

# CableFAX Daily™

Thursday — November 3, 2011

What the Industry Reads First

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## Comcast to the Rescue: 3Q Numbers May Help Restore Faith in Cable

After **Time Warner Cable** and **Cablevision's** soft results, **Comcast** looked like the hero Thurs by outperforming its peers with consolidated revenue up 5% in 3Q to \$14.3bln and better-than-expected basic sub losses (165K). Well, maybe not everyone was impressed. Occupy Philadelphia protestors descended on the Comcast Building Wed. *The Philadelphia Inquirer* reported that 9 protestors who sat down inside the lobby were arrested, while 20 others linked arms outside on the sidewalk. Wall St, on the other hand, was more receptive. "The relatively strong cable results should help put to rest—at least a little bit—the perennial 2Q and 3Q arguments that 'cable is dead,'" said **Sanford Bernstein's Craig Moffett**, noting that the sector now moves into what's seasonally the strongest 6 months of the year. Similarly, **Collins Stewart's Thomas Eagan** is expecting the results to help revive sentiment for the sector, writing in a research note that the company's 13.9% increase in PSUs and 6.7% cable cash flow growth are especially notable. Cable revenue increased 5% for the Q. High-speed Internet continues to be a strong point, with Comcast adding 261K customers. "HSI continues to grow, and we're over indexing versus last year," said Comcast Cable pres **Neil Smit**. "I think that's primarily organic and that we have a superior product." Comcast's 133K voice adds were a bit soft, but Smit said marketing for the Q focused more on single and double products vs the triple-play because of back-to-school. He said triple-play marketing will resume in 4Q. Not much new info on launches for Xcalibur, Comcast's next-gen IP service that is currently being tested in Augusta, GA. Smit said plans are underway for a major market launch in the 1st half of the year, followed by a more widespread rollout. As for positioning and pricing, that's a work in progress. "One of the most significant aspects that appeals to us is... being able to move quickly and make changes... and create new apps," said Comcast CEO **Brian Roberts**. "It's very exciting for the road map of innovation when you move the brains out of the box into the cloud." As for the smaller, themed MyTV Choice bundles that have launched in a few markets, Smit said it was too early to tell how it's doing. **NBCU** revenue rose 4.6% and adjusted operating cash flow decreased 1.4%, reflecting strong results at cable and the parks, offset by weaker performance at broadcast and film. Cable nets posted \$2.1bln in 3Q rev (+12%), while broadcast rev grew just 2.9% to \$1.5bln with ad rev growth flat (higher pricing was offset by weaker primetime ratings at **NBC**) and an operating cash flow loss of \$7mln vs OCF of \$70mln in 3Q10 (reflects increased investment in programming and acquisition-related accounting revisions totaling \$24mln). When it comes to the broadcast net, expectations were low and, as Moffett puts it, NBC "didn't disappoint in disappointing."

**On the Hill:** The lid's off House Communication's chmn **Greg Walden's** (R-OR) **FCC** process reform legislation, brought about at least in part by the agency's net neutrality rules. It would require the FCC to survey the marketplace through a Notice of Inquiry before initiating a new rulemaking and require identification of a market failure, consumer harm or significant regulatory barrier before adopting "economically significant rules." Other provisions include making sure any conditions on mergers be tailored to transaction-specific harms, requiring shot clocks so that parties know how quickly they can



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expect action in certain proceedings and sunshine reform so that a bipartisan majority of Commissioner can meet. The bill, which is being introduced in the Senate by *Dean Heller* (R-NV) would also consolidate 8 separate, congressionally mandated reports on the communications industry into a single report with a focus on deployments to unserved communities, intermodal competition and eliminating regulatory barriers. -- As for those net neutrality rules that are slated to take effect Nov 20, the Senate may vote on overturning them next week, according to Sen Commerce ranking member *Kay Bailey Hutchison* (R-TX). The GOP-controlled House already passed the resolution.

**Retrans:** **DISH** subs in Chattanooga lost their **NBC** affil (**WRCB**) and Reno lost CBS affil **KTVN** Tues morning after the DBS provider and **Sarkes Tazian** could not agree on a new retrans consent deal. DISH claims the broadcaster wants a 288% rate increase. Meanwhile, **DirectTV** avoided a blackout with **Belo** reaching a last-minute, long-term deal with the broadcaster Tues night. "These disputes should never involve viewers, and we appreciate our customers' patience as we worked to successfully complete this agreement," DirecTV said. -- While there is no sign of any movement on retrans reform at the **FCC**, the lobbying continues. Mediacom's getting creative with its letter writing campaign, noting broadcast's fondness for reality shows, such as CBS; "Survivor," where contestants have to live off the land in remote locales even though there is a production crew around them with plenty of food, water and access to a helicopter. "As these programs illustrate, for those in the broadcast television business, reality is pretty much what the rest of us think of as fantasy," wrote Mediacom gen counsel *Joseph Young*. "This tendency of broadcasters to confuse reality and fantasy is confirmed by their public statements about retransmission consent..."

**TWX:** **Time Warner** delivered 11% rev growth, which marks the highest growth rate in 4 years, and a 27% rise in adjusted EPS. The company also upped its full-year adjusted EPS guidance. Yet TWX shares faltered a bit (-0.80%), with **Collins Stewart's Thomas Eagan** citing cable nets' 4% dip in adjusted op income as the likely culprit. "Although we appreciate this concern, we view this as a slight over-reaction given the 7% cable network revenue growth and the strong, 18% overall AOI growth," said Eagan. The individual performances of TWX's US nets repped a mixed bag. Ad rev slipped to mid-single digits for the ent channels owing, said CEO *Jeff Bewkes*, to the "somewhat disappointing" ratings and ad results for **TNT** and **TBS**. News ad rev rose high-single digits, and Bewkes heaped praise on **CNN**, **Adult Swim** and **truTV**. The group's 4Q ad rev is projected to liken the recent results, but the outlook assumes the **NBA** won't play any games this year. Even if that proves true, said CFO *John Martin*, the attendant drop in programming expenses would make any impact on adj op income immaterial. Scatter pricing is pacing approx 10% over the upfront, and Bewkes said 1Q cancellations have been "very limited." As US affil fee growth tallied 6%, Bewkes said **HBO** is "doing quite well with everyone," implying that **Time Warner Cable's** premium category struggles can't be extrapolated to other ops. TWX's **TV Everywhere** offerings are available in approx 70mln US homes (80mln is expected by Jan) and "user satisfaction is through the roof" regarding **HBO Go**, said Bewkes, noting nearly 5mln downloads of the app. He remains hopeful TWC and Cablevision will sign on for Go in the next few months,

**Earnings:** While **News Corp** delivered a 7% uptick in overall rev and a 4.8% dip in net income, the company's cable nets romped with a 7% rise in overall rev, 16% increase in domestic op income and ad growth of 13%. Pricing and ratings improvement at **FX** powered the ad increase, and **Fox News** notched its 56th consecutive quarter of op profit growth. US affil rev rose 9% on higher rates and subs. The TV segment grew rev by 8% and op income by 27% owing in part to a

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# BUSINESS & FINANCE

greater than 2-fold jump in retrans rev. -- **Sinclair's** earnings results including news of the broadcast group's agreement to purchase the assets of **Freedom Comm's** 8 TV stations for \$385mln. The stations serve markets including Albany and West Palm Beach. Sinclair's quarterly results featured a 4.5% dip in net broadcast rev and 7% decrease in op income, yet a 34.3% rise in net income. Including local times sales, retrans and other rev, local net broadcast rev grew 1.2%, while national slid 19.2%.

**On the Circuit:** The Cable Center elected 6 members to **The Cable Hall of Fame Class of '12**, including **BETN** chmn/CEO *Debra Lee*, **Inter-Media Partners** managing partner *Leo Hindery*, **Rogers Comm** vice chmn *Phil Lind*, **Carlsen Resources** CEO *Ann Carlsen* and **The Lenfest Group** pres/CEO *H.F. "Gerry" Lenfest*. The group will be feted May 21 in Boston.

**People:** **AMC Nets** tapped *Tracy Karagianis* as svp, CIO. -- **Lifetime Nets** tapped both *Abigail Harvey* and *Noah Pollack* as vp, reality programming.

**Business/Finance:** **Time Warner Cable** completed its acquisition of cable systems in KY and TN from **NewWave Comm** for approx \$260mln in cash. The deal includes systems serving approx 70K basic subs, 44K HSD and 28K phone. **RBC Daniels** served as the exclusive financial advisor to NewWave.

## CableFAX Daily Stockwatch

Company	11/02 Close	1-Day Ch	Company	11/02 Close	1-Day Ch
<b>BROADCASTERS/DBS/MMDS</b>					
DIRECTV:	44.86	(0.13)	BLNDER TONGUE:	1.24	0.00
DISH:	23.69	(0.15)	BROADCOM:	34.22	(0.28)
DISNEY:	34.07	0.47	CISCO:	17.85	0.26
GE:	16.25	0.23	CLEARWIRE:	2.04	0.19
NEWS CORP:	17.36	0.30	CONCURRENT:	3.80	(0.1)
<b>MSOS</b>					
CABLEVISION:	14.45	(0.14)	CONVERGYS:	11.23	0.93
CHARTER:	48.19	1.34	CSG SYSTEMS:	14.11	0.56
COMCAST:	23.02	0.04	ECHOSTAR:	25.35	0.16
COMCAST SPCL:	22.75	0.09	GOOGLE:	584.82	6.17
GCI:	9.32	0.64	HARMONIC:	5.52	0.22
KNOLOGY:	14.16	0.28	INTEL:	23.85	(0.05)
LIBERTY CAPITAL:	73.21	(0.02)	JDSU:	12.46	0.98
LIBERTY GLOBAL:	39.61	(0.2)	LEVEL 3:	23.25	(2.14)
LIBERTY INT:	16.05	0.21	MICROSOFT:	26.01	0.02
SHAW COMM:	19.68	0.02	MOTOROLA MOBILITY:	39.02	0.15
TIME WARNER CABLE:	62.88	(0.75)	RENTRAK:	12.97	0.11
VIRGIN MEDIA:	24.47	0.24	SEACHANGE:	8.52	0.42
WASH POST:	329.79	(4.76)	SONY:	18.53	(1.18)
<b>PROGRAMMING</b>					
AMC NETWORKS:	32.76	1.50	SPRINT NEXTEL:	2.72	0.23
CBS:	24.95	0.34	THOMAS & BETTS:	49.81	1.84
CROWN:	1.61	0.07	TIVO:	10.86	0.06
DISCOVERY:	44.02	1.75	UNIVERSAL ELEC:	18.14	0.84
GRUPO TELEVISA:	21.11	0.26	VONAGE:	2.64	(0.49)
HSN:	37.30	2.55	YAHOO:	15.10	0.17
INTERACTIVE CORP:	39.58	(0.19)	<b>TELCOS</b>		
LIBERTY STARZ:	68.25	0.89	AT&T:	29.08	0.38
LIONSGATE:	8.49	0.28	VERIZON:	36.80	0.33
LODGENET:	2.06	0.13	<b>MARKET INDICES</b>		
NEW FRONTIER:	1.09	(0.06)	DOW:	11836.04	178.08
OUTDOOR:	7.48	0.37	NASDAQ:	2639.98	33.02
SCRIPPS INT:	41.84	0.84	S&P 500:	1237.90	19.62
TIME WARNER:	33.57	(0.27)			
VALUEVISION:	3.27	0.22			
VIACOM:	51.84	0.68			
WWE:	10.31	0.19			
<b>TECHNOLOGY</b>					
ADVANTAGE:	2.10	0.02			
ALCATEL LUCENT:	2.55	0.05			
AMDOCS:	29.60	0.74			
AMPHENOL:	47.36	0.81			
AOL:	15.02	1.67			
APPLE:	397.41	0.90			
ARRIS GROUP:	10.58	0.11			
AVID TECH:	6.13	0.05			
BIGBAND:	2.24	UNCH			

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## Think about that for a minute...

### A Stupid Question?

Commentary by Steve Effros

OK, need some help here. Maybe some of you smart engineers or network specialists reading this can explain something to me.

FEMA, The Department of Homeland Security, The National Weather Service and the FCC have decided to conduct a test of the nationwide emergency alert system (EAS). This has never been done before. The emergency alert system test sound we have all come to know and love when we listen to our radio or watch television is only on the local and state level.



Although theoretically EAS could have been used nationally as well, it never has. It's primarily designed for local and regional (mostly weather related)

emergencies such as tornados. It's worked relatively well for a long time and most cable systems have integrated equipment that recognizes the regional "emergency" signal code and automatically sends a prescribed video and audio messages across all channels. Many television stations and some cable systems now have the capability to customize the video message, but that's only with new equipment or recent software changes.

This "national" test is a first. It's an emergency alert triggered from Washington (FEMA, the White House, etc.) in case of a "national" emergency. So now there's going to be a national test on Nov 9 (next Wed) at 2 p.m. Eastern Standard time. It's likely to last at least three minutes to test the effectiveness of the national electronic message codes automatically triggering local equipment.

There's only one little problem; the equipment currently out in the field is not really set up for these national codes. That, in many cases, is going to require new equipment and the specs for that new equipment have yet to be settled on by the FCC. The old equipment is

going to be kept in place as well. So the "test" is really going to be only of the older system. Strange timing.

One thing's for sure, it's going to create confusion. That's because while the national codes will hopefully trigger the equipment at most headends, and an audio signal will repeatedly say that this is "only a test," the visual material in many cases will not! The codes will trigger a video that simply says that this is an "emergency action notification" because that's what's built into a lot of the older equipment. Some folks, particularly the aged and hearing impaired, are likely to be misled. Why?

Why isn't there consideration of a "national" system that's triggered not at thousands of cable headends, but at the limited number of uplink facilities of the channels that are distributed by those systems? Wouldn't that be a lot easier, a lot cheaper, a lot faster way to make sure that virtually every channel on a cable system was showing the same, appropriate audio and video message?

True, we wouldn't get every channel. The PEG channels, for instance, might be a problem, and certainly all the folks watching video "over the top" on their broadband connections still miss out, but presumably that could be dealt with as well if you really wanted the government to have a switch that could override the entire Internet! Not really sure we want that.

So tell me; why can't we make this a lot easier and less expensive for operators and ultimately subscribers in the long run and test it after connecting the national EAS alerts to the national feeds of virtually all video programming? The origination point of the audio/video material, rather than the delivery point in every locality? Doesn't that make a lot more sense?

*Steve*

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