

CableFAX Daily™

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What the Industry Reads First

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TW 3Q: Cable Shines Bright, Phone Growth Slows

Time Warner's solid 3Q results offered more positive news for cable Wed, with revenue for the cable division climbing 44%. Once again, the triple-play was extolled, with 9% of all **Time Warner Cable** customers subscribing to it in 3Q. "While we're pleased so far, there is significant opportunity to improve on this success, particularly when you consider that we have yet to introduce phone into the old **Adelphia** systems," CEO *Dick Parsons* said. Digital phone adds came in at 187K (11% penetration of homes served). It's a hearty number, but there is some concern on the Street because it marks the 2nd straight quarter of decelerated growth for VoIP at the company. "The next 10 points of penetration above the 11% that we are now at are harder than the first 10 or 11 points," said pres/COO *Jeff Bewkes*. He added that systems in the Carolinas have seen more aggressive marketing from the telcos lately but said TW is answering that. He categorically denied that the MSO has hit a ceiling on VoIP, pointing to systems where penetration has exceeded 20% (Albany, Syracuse, Binghamton, NY). Bewkes reiterated the phone possibilities for recently acquired **Comcast** and Adelphia systems. The potential upside of the acquired systems could manifest itself in the breakdown of sub metrics. TW Cable ended the Q with 570K RGU adds—583K adds from the historical systems offset by a 13K decrease from the acquired systems. Historical systems posted 1.4% Y-over-Y growth in basic subs, adding 33K. But the acquired systems lost 30K, resulting in a net increase of 3K. Net digital adds were 143K and net HSD gains were 251K (214K historically, marking the MSO's 5th consecutive quarter of more than 200K net adds). Overall, Time Warner's net income tripled to \$2.3bln, while revenue rose 7% to \$10.9bln. **AOL** appears to be on track for shifting from a subscription model to an ad-supported business. Revenue fell 3% as 2.5mln subs dropped their subscriptions, but ad revenue swelled 46%.

Mickey Mouse Club: Not mentioned on **Time Warner's** Wed earnings call was an *LA Times* report that **Comcast** and Time Warner Cable are nearing multi-year programming deals with Disney that have been underway for years. Citing unnamed sources, the paper reported that the deals include license fees for **ESPN**, **Disney Channel** and other nets. Talks include Disney selling its 39.5% stake in **E!** to Comcast for about \$1.2bln, the Times reported. The rest of the industry is watching closely, as deals with the largest 2 MSOs will set the precedent for deals with other distributors. Not surprisingly, VOD rights are said to be part of discussions (Disney has maintained a 'no free VOD' stance for years).

Competition: Following initial summer launches in San Antonio, San Diego and OH, **AT&T's** "Homezone" service is now offered throughout the telco's broadband footprint. It's available for \$9.99/month to new residential AT&T/DISH satellite TV subs that have or plan to order AT&T Yahoo! HIS and the "2Wire" home networking gateway.

-- The DE Public Utilities Commission approved Tues a statewide video franchise for **Verizon's** "FiOS TV" service.

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The telco outlined an initial service area that encompasses roughly 40% of the state and 100K HHs, and said connection will occur within 5 years. -- **Qwest Intl** added Sí TV to its "Qwest Choice TV" lineup in Phoenix. -- **Verizon** opened its 1st "Verizon Experience" store Tues in Southlake, TX. The 5K sq ft store brings together services offered by **Verizon Wireless** and Verizon Comm. The store features FiOS TV and Internet displays, along with tech support and informational kiosks.

In the States: **Atlantic Broadband** launched phone service this week in MD, becoming the 1st provider on the mid-Eastern Shore to offer the triple-play. Phone is \$34.95/month when combined with any other product. -- **ReelzChannel** launches Wed to **Suddenlink's** Charleston, WV, area subs. -- **Slingbox** launched a beta version of its **SlingPlayer** for the **Mac** operating system. -- **Azteca America** inked a deal with **Time Warner Cable** in which systems in Hispanic markets with no local terrestrial access to the broadcaster can elect to add it to their programming lineup.

Online: **Cox Ent** expanded its local search engine **Kudzu.com** to 3 **Cox Comm** markets—Arizona, Las Vegas and San Diego. The site's getting plenty of exposure on Cox.net and will soon be featured in cross-channel spots. "I'm particularly bullish on cable operators in general," said **Tom Bates**, gm of Kudzu.com and vp of **Cox Search**, the Cox Ent subsidiary that operates it. Bates thinks other cable ops outside of Cox could make good partners as Kudzu considers further expansion. He is also reaching out to **Cox Business Services** customers to try and get them to participate on the site. Kudzu.com has teamed with Cox Media for sales promotion.

Happy Birthday: A decade of training (11/1) has delivered a proficient ESPNEWS, which is hitting its stride after staking its claim in an impatient world. "From night one, we wanted to create an on demand news and information service," said **ESPN** evp **Norby Williamson**. Armed with new programming introduced to enhance immediacy (**Cfax**, 9/8), ESPNEWS has become the linear quarterback of the family's increasingly cohesive multi-platform unit. "By design, it complements the other networks," said Williamson. The strategy has lured the influential young demo; viewership has a median age under 40 and a \$60K+ median income level. The net now reaches over 50mln HHs, up from its 1.5mln at launch. During the process, the net has become relevant to its big brothers. "The biggest motivator here [at Bristol] is ESPNEWS," said Williamson. "Internally, it makes us better."

Mobile: Cingular Wireless has added programs from HBO Latino to Cingular Video's "HBO Mobile" subscription.

Broadband: BigBand Networks and partners OpenTV and INVIDI announced enhancements to BBN's "Broadband Multimedia-Service Router" platform that allow service providers to deliver TV commercials to individual recipients. The addressable advertising targets individuals using anonymous data such as viewing preferences, hobbies, interests, personal demographics, zip code, and ethnicity.

Programming: Proving that history is bound to repeat itself ("Newlyweds," anyone?), **Tori Spelling** and hubby **Dean McDermott** will open their own B&B in a 6-ep **Oxygen** reality series to premiere in the spring.

Ratings: **Nielsen Media Research** and **NetRatings** announced the launch of a "National TV/Internet Fusion" database that allows TV programmers and advertisers to study relationships between TV and Internet use through merged information from each platform. It uses information such as age, sex HH income, HH education and region to link TV and Internet databases. NMR will this month begin a test to identify the potential impact of Internet mea-



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Replacement Windows

Much of the maneuvering by cable operators, broadcasters, movie theatre owners and program copyright owners has long been about the concept of "windows." I could add DVD sales and rental outlets like NetFlix, Blockbuster and even WalMart to that list as well. Windows refers to the time frames when programming is made available to different distribution outlets.

Take a movie as an example. First, it goes into "first run" release in the movie theatres. The studios spend millions to generate advertising and "viral" buzz about the film to get as many people to go to the theatre as possible. Then the fight begins over releasing the movie on DVD, and when it is available for VOD sale. Is it at the same time? Later? Earlier? The question from the movie producer's point of view, of course, is which



Steve Effros

way will the film generate the most revenue. The same question follows through the whole set of "windows" through which the film is seen. After VOD, when does it go to the pay channels, when is it available to the broadcasters, syndicators, etc.

Similar issues of the release schedule pertain to all copyrighted programming. The traditional approach has been, for instance, to put a new network series on broadcast television first, then resell that series to the cable networks or in syndication to the smaller independent television stations. But all these "traditional" approaches and windows are now being challenged by a lot of new thinking and new opportunities.

Remember that the primary focus of creating these windows is to maximize revenue. With that in mind, consider what happens when a new distribution medium shows up, such as the Internet. The truth is that no one really knows how the Internet will fit into the current mix

of media distribution platforms. But it is also true that everyone is sure betting lots of money that one way or another, the Internet will play a major role. I'm not convinced of that. As a distributor of highly focused, "niche" programming, or programming of very high interest to a specific audience, there is certainly a lot of room for healthy growth. But as a "mass medium", I don't see that the Internet has reinvented the wheel in a way that is any better than the ones already spinning, such as broadcast and cable. Indeed, both of those are structurally better at mass distribution of specific content than is the Internet.

In any event, we are now watching lots of experiments by the program owners to determine where and how the Internet fits in. One example that fascinates me is what the opportunities might be for television programs that have garnered big, loyal audiences. Once they have done that (which requires the mass distribution via broadcast or cable first,) why not add a "window" making the program (for instance "Grey's Anatomy," or "Lost") available for a fee on the Internet (or VOD) before it goes on advertiser supported television? The addicted fans of the program may be willing to pay for a "sneak preview." If not, they will still see it at the regularly scheduled, ad supported time, and it would simultaneously be available for archived VOD or web viewing. If the ads are left in both modes, then nothing is lost, but the new window could generate new revenue.

For a long time the "convergence" theory said there would be a compression of the windows. I'm not so sure. We may be at the beginning of experimentation on a project we could characterize as installing replacement windows.

Steve

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