

# CableFAX Daily™

Tuesday — August 16, 2011

What the Industry Reads First

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## Googley Eyes: Motorola Mobility Deal Makes Way for Whole New World of STBs

Google TV coming to set-top boxes soon? That's one of the many questions surrounding Google's surprise \$12.5bn announcement to acquire **Motorola Mobility**, which includes the cable-oriented set-top, DVR and cable modem business. Most of the attention Mon was on Moto's Android phones. Details on what's ahead were scarce, but there were plenty of hints of Google integration coming to a box near you. "There is a secular transition from QAM set-top boxes to the IP world. In addition to that, there is a great convergence happening between the mobile world and the content that enters the world through the set-top," said Motorola Mobility CEO *Sanjay Jha* in a call with analysts. "I think as a result of this combination and in working with our carriers, we'll be able to accelerate that convergence and deliver products that will delight customers. We're very excited about this combination." Google chief *Larry Page* was vague but said he sees an opportunity to accelerate innovation in the home business working with cable and telcos as the industry goes through a transition to Internet protocol. "If Google can expand existing set-top choices and bring a smoother integration to how smart phones interact with set-tops and in-home viewing using cloud-based technology, that is a win for the consumer and **NCTC** members," NCTC vp, gm of hardware *Richard Frey* told sister pub *CT Reports*. **SNL Kagan** noted that the deal also presents Google with a "treasure trove" of patents that can be used defensively in this era of aggressive patent litigation. Other possibilities: **Google+** (have you tried it yet?) integration on STBs as well as Android integration. Google will pay \$40/share in cash—a 63% premium over Fri's closing price for Motorola Mobility. Google said it will run Moto as a separate business. Both companies' boards unanimously approved the deal, which still needs the gov't OK (and lawmakers do love scrutinizing Google). IT's expected to close by year-end or early next year. **ACA** already has said it wants assurances that Google is committed to the cable business model and won't use its market power to crush smaller cable operators. "The future holds great promise for rural consumers as small cable operators explore IP—and cloud-based solutions in offering video to subscribers on TVs, PCs and mobile devices. Prior to today's Motorola Mobility announcement, Google has had its own interests in all of these areas, and it will be important that Google's other business interests do not unduly harm the growth of these new competitive market opportunities," said ACA pres/CEO *Matt Polka*. **Stifel Nicolaus** predicted that the deal would be approved, but said there might be some conditions. "Google said that it had talked



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with some of its top Android partners and that they were all enthusiastic about the Motorola Mobility deal, but we can't rule out that some Android partners or others may have some concerns that would lead them to seek greater assurances and possibly government conditions, perhaps regarding nondiscriminatory treatment," the firm said in a research note. Motorola Mobility shares soared more than 55% Mon, to close at \$38.12, while Google lost just over 1%.

**Price Lines:** Time Warner Cable believes paying \$3bln in cash to acquire Insight Comm represents a good deal, but investors must still weigh in with their collective view of the transaction. "With the deal announced today, we are able to acquire [Insight's] systems at an attractive price that is consistent with both our disciplined approach to M&A and our capital allocation strategy," said Time Warner Cable chmn/CEO Glenn Britt in a release. Wall Street's knee-jerk reaction was to send TWC down less than 1% on a very positive overall day. Using Insight's data as of June 30, TWC agreed to pay approx \$4,412/basic sub and \$1,389/RGU. Comparatively, Cablevision doled out approx \$1,600/RGU for Bresnan, Suddenlink \$1,670/RGU for NPG and Knology \$1,570/RGU for Sunflower Broadband. On a multiple basis, analysts said the deal's in line and certainly not as bad as investors feared. The purchase price may appear to translate to a relatively high 8.6x EBITDA, said Sanford Bernstein's Craig Moffett, but after taking into account several factors including TWC's projected \$100mln in programming expense savings, lower capex requirements and other synergies, "the price falls to just 6.0x EBITDA, roughly in line with TWC's 5.9x." Yet as Britt alluded to above and analysts highlighted Mon, investors are likely far more concerned about how the deal will affect TWC's cash return policies than price. Wells Fargo Securities' Marci Ryvicker believes TWC "should still be able to fund share repurchases but likely at a less aggressive rate" than the recent \$850mln/quarter, adding that "we do think this could be a longer term positive for TWC." Assuming synergy values are accurate, Moffett said "the deal is almost certainly more accretive to value per share than would be additional share repurchases, and so we would expect any negative reaction in the share price to be short lived." S&P maintained its 'buy' rating on TWC shares, which Moffett rates as 'outperform' with an \$83 price target. Moody's affirmed TWC's Baa2 sr unsecured debt ratings following the deal announcement and placed Insight's ratings under review. -- In a Mon blog post, Insight CEO Michael Willner expressed mixed emotions over the deal, which is expected to close early next year. "I am as proud as I can be at the fabulous company we have built and I will miss leading it when we conclude this transaction early next year," he wrote. "On the other hand, I think it is time for us to hand this great company over to another great company with deep resources and experience in our industry." Willner also told Insight customers to expect a seamless transition to Time Warner Cable management.

**Fox Everywhere:** Fox is putting some pressure on providers to sign on to its TV Everywhere service, which currently only counts DISH as a partner. On Mon, the programmer stopped providing next day, online access to its programming. Viewers can't get access to shows online for at least 8 days after they air. At www.fox.com/watchnewepisodes, a FAQ features questions such as "Why isn't my provider listed?" "Frustrated. Join your fellow subscribers and let your TV provider know that you want access to all full episodes on Fox.com," the site says, offering up a form letter that will be sent to distributors. "I want you to know that I expect to have access to these episodes included in my subscription," the letter reads.

**Deals:** Don't forget about Scripps Nets' news from "M&A Monday." The company agreed to acquire Virgin Media's 50% common equity interest in programmer UKTV for approx \$392mln and will also pay approx \$164mln to acquire the outstanding preferred stock and debt owed to Virgin by UKTV. BBC owns the other half of UKTV, which garners 36mln view-

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# BUSINESS & FINANCE

ers/month across its portfolio of 10 lifestyle, ent and non-fiction nets. "UKTV is a significant opportunity for Scripps Networks Interactive to participate in a thriving multi-channel, dual revenue stream media business in one of the world's largest television markets," said Scripps chmn/CEO Ken Lowe. As part of the deal, Scripps and BBC are negotiating a pact whereby BBC would have the option to increase its UKTV stake to a max of 60%.

**Programming:** AMC settled its differences with Sony Pictures TV and renewed "Breaking Bad" for a 5th and final season. Prod will start early next year. -- TLC has opted not to renew "Kate +8," which hits the 150-ep mark at the end of this season (including "Jon & Kate + 8). "TLC hopes to check in with Kate and the family periodically with specials in the future," the net said. -- Comedy Central ordered 10 eps of "Brickleberry," an animated series about a group of dysfunctional forest rangers at a national park. (premieres early '12).

**People:** Meg Lowe is jumping to OWN from Discovery Comm, where she'll serve as svp, distribution and strategy. In her previous post with Discovery since 2010, Lowe led the affiliate marketing and field sales team in securing carriage for Discovery's portfolio of 13 US networks.

**Business/Finance:** Roku secured \$8mln in funding, with Globespan Capital and Menlo Ventures leading the round.

## CableFAX Daily Stockwatch

Company	08/15 Close	1-Day Ch	Company	08/15 Close	1-Day Ch
<b>BROADCASTERS/DBS/MMDS</b>					
DIRECTV:	43.86	0.52	CISCO:	16.03	0.04
DISH:	23.64	0.54	CLEARWIRE:	1.83	(0.08)
DISNEY:	33.65	0.56	CONCURRENT:	6.09	0.15
GE:	16.39	0.51	CONVERGYS:	10.43	0.34
NEWS CORP:	17.19	0.52	CSG SYSTEMS:	13.54	(0.47)
<b>MSOS</b>					
CABLEVISION:	19.13	0.39	ECHOSTAR:	25.89	0.72
CHARTER:	49.26	2.03	GOOGLE:	557.23	(6.54)
COMCAST:	21.27	0.63	HARMONIC:	5.58	0.18
COMCAST SPCL:	20.92	0.62	INTEL:	20.89	0.24
GCI:	8.61	0.23	JDSU:	12.34	0.82
KNOLOGY:	13.87	0.52	LEVEL 3:	1.99	0.08
LIBERTY CAPITAL:	73.15	3.65	MICROSOFT:	25.51	0.41
LIBERTY GLOBAL:	40.39	0.89	MOTOROLA MOBILITY:	38.12	13.65
LIBERTY INT:	15.19	0.13	RENTRAK:	14.50	0.76
SHAW COMM:	22.10	0.62	SEACHANGE:	7.99	0.16
TIME WARNER CABLE:	65.02	(0.49)	SONY:	22.37	0.88
VIRGIN MEDIA:	24.66	1.02	SPRINT NEXTEL:	3.48	0.28
<b>PROGRAMMING</b>					
AMC NETWORKS:	33.98	0.31	THOMAS & BETTS:	43.92	0.52
CBS:	25.00	0.07	TIVO:	8.36	0.31
CROWN:	1.35	0.10	UNIVERSAL ELEC:	18.21	0.55
DISCOVERY:	39.50	0.47	VONAGE:	3.30	0.09
GRUPO TELEVISIA:	20.41	0.22	YAHOO:	13.46	(0.12)
HSN:	32.12	0.39	<b>TELCOS</b>		
INTERACTIVE CORP:	38.37	0.54	AT&T:	28.81	0.59
LIBERTY STARZ:	72.29	0.88	VERIZON:	35.05	0.75
LIONSGATE:	7.16	0.16	<b>MARKET INDICES</b>		
LODGENET:	1.98	(0.01)	DOW:	11482.90	213.88
NEW FRONTIER:	1.20	0.07	NASDAQ:	2555.20	47.22
OUTDOOR:	6.43	0.29	S&P 500:	1204.49	25.68
SCRIPPS INT:	42.99	0.31			
TIME WARNER:	30.33	0.49			
VALUEVISION:	5.20	(0.25)			
VIACOM:	55.14	(0.27)			
WWE:	9.46	0.02			
<b>TECHNOLOGY</b>					
ADVANTAGE:	2.45	0.05			
ALCATEL LUCENT:	3.84	0.14			
AMDOCS:	27.83	0.42			
AMPHENOL:	47.22	0.72			
AOL:	12.64	0.86			
APPLE:	383.41	6.42			
ARRIS GROUP:	10.40	UNCH			
AVID TECH:	11.13	0.26			
BIGBAND:	1.63	0.02			
BROADCOM:	34.83	0.99			



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## EYE ON INNOVATION

### Tapping the Broadband Brakes

It's no secret that cable ops are facing pressure on the video side of the business and have been for multiple quarters. But, hey, the group arguably fared better than **DirecTV** and **DISH** regarding net subs adds in 2Q—and they're still armed with the fastest, most compelling broadband offerings. Trouble is, flying under the radar so far is cable's relatively poor overall broadband performance last quarter. Sure, 2Q is seen as a seasonally weak period for the industry, but the data may nonetheless surprise more than a few observers.

**Comcast** (144K), **Time Warner Cable** (67K), **Cablevision** (5K) and **Charter** (~19K) combined to welcome 234,800 broadband subs from Apr-June, marking an 11% decline compared to 2Q10 based on data from **Leichtman Research**. Moreover, only Comcast topped its year-ago total, and TWC and Cablevision actually added more broadband customers in 2Q09, a period mired in the depths of the US recession. '08 must seem like halcyon days to the 4 MSOs, who added more than 550K HSD customers in that year's 2Q.

Helped by fiber deployments, meanwhile, **Verizon** and **AT&T** both exhibited improved YOY Internet results last quarter. VZ added a net 59K subs, compared to +28K last year, and AT&T shed a net 12K after losing 92K a year ago. The pair remains beleaguered by pokey legacy DSL, to be sure, but AT&T welcomed 439K U-verse Internet subs and VZ attracted 189K FiOS broadband customers last quarter. Also of note: VZ's **4G LTE** network currently covers approx 160Mln POPs, and AT&T's similar network is nearing launch, perhaps making mobility more of a frightening word to cable. Plus, AT&T execs noted an influx of small business Internet customers in 2Q.

Yet even amid all this less-than-upbeat data, cable need not hit the panic button just yet. Uber intense

competition among pay TV providers has spurred roll-outs of super promotional offers in recent months, often leading cost-conscious consumers to reduce their bills. Industry reports of a renewed interest in bundled services provides corroborating evidence. The inference here is that new winners will likely emerge from quarter to quarter as customers jump from 1 provider to another, over and over again. Who's to say that cable won't roar back come earnings season this fall? Said DISH in its recent 10-Q: "As the pay-TV industry matures, we and our competitors increasingly must seek to attract a greater proportion of new subscribers from each other's existing... bases rather than from first-time purchasers." The DBS op's outlook applies to video since it doesn't directly offer broadband, of course, meaning cable enjoys a decided advantage over DBS right now.

Besides the group's speed advantage, Time Warner Cable and its industry brethren are currently focused on spotlighting the value provided by cable broadband services.

"As broadband becomes increasingly important to our customers, we think we can create additional value by making it available to them everywhere," said TWC chief *Glenn Britt* during the company's recent earnings call.

Cablevision in particular and also Comcast have embraced WiFi as a value-add for customers, and the tech may go a long way in battling telcos' 4G networks. And don't forget, MSOs importantly own—by virtue of customers' increasing need for its HSD speed—a spot at the online video table. Think DSL is conducive to a satisfying **Netflix** experience?

After all, in an era of extreme competition, any offense appears to have the ability to move the subscriber needle.

-Chad Heiges





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