

CableFAX Daily™

Wednesday — August 10, 2011

What the Industry Reads First

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Unfortunate Outlier: Cablevision Shares Punished for 2Q Results

Investors understandably had **Cablevision** and **DISH** on short leashes Tues, and when both ops delivered disappointing quarterly results, well—those tethers were yanked with alarming force. DISH was able to fight back, but after CVC missed on nearly every growth metric the MSO's shares were beaten down a heady 12.81% to close at \$17.02. Moreover, a 52-week low of \$16.02 was established earlier in the day, marking the shares' lowest level since early '09. Net phone adds (+27K) represented a relative bright spot, but PSUs (+9K), basic video (-23K) and HSD (+5K) all missed the mark. Financials were mixed. **Wells Fargo Securities' Marci Ryvicker** may have spoken what's on the mind of every pay TV exec when she said, "luckily earnings are almost over." Indeed, CVC COO **Tom Rutledge** alluded to what has become the meat of the industry's unfortunate PowerPoint presentation: a wide swath of beleaguered Americans, little to no improvement in the housing market and an ongoing game of capture the customer among MVPDs. **DISH** pres/CEO **Joe Clayton** echoed the sentiment after the DBS op posted a loss of 135K net subs on a gross number (572K) that fell well short of Wall St consensus. DISH shares nearly paid the price, falling approx 6.5% in early trading before rebounding to end the day roughly flat. Perhaps most troubling are the collective 2Q results from the pay TV industry, which following CVC and DISH's reportage look "to have been the weakest in the industry's history," said **Sanford Bernstein's Craig Moffett**. While YOY sub growth was nil, Moffett said industry net additions in the quarter tallied -380K, compared to -162K a year ago, and actually outpaced the combined losses of 2Q11 and 3Q11—the 1st negative quarters ever reported. However, there are important caveats, he said, including cable's net adds being approx consistent with last year (both 2Q and 1H) and satellite's particularly blustery headwinds. DISH and **DirectTV's** 2Q sum of -109K subs, for example, marked the 1st negative total in history. It may be folly to assume pay TV's troubling trends will continue going forward, and the markets did stage a heartening rebound from Mon's debacle, with virtually all other cable-media stocks along for the ride. Yet concerns remain. "Rising prices for pay TV, coupled with growing availability of lower cost alternatives, add to a toxic mix at a time when disposable income isn't growing," said Moffett. "For younger demographics... the pay TV equation is almost inarguably getting less attractive." At least pay TV earnings are over.

CVC: **Cablevision** execs expressed some optimism Tues despite a trying quarter and day, with COO **Tom Rutledge** say-

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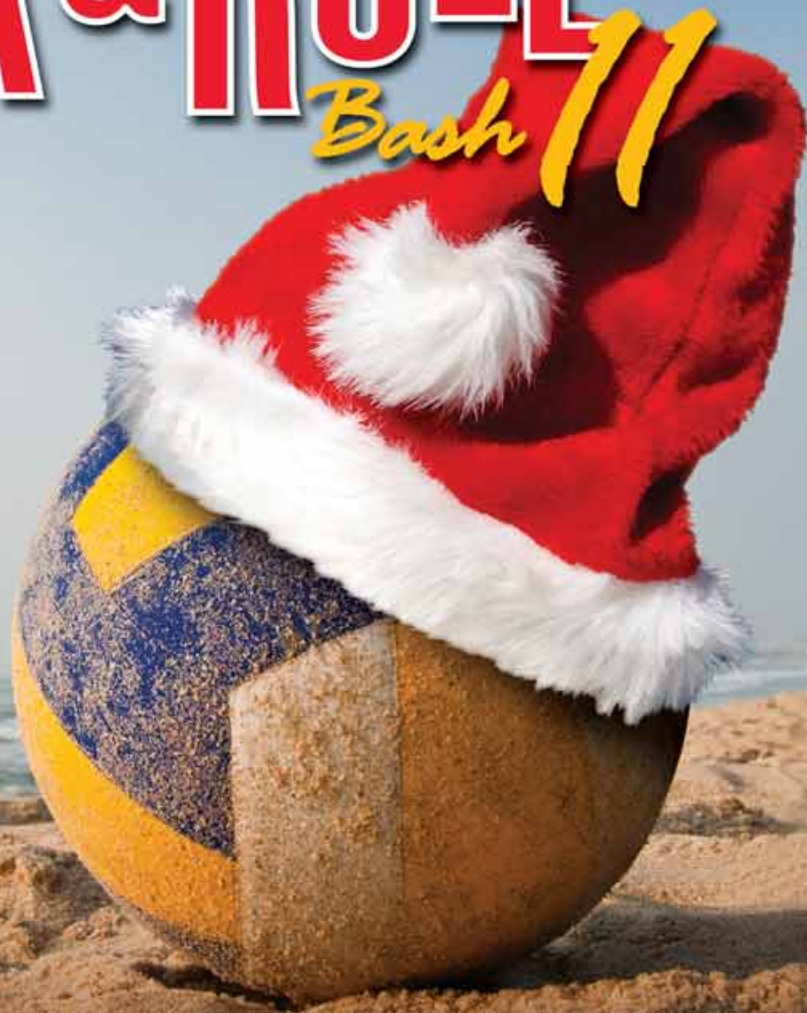
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ing the MSO's "keenly focused on adding value" to help mitigate macro forces. To that end, CVC extended to the iPhone and iPod touch its Optimum app for in-home viewing. Including those with iPads, Rutledge said approx 1mln homes can access the app, which also offers remote control functionality and content navigation. Plus, he said the company's interactive ad platform will allow it to "shift share," and that its network DVR and WiFi network continue to add enhancements. "Sequentially our [rev/sub] is growing pretty nicely," said Rutledge. **Verizon** in particular has been very aggressive with promos, but at what cost? "I think they lose free cash flow on every customer they connect," said Rutledge.

DISH: "We will not tip our hand," said **DISH** pres/CEO *Joe Clayton* in referencing potential plans for the DBS op's basket of new assets including **Blockbuster** and wireless spectrum. Yet he did allow that big changes are underway to the core video business. "It has underperformed and we plan to rectify that in 3Q and 4Q," he said, noting "lost sales momentum" in 2Q because of a concerted effort to dial back on adverting and marketing dollars. Customer-targeted messaging will focus more on available tech and branding over pricing discounts, said Clayton, who believes a trajectory of sub growth will resume later this year as a result. Also expected to help spur "a significant uptick in subs" is DISH's new sales relationship with **Frontier Comm**, he said, as well as the continued push to connect customer set-tops to the Web. "We're also very interested in wireless broadband," said Clayton, but don't expect near-term any announcements.

Merger Menage: The **FCC** announced late Mon that it will tie together its consideration of the **AT&T-Qualcomm** spectrum deal and **AT&T-Mobile** merger proposal, effectively delaying approvals as the agency considers the overall impact of the 2 transactions on the public interest. "This puts the Qualcomm deal on a slower track, though it was not a surprise, given the signals the FCC had sent," said **Stifel Nicolaus** in a research note. The FCC said both deals raise related issues, including the aggregation of spectrum by AT&T nationwide. In statements, Qualcomm urged the agency to approve its deal now and denied any connection to the AT&T-Mobile deal while AT&T said it was at least glad the FCC preserved the right to still approve the Qualcomm deal first. But said Stifel: "While the FCC is not formally consolidating the two reviews, it is putting them on parallel tracks, which means it is unlikely to decide on the AT&T-Qualcomm deal until it decides on the AT&T-Mobile merger, or close to it. The latter decision could come in 4Q11, or it could extend into next year."

Earnings: Scripps Nets shares soared 12.17% after the company reported Wall Street-beating results, including growth in overall rev (+12%), profit (+24%), ad rev (+13%) and affil rev (+6.3%). Net rev results include **HGTV** (+8.9%), **Food Net** (8.2%), **Travel Channel** (+15%), **Cooking** (+17%), **DIY** (+27%) and **GAC** (-31%). Digital rev rose 28% to \$27.4mln. -- **Starz's** rev rose 5% to \$403mln on a higher effective rate for Starz Channels' services and growth in the avg number of subs. Starz reached an all-time high of 19mln subs owing to a 10% increase, and **Encore** grew subs by 3%. **QVC's** 3% rev growth for QVC in the US helped **Liberty Interactive** deliver rev of \$2.2bln (+9%) and op income of \$288mln (+5%). **Liberty Media** shares gained 8.23% on the news. -- **Disney's** cable nets segment delivered 7% rev growth and a 10% increase in op income mainly on growth at **ESPN** due in part to higher affil rev and lower programming and prod costs. **Disney Channel Worldwide** contributed some growth but **ABC Family** didn't. ESPN's ad rev was flat as elevated rates were offset by the World Cup's absence. The broadcast segment saw rev decline 1% yet op income jumped 20% as **ABC** enjoyed enhanced ad sales and O&Os notched lower.

Technology: Metaswitch Networks' Thrutu was selected as the new idea most likely to succeed during the **Cable-Labs** Summer Conference this week. The tech's an in-call content sharing app for PCs, smartphones and tablets.

At the Portals: The **FCC** on Tues loosened its wireless backhaul rules to make it easier for carriers to use microwave facilities to transmit data between cell sites, or between cell sites and network backbones. The action clears the way for carriers to use several bands that had been reserved for specialized microwave services, and it allows them to use adaptive modulation to improve network reliability. The FCC also eliminated the "final link" rule, which banned broadcasters from using fixed-service stations to help distribute programming to stations. The FCC also proposed allowing smaller antennas in certain bands and exempting carriers in rural areas from the agency's efficiency standards. Wireless backhaul reform has mainly been focused on rural areas.

ABC Family at TCA: With almost exactly one year under his belt as pres of **ABC Family** following *Paul Lee's* move to the **ABC** bcst net, *Michael Riley* said the focus remains "on groundbreaking series, culturally relevant and defining shows. And what we love most is, obviously, water cooler hits." Riley has launched 3 new shows this summer,

BUSINESS & FINANCE

with hopes that hits like “Switched at Birth” will emulate the success of shows like “Secret Life of the American Teenager,” which has powered ABC Family’s schedule for the last 3 years. “We’ve got two great projects with **Marvel** in development right now,” he said. “And we’re looking at musicals and music and a whole bunch of different genres. We never define ourselves at ABC Family in a genre perspective... What we define ourselves as is very much an opportunity to engage Millennials and families, portraying authentic storytelling, portraying iconic characters, and wrapping that in real, relatable optimism and warmth.” ABC Family also showcased new series “The Lying Game” (premieres Aug 15) based on a book series by *Sara Shepard*, who also wrote “Pretty Little Liars,” which inspired that ABC Family series as well. Filmed in Austin, TX, where tax incentives reign, The Lying Game centers on long-lost twin sisters who switch places but end up involved in a large mystery.

People: Former **DIY Net** gm *Andy Singer* takes over as **Travel Channel**’s svp, programming and production dev, effective Sept 1. *Ross Babbitt* steps in as svp/gm of **DIY**.

Business/Finance: A healthy market rebound Tues upped the shares of myriad companies, but notable was **CBS**’ 14.88% surge after **Argus** upgraded the company to ‘buy’ from ‘hold.’

CableFAX Daily Stockwatch

Company	08/09 Close	1-Day Ch	Company	08/09 Close	1-Day Ch
BROADCASTERS/DBS/MMDS			BROADCOM:32.83 0.84		
DIRECTV:	43.44	1.32	CISCO:	14.05	0.12
DISH:	22.58	(0.06)	CLEARWIRE:	1.42	(0.1)
DISNEY:	34.70	1.67	CONCURRENT:	5.65	(0.28)
GE:	15.96	0.53	CONVERGYS:	10.38	(0.16)
NEWS CORP:	14.91	0.90	CSG SYSTEMS:	14.02	0.01
MSOS			ECHOSTAR:	26.47	1.21
CABLEVISION:	17.02	(2.5)	GOOGLE:	573.41	27.39
CHARTER:	45.19	3.13	HARMONIC:	5.31	0.31
COMCAST:	20.70	0.28	INTEL:	20.60	0.49
COMCAST SPCL:	20.16	0.32	JDSU:	10.82	0.97
GCI:	9.12	0.04	LEVEL 3:	1.85	0.15
KNOLGY:	14.18	1.16	MICROSOFT:	25.58	1.10
LIBERTY CAPITAL:	69.15	5.26	MOTOROLA MOBILITY:	23.12	1.59
LIBERTY GLOBAL:	36.20	2.57	RENTRAK:	12.72	(0.28)
LIBERTY INT:	14.49	1.81	SEACHANGE:	8.07	0.09
SHAW COMM:	20.70	0.65	SONY:	22.61	0.94
TIME WARNER CABLE:	65.44	2.50	SPRINT NEXTEL:	3.28	0.15
VIRGIN MEDIA:	22.98	2.05	THOMAS & BETTS:	42.88	3.52
WASH POST:	357.50	6.59	TIVO:	7.69	0.36
PROGRAMMING			UNIVERSAL ELEC:	19.87	1.23
AMC NETWORKS:	31.06	0.35	VONAGE:	3.02	0.14
CBS:	24.48	3.17	YAHOO:	12.09	0.99
CROWN:	1.40	0.04	TELCOS		
DISCOVERY:	37.20	2.45	AT&T:	28.85	1.15
GRUPO TELEVISA:	19.91	0.95	VERIZON:	34.29	1.17
HSN:	32.34	3.73	MARKET INDICES		
INTERACTIVE CORP:	36.99	0.84	DOW:	11239.77	429.92
LIBERTY STARZ:	70.53	3.50	NASDAQ:	2482.52	124.83
LIONSGATE:	6.62	0.26	S&P 500:	1172.53	53.07
LODGENET:	2.00	0.02	TECHNOLOGY		
NEW FRONTIER:	1.12	UNCH	ADDVANTAGE:	2.30	(0.15)
OUTDOOR:	6.54	0.29	ALCATEL LUCENT:	3.45	0.37
SCRIPPS INT:	42.07	4.45	AMDOCS:	27.58	0.87
TIME WARNER:	30.48	0.59	AMPHENOL:	44.09	2.92
VALUEVISION:	5.33	0.51	AOL:	11.19	(3.88)
VIACOM:	52.20	3.82	APPLE:	374.01	20.80
WWE:	9.88	0.60	ARRIS GROUP:	10.29	0.46
TECHNOLOGY			AVID TECH:	11.43	1.11
ADDVANTAGE:	2.30	(0.15)	BIGBAND:	1.70	0.16
ALCATEL LUCENT:	3.45	0.37			
AMDOCS:	27.58	0.87			
AMPHENOL:	44.09	2.92			
AOL:	11.19	(3.88)			
APPLE:	374.01	20.80			
ARRIS GROUP:	10.29	0.46			
AVID TECH:	11.43	1.11			
BIGBAND:	1.70	0.16			

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October 18, 2011

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