cmsr *Michael Copps* said in a Wed statement "not so fast!" to widespread published opinion that the government won't interfere. "I hope noboby views this as a slam dunk," he said, calling for a careful deal analysis to ensure it's in the public interest. One challenge for Murdoch: establishing synergies with the forthcoming **Fox Business Network** (Oct 15).

Ratings: **Travel Channel** delivered this week its highest-rated Mon prime since early '01, helped by series-best rat-

BUSINESS & FINANCE

ings for both "Anthony Bourdain: No Reservations" and "Bizarre Foods with Andrew Zimmern."

Programming: Among **AMC**'s new development deals are "The Things They Carried," a Vietnam War-themed miniseries based on the novel by *Tim O'Brien*, and "Cutman," a dramatic serial about pugilism based on short stories by *F.X. Toole*. -- **HDNet** picked up from the **BBC** the HD rights to the 1st 26 eps of sci-fi drama "Torchwood" (Sept 17). -- **TNT** picked up a 4th season of its cable-topping drama "The Closer."

Marketing: **Animal Planet** is surrounding the 2nd season of its Emmy-nominated series "Meerkat Manor" (Aug 10, 8:30pm) with its largest multi-platform marketing campaign ever. Included are national ad placements on spot broadcast and cable TV; print ads in *People* magazine, *Entertainment Weekly* and others; the net's 1st mobile marketing campaign, and in-theater ads at 1.1K nationwide locations.

On the Circuit: **WICT** announced the members of Class XVI an XVII of its Betsy Magness Leadership Institute. See who made the cut by visiting the News & Events section at wict.org.

People: **Comcast**'s eastern division appointed *Lindsay Johnston* vp, human resources and *William Andrews* vp, business services. -- **Bravo** promoted *Cori Abraham* to vp, development and production.

CableFAX Daily Stockwatch

Company	08/01 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
BRITISH SKY:	53.70	(0.11)
DIRECTV:	21.98	(0.43)
DISNEY:	33.83	0.83
ECHOSTAR:	42.23	(0.06)
GE:	38.95	0.19
HEARST-ARGYLE:	21.00	(0.07)
ION MEDIA:	1.29	(0.06)
NEWS CORP:	22.82	0.16
TRIBUNE:	27.85	(0.11)
MSOS		
CABLEVISION:	35.28	(0.31)
CHARTER:	3.55	(0.51)
COMCAST:	26.09	(0.18)
COMCAST SPCL:	25.88	(0.29)
GCI:	11.59	0.08
KNOLOGY:	15.19	(0.33)
LIBERTY CAPITAL:	113.75	(0.7)
LIBERTY GLOBAL:	41.83	(0.1)
LIBERTY INTERACTIVE:	20.76	(0.19)
MEDIACOM:	8.98	(0.08)
NTL:	28.22	0.00
ROGERS COMM:	42.97	0.00
SHAW COMM:	47.60	0.07
TIME WARNER CABLE:	36.78	(1.44)
WASH POST:	793.15	2.40
PROGRAMMING		
CBS:	31.97	0.25
CROWN:	6.66	(0.22)
DISCOVERY:	23.14	(0.58)
EW SCRIPPS:	40.70	(0.27)
GRUPO TELEVISA:	25.14	(0.11)
LODGENET:	28.48	(2.94)
NEW FRONTIER:	8.16	(0.33)
OUTDOOR:	9.33	(0.35)
PLAYBOY:	10.84	(0.16)
TIME WARNER:	18.64	(0.62)
UNIVISION:	36.23	0.00
VALUEVISION:	9.21	0.10
VIACOM:	38.00	(0.47)
WWE:	14.52	(0.48)
TECHNOLOGY		
3COM:	4.00	0.00
ADC:	19.28	0.59
ADDVANTAGE:	5.73	(0.3)
ALCATEL LUCENT:	11.95	0.35
AMDOCS:	36.24	0.05
AMPHENOL:	35.78	1.52
APPLE:	135.00	3.24
ARRIS GROUP:	14.81	(0.01)
AVID TECH:	31.63	(0.47)
BLNDER TONGUE:	1.48	(0.12)
BROADCOM:	33.03	0.22
C-COR:	13.19	(0.26)
CISCO:	29.77	0.86
COMMSCOPE:	56.51	2.08
CONCURRENT:	1.50	(0.03)
CONVERGYS:	18.90	(0.15)
CSG SYSTEMS:	25.66	0.64
GEMSTAR TVG:	5.67	(0.07)
GOOGLE:	512.94	2.94
HARMONIC:	8.94	0.07
JDSU:	14.37	0.04
LEVEL 3:	5.24	0.01
MICROSOFT:	29.30	0.31
MOTOROLA:	16.69	(0.3)
NDS:	44.94	1.22
NORTEL:	21.74	0.10
OPENTV:	1.96	0.06
PHILIPS:	40.43	0.03
RENTRAK:	14.80	(0.02)
SEACHANGE:	6.96	(0.02)
SONY:	52.03	(0.71)
SPRINT NEXTEL:	20.62	0.09
THOMAS & BETTS:	61.99	0.19
TIVO:	5.53	0.03
TOLLGRADE:	10.12	(0.2)
UNIVERSAL ELEC:	35.80	0.56
VONAGE:	1.99	(0.14)
VYYO:	5.70	(0.23)
WEBB SYS:	0.09	0.00
YAHOO:	23.25	0.00
TELCOS		
AT&T:	40.23	1.07
QWEST:	8.40	(0.13)
VERIZON:	43.24	0.62
MARKET INDICES		
DOW:	13362.37	150.38
NASDAQ:	2553.87	7.60

Think about that for a minute...

Priorities

I just got back from the Independent Show in Monterey. Brought back a lot of memories. It was like the "old days" of CATA, with the same folks, the same issues, and the same plea: get involved!

Of course it is even harder today, and the combination of forces of the ACA and the NCTC made for a lively time as operators tried to wade through all the questions of how best to run their businesses while at the same time deal with government officials who also have all sorts of ideas about that same issue... how to run our business!

Steve Effros

The reason Matt Polka and Jeff Abbas have a much tougher job than I did is that the "business" keeps morphing. It's now so complicated and multidimensional that even those of us who have watched it grow over the years have to stand back in awe of the challenge.

They're doing a great job, but I wonder if anyone can really get a handle on all of this any more.

I moderated the opening session. The questions I posed to the opening panel: where do we go from here, what do we have to do, what are the biggest challenges. Everyone agreed that bandwidth is a big challenge. The solutions vary, from new digital box technology providing MPEG-4 compression, to "switched digital." But neither of those is going to happen overnight. They are both, happily, on the way but not here yet.

Of course the FCC is trying to force cable into going "all digital" in a time frame and at an expense that cannot be accomplished. So while everyone agreed that digital is where we want and plan to go, it's not happening right away. But how do we respond to the business imperatives we face?

The answer, as is always the case for business folks who have to deal with too many options and not enough money or technology to take advantage of all of them at once, is that we have to prioritize.

There's no argument that HD is important and needs to be a priority for all systems. But HD is a bandwidth hog. We simply will not be able to accommodate all the HD carriage we would like to accommodate right away. That will have to wait for those technological advances.

In the meantime, much to my surprise, the next consensus was that the smart move for all operators to take right now, big and small, is telephone. This assumes, of course, that data is already on the plate which is pretty much the case. Telephone. Even for the smallest operators! Why? Because offering telephone service on a well maintained cable system turns out to be not only relatively easy to do, but it does not take up much bandwidth, does not require program contracts, and has very nice margins.

It also turns out to be a very "sticky" service our customers know and appreciate. Quite a combination. This is distinct from what the telephone folks are now learning as they get into the video business: it's hard, complicated, expensive and you are held responsible for what shows up on the screen even if you didn't have anything to do with producing it!

So while things in one way seem the same, in another they are very new and different.

We are on the right side of this equation, we just have to keep the "officials" from screwing it up! As Jeff and Matt noted, that won't be as easy, but that, too, is a priority.

Steve

T:703-631-2099
steve@effros.com