

CableFAX Daily™

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What the Industry Reads First

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No Fairy Tale: CVC's Slowing Growth Prompts Concern

The overall **Cablevision** narrative continues to be told by a pair of key storylines: the financials from its dominant cable segment and the *Dolan* family's privatization bid. Yet while both remained positive as the MSO reported 2Q results, ebbing growth emerged as a troubling 3rd thread. Cable TV net rev rose 13% (highlighted by 168K new digital, HSD and phone adds; flat basic growth; and a 10% rev increase at **Rainbow**), but diminished operating guidance gave many analysts pause. **Sanford Bernstein's Craig Moffett** said CVC's slowing growth was expected, "but not quite so quickly." **Oppenheimer** went further, calling the MSO's results "arguably the worst in the company's recent history, and the worst among major cable operators." COO **Tom Rutledge** said the lowered guidance can be attributed, in part, to "very high penetration" in video (68% overall, 81% digital) and growth slowdown in all-digital NYC, although he admitted having no explanation for lower sequential broadband growth. It's clear, however, that management had noticed some disturbing trends during 2Q, as a "strategy change" was enacted in early July when CVC began marketing to existing customers a triple-play bundle that was previously available to only new subs. The MSO also downplayed a material effect on results from **Verizon**, even as Rutledge disclosed an increase in marketing spending "so that our position in the marketplace is not drowned out" by the telco's estimated \$80-\$100mln annual in-market broadcast ad spend. Rutledge said Verizon owns 750K active passings in CVC's footprint and has built out 1mln. Some good news, according to Moffett, is that "Cablevision is holding its own" against Verizon, which should hearten the cable industry "inasmuch as Cablevision's overlap... is already larger than will be the case at **Comcast** and **Time Warner Cable**, even by 2012." Also a boon, many agree, is the Dolan's offer of \$36.36/share, which CEO *Jim Dolan* said is still on the table despite widespread financing concerns stemming from a weak US credit market. A special shareholder's meeting to discuss the deal will occur this fall. CVC shares closed at \$34, up 1%.

Put Up: Hallmark May Have to Spend \$30mln on NICC's Shares

For years, **Hallmark Channel** has been showing faith-based programming from the **National Interfaith Cable Coalition**, but that could soon come to an end. NICC, whose programming includes Sun's "New Morning with Naomi Judd," has a Put Right that's exercisable between Aug 30 and Nov 1, according to an **SEC** filing. The Put Right is triggered if the 2 don't agree to continuing their programming agreement by Aug 29. If the Put's exercised, Hallmark parent Crown would be required to buy all of NICC's 4.4mln Crown shares at current market value, costing it approx \$28.8mln, based on Fri's closing price. Crown has already begun a preliminary analysis of funding alternatives, including what impact funding could have on its tax sharing agreement with **Hallmark Cards**. "Our liquidity during the remainder of 2007 and our discussions and expectations regarding liquidity through August 15, 2008, are highly dependent upon our ability to raise capital through external sources in the event NICC exercises the Put Right," Crown said in the filing. It's not known

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if NICC will exercise the Put. It could also choose to sell Crown's shares on the open market. NICC was founded by the **National Council of Churches** and other religious orgs to create the **VISN** cable net in '88. After it merged with the **Southern Baptist**-sponsored **ACTS** channel, the combined network became **Odyssey**. Hallmark Ent and **The Jim Henson Company** bought stakes in Odyssey in '98, and it was renamed Hallmark Channel in '01. NICC subsidiary VISN owns a \$25mln interest in Crown. Crown notes that it doesn't think NICC could require it to buy an additional 634K Crown shares that NICC invested in Hallmark Ent—which would cost it another \$4.2mln based on Fri's closing price. The 2 are in negotiations over the programming deal. More on Crown, including its 2Q earnings, in "Crown Doings" below.

Carriage: Cablevision is adding **MavTV** to its sports tier this week.

Tale of the Tape: As video ops engage in slugfests all over the US, **Comcast** and **RCN** are trailing on certain fronts in MA, according to **OneTRAK**, which analyzed sub statistics across 34 state communities to assess how the rollout of **FiOS TV** has impacted the market. Comcast lost 5K subs (-2.6%) from its 204K base across all the communities since FiOS TV 1st launched in Woburn in Jan '06, while RCN lost 1.8K (-7%) of its 26K base and Verizon added 12K subs. Although Comcast increased its sub base in 6 of 9 towns in which it battles VZ and RCN, the MSO experienced penetration dips from 7.8%-13.6% in the 4 areas where VZ has been marketing for the longest period (6-10 months). In 9 Comcast/RSN areas, RSN lost share in all but 1. VZ's market entry also affected **DISH** and **DirecTV**, as OneTRAK estimates that the satcasters have lost roughly 40% of their area sub base to the telco.

Sprint JV: Asked about disappointments with **Sprint's** wireless jv with cable, Sprint chmn/CEO **Gary Forsee** pointed to the timing. "The disappointment is it took us longer because we spent time on the back office to get that right before we took that in the marketplace and, at this stage, there is still some system work to be done to speed up that activation," he said, answering a Wall St analyst's question during Wed's 2Q earnings call. He said he believes **Comcast**, **Time Warner Cable**, **Cox** and **Bright House** are committed to making the jv work. The partners have launched **Pivot** in 20 markets and are expected to roll it out to at least 40 markets by year-end, Forsee said. No one's revealing how many Pivot customers exist. Sprint's 2Q net income fell to \$19mln from \$370mln a year ago but still beat Wall St estimates. Sprint's number of cable VoIP customers has grown 75% over last year to a total of 2mln.

Earnings: **Discovery's** US nets delivered a 5% increase in 2Q rev to \$516mln, powered by "growth in distribution and advertising revenue at most channels." Excluding the loss of **Travel Channel** rev effective May 14, the nets' ad rev rose 12% thanks to greater audience delivery on **Discovery Channel** and **TLC**, among others. Prime ratings for the pair grew 7% and 11% in the Q, respectively, among adults 25-54. -- **News Corp's** cable net programming saw 4Q07 operating income increase 46% to \$284mln, reflecting greater contributions from **Fox News**, RSNs, **FX** and **Fox Intl Channels**. Fox News' 41% operating income growth came from higher affil rates and ad rev. Op income at the other nets rose 48%. -- **Liberty Media's** set to get even more complicated. It plans to create a 3rd tracking stock by splitting Liberty Capital into 2 separate tracking stocks. The newly created Liberty Entertainment stock will hold the 38.5% **DirecTV** stake it will receive from **News Corp** following expected regulatory approval, as well as the 3 RSNs and \$588mln it expects to acquire in the transaction. Liberty's interest in Liberty Ent Group—**Starz**, **GSN**, **WildBlue**, **FUN Technologies**—and \$550mln of Liberty Media's publicly traded exchangeable debt will also go into the new stock. Liberty

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Capital's 2Q operating income fell to \$42mln from \$44mln. Fellow tracking stock Liberty Interactive saw operating income rise 1% to \$244mln.

Crown Doings: Crown will launch its 1st HD service in 1Q08, when it bows **Hallmark Movie Channel HD**. Meanwhile, **Hallmark Channel** continues to work on renewal deals with affils. Deals representing approx 2/3 of its sub base as of June 30 are set to expire on or prior to Dec 31, including its pact with **Time Warner Cable**. TW will move Hallmark this month to channel 84 from 107 in NY, but the net said the change was not part of a larger deal with the MSO. Crown's 2Q rev increased 11% to \$55.9mln compared to a year ago, while its loss fell to \$43.7mln from \$227.4mln. Crown said it recently completed negotiations with advertisers for the '07/'08 broadcast season, selling about half its inventory at CPM increases of 10%-16% over last year's rates. New advertisers include **Wal-Mart** and **Pizza Hut**.

Programming: TNT ordered 15 additional eps of freshman series "Saving Grace." The drama debuted July 23 with cable's biggest audience for a new series premiere year-to-date. -- **Military Channel's** "Tribute to the Troops" (Aug 25, 10pm ET) will feature commercial-free memories/stories of fallen service members from loved ones, and will culminate a day-long tribute to the fallen through related content.

CableFAX Daily Stockwatch

Company	08/08 Close	1-Day Ch	Company	08/08 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
BRITISH SKY:	55.28	1.75	AMPHENOL:	34.74	0.17
DIRECTV:	21.93	0.97	APPLE:	134.01	(1.02)
DISNEY:	34.29	(0.26)	ARRIS GROUP:	14.09	0.46
ECHOSTAR:	39.82	0.19	AVID TECH:	33.61	1.99
GE:	40.46	0.98	BLNDER TONGUE:	1.53	0.03
HEARST-ARGYLE:	20.58	0.78	BROADCOM:	35.98	3.22
ION MEDIA:	1.41	0.01	C-COR:	11.81	(0.08)
NEWS CORP:	22.80	0.46	CISCO:	31.68	1.99
TRIBUNE:	27.07	0.23	COMMSCOPE:	48.28	(1.45)
MSOS					
CABLEVISION:	34.00	0.28	CONCURRENT:	1.49	0.01
CHARTER:	2.81	0.02	CONVERGYS:	15.83	(0.94)
COMCAST:	25.72	(0.16)	CSG SYSTEMS:	21.35	(2.45)
COMCAST SPCL:	25.49	(0.29)	GEMSTAR TVG:	5.60	0.14
GCI:	12.17	0.67	GOOGLE:	525.78	9.76
KNOLOGY:	14.15	1.18	HARMONIC:	8.34	0.29
LIBERTY CAPITAL:	115.27	3.57	JDSU:	14.63	0.65
LIBERTY GLOBAL:	43.03	(0.46)	LEVEL 3:	5.13	0.17
LIBERTY INTERACTIVE:	19.82	(0.38)	MICROSOFT:	30.00	0.45
MEDIACOM:	7.78	0.16	MOTOROLA:	17.10	0.64
NTL:	28.22	0.00	NDS:	46.49	(0.92)
ROGERS COMM:	42.97	0.00	NORTEL:	19.28	0.42
SHAW COMM:	22.66	(0.16)	OPENTV:	1.67	0.35
TIME WARNER CABLE:	34.98	(0.17)	PHILIPS:	40.12	0.42
WASH POST:	839.00	43.50	RENTRAK:	12.60	(1.31)
PROGRAMMING					
CBS:	31.96	(0.15)	SEACHANGE:	6.28	0.16
CROWN:	7.18	0.71	SONY:	49.46	(1.17)
DISCOVERY:	26.14	1.76	SPRINT NEXTEL:	19.77	(0.45)
EW SCRIPPS:	39.99	(0.14)	THOMAS & BETTS:	54.88	(1.55)
GRUPO TELEVISIA:	26.00	0.25	TIVO:	6.37	0.69
INTERACTIVE CORP:	26.47	(0.24)	TOLLGRADE:	9.60	(0.1)
LODGENET:	29.19	2.87	UNIVERSAL ELEC:	29.01	1.07
NEW FRONTIER:	6.71	(1.17)	VONAGE:	2.20	0.10
OUTDOOR:	9.39	0.56	VYYO:	6.14	0.59
PLAYBOY:	10.85	0.04	WEBB SYS:	0.06	(0.03)
TIME WARNER:	18.98	0.37	WORLDGATE:	0.46	(0.04)
UNIVISION:	36.23	0.00	YAHOO:	23.87	0.43
VALUEVISION:	9.09	(0.2)	TELCOS		
VIACOM:	38.89	0.28	AT&T:	40.35	(0.11)
WWE:	14.59	(0.05)	QWEST:	8.38	0.09
TECHNOLOGY					
3COM:	3.55	0.10	VERIZON:	43.19	0.08
ADC:	16.35	(0.35)	MARKET INDICES		
ADVANTAGE:	4.95	0.02	DOW:	13657.86	153.56
ALCATEL LUCENT:	11.69	0.43	NASDAQ:	2612.98	51.38
AMDOCS:	35.82	0.13			

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WHAT THE INDUSTRY READS FIRST.

Think about that for a minute...

In Defense of Lobbyists

Yes, I was one for years. Registered, branded, trained to mumble the word when asked in public settings what I did. I was a lobbyist. Somehow this profession has taken on the burden of all the ills of government, and the negative image has been cast to the point that few folks really know or appreciate what most "lobbyists" do. So herewith, a self-serving explanation.

Yes, I did say "self serving." I hasten to point out that there is nothing inherently wrong with that. The job of most lobbyists is to help explain the details, the complications, the needs and the wants of some particular group to the regulators and legislators who routinely write rules, regulations and laws that affect that group—usually with very little expertise or understanding of what they are doing.



Steve Effros

Now that is not a shot at the legislators. Regulators are a different story... they are supposed to have some expertise about what they are doing. That's why, for instance, the FCC is referred to in court as an "expert agency." We all know that is highly questionable these days, as politics and righteous belief have superseded policy and expertise, but let's get back to the legislators. They have a job that is increasingly impossible to do. One minute they are supposed to be experts on nuclear waste, the next on retransmission consent. Highly improbable.

Instead, they have to rely on information provided by the folks who have an intimate understanding of the businesses and issues they are trying to deal with; the lobbyists. The paid experts who reside in Washington (or a State Capitol) precisely to provide that type of expertise. Of course, some of those lobbyists do more than that. They promote legislation. They push for special advantage for their clients. And some do it the

wrong way, by fundraising and lavish dinners, gifts, travel, etc., to some members of Congress or other legislators who make it clear they want such things. But that is rare (except for the fundraising) on both sides. Most of the time, lobbyists (a term that came from standing in the lobby outside the legislative chamber) are the ones who work out the details of legislation to make sure it does as little harm as possible, or is as advantageous as possible to the folks they represent. And that could be a so-called "public interest" group just as much as a private company or industry representative. They are all "lobbyists," and they are a necessary part of the process.

A cable example: there's a bill floating around right now that would open up retransmission consent negotiations by saying that adjacent market network affiliates could not be barred (by the network) from negotiating for carriage. That makes sense. Right now there is no "free market" negotiation in retrans because only one station is willing to negotiate per market. If you could pick up a station from an adjacent market, without that station being penalized by the network, the "market" would start to work.

But it took one of the top copyright cable lawyer/lobbyists in Washington to point out to me that deep in the bowels of that bill is a provision requiring cable to pay copyright for that "distant" signal, but not our DBS competitors! Without his expertise, our industry, let alone the legislators, wouldn't know.

So control them, yes. Limit fundraising and gift giving, sure. But don't knock the lobbyists. We all need them, or the "unintended consequences" of legislation will flourish.

Steve

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