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Beyond the Numbers: Time Warner Talks Economy, DVRs and Telcos

Yes, **Time Warner Cable** reported some impressive 2Q results, particularly in terms of HSD adds (201K) and basic sub losses (only 9K). But the MSO's earnings call touched on a host of issues important to the industry. Here are some highlights. **The Economy:** On the positive side, the weak economy has led to lower churn. Time Warner's 2-year "Price Lock Guarantee" promo added nearly 200K subs during the Q. In one division, total churn is down 20% Y-over-Y, while voluntary churn rates are down 45%, according to COO *Landel Hobbs*. The downside is the company hasn't been able to rely on high rates of housing growth to drive subscriber momentum, and the economy has definitely hurt ad sales. **Advertising**: The MSO had hoped the local ad sales business would improve in the 2nd half of the year, but it now looks unlikely, with political ads only partially offsetting losses. "Cancellations increased at the end of Q2 and the slow growth trend appears to be continuing into 3Q," said CFO *Rob Marcus*. Because of the ad climate, Time Warner now expects full-year adjusted OIBDA growth towards the low-end of its 9%-11% growth outlook. **Network DVRs**: **Cablevision** may have scored a major court victory, but TWC pres/CEO *Glenn Britt* is taking a wait-and-see approach on the possibility of deploying the tech. "Obviously, if this particular court case is upheld, and that becomes the law, we will deploy that," he said, noting that the MSO could move quickly since it has developed a lot of the underlying technology. "But I also think that if you talk to a bunch of the lawyers, like lots of things in the law, this is a lot more complicated than the headlines appear. So maybe this will all be fine, and we'll deploy it, but I don't think we fully know that yet." **Verizon in NYC**: Hobbs was critical of the amount of attention the telco's franchise approval in NYC has received, saying it earned more ink than the All-Star game. "We and other cable operators have been facing this competition at other markets for some time now," he said, noting that efforts in NYC mirror what it has done in other parts of the footprint. Big Apple efforts include plans to offer 100 channels of HD by year-end (3 divisions—Albany, San Antonio and parts of NYC—currently have more than 50 HD nets). ***By the Numbers***: Net income inched up to $277mln vs $272mln a year ago (earnings were impacted by onetime impairment charges related to its spinoff from Time Warner). Revenue was up 7% to $4.3bln, with phone adding 251K subs and digital adding 200K. The MSO cut its forecast for full-year earnings by 15 cents per share to a range of $1.10 to $1.15, citing financing and other costs from its planned separation from Time Warner. Shares closed down 5.2% Wed.

Corporate Pets: Cable nets including **TBS**, **CNN** and **HBO** continue to shine in **Time Warner**'s portfolio, joining the film segment in largely powering TW's affirmation of its '08 outlook. Despite rampant economic woes, **Turner** nets delivered 11% 2Q ad rev growth to $906mln and a 10% increase in subscription rev to $1.72bln—although content rev dipped 11% to $189mln. Furthermore, entertainment nets enjoyed avg CPM increases in the high single-digits and dollar volume increases "well into double digits" during this year's upfronts, said pres/CEO *Jeff Bewkes*, noting that the current market is pacing ahead of upfront levels. "We've long maintained that our entertainment nets are

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broadcast substitutes, and this position has increasingly resonated with advertisers," said Bewkes. Along with Turner, HBO posted strong affil fee growth, and following a difficult '07 is on track to grow EBITDA this year by double-digits, he said. Together, the premium net and Turner will likely deliver the strongest '08 growth rate of any TW segment, said CFO *John Martin*. Meanwhile, TW has been busy restructuring **AOL** into access and online segments, which should begin separate operations next year, said Bewkes. But already present is the necessary flexibility to make strategic right now, he said, intimating that sales are possible. Martin expects AOL to deliver ad growth for the rest of '08, based on rising usage in 2Q. On the film side, runaway **Warner Bros** hit "The Dark Knight" should notably pad TW's 3Q numbers, and all new '09 releases save for "Harry Potter" will be released to VOD day-and-date.

Primetime Martin: **FCC** chmn *Kevin Martin* defended the Commission's recent action against **Comcast** for broadband network management practices during an interview for an upcoming ep of **C-SPAN**'s "The Communicators." "I think it's important for the Commission to respond to the complaints that we get in front of us," he said, adding that he was especially troubled because Comcast was "hiding what they were actually doing from their own customers." Tune in Sat at 6:30pm to see Martin wax longingly about a la carte. "I think it will continue to be an important issue as long as cable rates continue increasing at the rates they have," he said. "Cable rates have almost doubled in the last decade, and I think that's in part because an every increasing bundle of channels that consumers are forced to buy." At one point, he reminds viewers that he and GOP presidential hopeful *John McCain* co-authored an editorial on the subject. The interview repeats Mon at 8am and 8pm on **C-SPAN 2**.

Slow Scatter? **Hallmark Channel** parent **Crown** is bullish on the upfront, saying it sold approximately 50% of its inventory at CPM increases of 7% above last year's rates. But it's less enthusiastic about ad sales for the rest of the year. "Our advertising sales team has seen a strong appetite for the upfront, but a softening in the scatter market," Crown chief *Henry Schleiff* said. "Given that our business is not immune to the broader trends that are currently effecting the economy, it is likely that for the balance of the year our advertising revenues may not quite equal the historic, industry leading 17-22% rate of growth—a potential shortfall, however, that we would expect to cover by saving in other parts of the company." Schleiff noted that Hallmark sold more inventory in the upfront (53% vs just under 50% in the past) and nearly $10mln in biz from new clients, including **Microsoft** and **IKEA**. For 2Q, Crown saw net revenue jump 28% to $71.5mln thanks to a 15% increase in ad revenues to $56.6mln and a 124% increase in sub fee revenue to $14.6mln.

Competition: As part of an **Olympics** content deal with **NBCU**, **DISH** has agreed to add during the Games specialty HD nets **NBC Olympic Soccer Channel** and **NBC Olympic Basketball Channel**, offering 24-hr coverage of the respective sports. DISH will also offer related VOD titles. -- **DirecTV** is debuting Thurs an interactive service surrounding the **PGA Championship** and supplementing the broadcasts of **TNT** and **CBS**. The service includes 4 HD channels of tourney coverage, including features of daily groups, particular holes and "Players In Depth," a fully-produced show with interviews, highlights, press conferences, graphics and stats. -- **Hughes** announced the Aug 21 availability of a satellite broadband service featuring download speeds of up to 5Mbps, which the company said is the fastest ever offered to consumers by such a service. Hughes counts more than 400K subs.

Earnings: **Playboy** continues to struggle, reporting a 2Q loss of $2.1mln and 14% decrease in rev to $73.4mln. TV rev fell 31% to $14.8mln, blamed on fewer buys due to an increase in consumer pricing by cable/satellite ops and a "contin-

BUSINESS & FINANCE

ued consumer migration from linear networks to the more competitive on-demand platforms." Chmn/CEO *Christie Hefner* noted 2 strategic initiatives: a launch of a redesigned Playboy.com later this year to help drive traffic through digital platforms, and a reduction in cost structure "particularly relative to our mature media businesses." -- **Qwest**'s 2Q results included an 8% fall in voice and wireless rev and a 17% increase in data, Internet and video rev owing to sub growth. The telco counted net adds of 31K broadband subs and 32K video, the latter now totaling 722K. Access lines dipped 9% to 8.3mln. Business markets grew rev 5% to $1bln, including a 10% rise in data and Internet rev. -- **Sinclair** largely attributed its broadcast rev growth of 2.8% to retrans fees, which it estimates will total $68mln this year, compared to $59mln in '07.

Marketing/Advertising: **Discovery Channel** is partnering with ad tech company **Interpolls** to promote its series "MythBusters" across various Websites. Polling functionality will be used to engage users and encourage interactivity by asking questions centered on the show's premise, and answers will prompt further features and brand exposure elements. Separately, the net has inked an agreement with **Columbia Sportswear** that includes sponsorship of "Survivorman" and "Into the Unknown," a media buy on the net, and a co-branded online advertising component.

CableFAX Daily Stockwatch

Company	08/06 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
BRITISH SKY:	36.13	(1.15)
DIRECTV:	27.24	(0.21)
DISNEY:	31.42	0.11
ECHOSTAR:	30.16	0.18
GE:	29.00	(0.25)
HEARST-ARGYLE:	19.57	0.30
ION MEDIA:	1.44	0.00
NEWS CORP:	14.49	(0.76)
MSOS		
CABLEVISION:	27.15	(1.05)
CHARTER:	1.12	0.03
COMCAST:	21.24	(0.29)
COMCAST SPCL:	21.11	(0.23)
GCI:	9.86	0.12
KNOLOGY:	10.33	(0.19)
LIBERTY CAPITAL:	15.92	0.17
LIBERTY ENTERTAINMENT:	24.92	(0.08)
LIBERTY GLOBAL:	30.89	0.53
LIBERTY INTERACTIVE:	14.08	0.33
MEDIACOM:	5.81	0.05
SHAW COMM:	20.94	(0.19)
TIME WARNER CABLE:	28.34	(1.56)
VIRGIN MEDIA:	11.41	0.07
WASH POST:	641.05	14.05
PROGRAMMING		
CBS:	16.70	0.21
CROWN:	4.52	(0.37)
DISCOVERY:	18.79	0.02
EW SCRIPPS:	6.70	(0.16)
GRUPO TELEVISA:	24.06	1.53
INTERACTIVE CORP:	17.89	(0.1)
LIBERTY:	44.29	0.31
LODGENET:	4.17	0.19
NEW FRONTIER:	3.52	0.11
OUTDOOR:	7.39	0.07
PLAYBOY:	4.55	0.18
RHI:	12.91	0.16
SCRIPPS INTERACTIVE:	42.43	(0.22)
TIME WARNER:	14.83	(0.05)
VALUEVISION:	3.01	0.01
VIACOM:	29.19	(0.15)
WWE:	15.38	(0.21)
TECHNOLOGY		
3COM:	2.13	0.07
ADC:	9.31	0.13
ADDVANTAGE:	2.70	(0.05)
ALCATEL LUCENT:	6.54	0.29
AMDOCS:	30.60	0.38
AMPHENOL:	48.75	0.27
APPLE:	164.19	3.55
ARRIS GROUP:	9.40	(0.04)
AVID TECH:	23.60	0.62
BIGBAND:	4.42	0.04
BLNDER TONGUE:	1.24	0.07
BROADCOM:	25.34	0.01
C-COR:	11.00	0.00
CISCO:	23.93	1.28
COMMSCOPE:	44.29	0.26
CONCURRENT:	6.52	(0.04)
CONVERGYS:	13.25	0.22
CSG SYSTEMS:	18.58	(0.3)
ECHOSTAR HOLDING:	33.88	1.05
GOOGLE:	486.34	6.49
HARMONIC:	8.02	0.32
JDSU:	11.16	0.17
LEVEL 3:	3.35	0.09
MICROSOFT:	27.02	0.81
MOTOROLA:	9.50	(0.05)
NDS:	60.74	0.01
NORTEL:	6.12	(0.03)
OPENTV:	1.86	0.03
PHILIPS:	34.65	0.36
RENTRAK:	14.09	0.06
SEACHANGE:	7.55	(0.13)
SONY:	39.47	1.08
SPRINT NEXTEL:	7.34	(1.21)
THOMAS & BETTS:	43.38	0.37
TIVO:	7.68	0.13
TOLLGRADE:	5.90	(0.23)
UNIVERSAL ELEC:	24.33	(0.35)
VONAGE:	1.33	(0.01)
WEBB SYS:	0.05	0.01
WORLDGATE:	0.30	0.00
YAHOO:	20.00	0.18
TELCOS		
AT&T:	30.87	(0.18)
QWEST:	3.45	(0.14)
VERIZON:	34.24	(0.31)
MARKET INDICES		
DOW:	11656.07	40.30
NASDAQ:	2378.37	28.54

Think about that for a minute...

Baby Boom

OK, I admit that it's not a policy likely to be endorsed by Congress, but it's the only way I can see to keep us in the "broadband race"! Those who want the government to "do something" about us "losing" that race have just gotten a major new piece of ammunition: the Chinese have now "overtaken" the United States in the gross number of folks using the Internet! We used to be first. Not any more.

Holy cow! We're losing again! It's like the drubbing we're taking from the Danes regarding Internet penetration. Never mind that there are no distinctions drawn about demographics, population, density, etc., we're losing! It sounds great in a lobbying sound-bite.

Steve Effros

But of course those folks who want to use these "statistics" to argue that there is some need for regulatory policy changes in the U.S. in order to correct this egregious competitive broadband failure are up against a very tough set of numbers this time. There are close to four times as many Chinese as there are Americans. I really don't care what change was adopted in the telecommunications marketplace. You could dump all sorts of money into a new competitive broadband infrastructure, you could have municipalities build out their uneconomic systems all you wanted, you could subsidize hook-ups to the web. Still wouldn't make any difference.

There would still be more of them than there are of us. The only way to solve that? Well, maybe we could promote a "baby boom"! But the problem is that such a clever competitive move likely wouldn't work since the Chinese could simply copy us!

So let's get reasonable about all this "competitive numbers" stuff. The OECD (Organization for Economic Cooperation and Development) numbers, which keep being used as the "measure" of whether we are "leading" or "losing" the Internet "race" are not terribly edifying. They don't take into account plant miles, technology differences or the like. They also only count "residential" use. We are all well aware that a great deal of Internet use, at least in this country, is done during the day, at work. None of that is counted by the OECD. Same with use at colleges, universities, libraries, schools, etc... not counted.

The underlying premise about winning and losing the broadband "race" is that somehow the United States will fall behind other countries in the economically advantageous use of the Internet. Those who propound these ideas argue that our broadband access is more expensive, or not as fast, or not used as much. But these comparisons, too, are specious, especially considering that they argue government mandates are the "solution!" Just one example: many broadband infrastructures in other countries have been subsidized by the State. Some constitute their first offering that is not metered, as their telephone systems are. Our ISPs may be forced in that direction if those advocating government-mandated network management rules have their way… we would be going backwards!

There's good reason to have open, frank discussions about how our broadband infrastructure is progressing, and whether anything needs to be done to achieve rational, stated policy goals. But those goals can't simply be "broadband Internet for everyone" when a substantial number of folks are currently functionally illiterate regarding computers, and don't have one at home in the first place! These are issues that are far deeper than simply infrastructure policy, and they have to be addressed first. We have to stop creating false "competitive" measures. Instead we need realistic discussions of what we want and what is possible, useful and good for us.

Steve

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