

# CableFAX Daily™

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What the Industry Reads First

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## DISH 3Q: Loss on Litigation, Higher Programming Costs

As DISH absorbed litigation costs associated with its \$700mln settlement with Voom, it posted a 3Q net loss of \$158mln vs \$319mln net income a year ago. The settlement negatively impacted net income by \$453mln. Additional contributors to YOY earnings declines included higher sub-related expenses from higher programming costs and increased sub acquisition costs associated with the 12.7% YOY increase in gross subscriber additions, execs said during a conference call Tues. The DBS provider's net subs decreased by about 19K during the Q compared to a net sub loss of about 111K a year earlier. The metric was better than Wall St's expected 39K loss. At the end of Sept, DISH had about 14mln customers. As part of the settlement to cut short the weeks-long Voom trial, DISH reached a carriage deal with AMC, which had been off its lineup for months. Absent the AMC dispute, the op might have gained subs, chmn *Charlie Ergen* said. He didn't offer specifics of the contract but said that if the net has more hit shows like "The Walking Dead," "then it will be a fair deal for us." If not, "we probably have paid too much." Though the Voom settlement came at a hefty price, it's worth it because the key is to put litigation behind DISH and focus on operations, Ergen said. He recalled the multi-year patent infringement fight with TiVo, which cost DISH \$500mln to settle. "We ended up with TiVo probably where we could have been 5 years earlier... and we wasted a lot of time for lawyers and management on something that probably could have been settled." Fielding a question on a potential DirecTV-DISH marriage, Ergen said it's something both companies might consider, though currently there are no discussions. The reality is the video business is mature and competitive with the power structure being more on the programming side than the distribution side, he said. On top of that, he cited nearly unlimited distribution power coming from broadband and the Internet, around which neither company has many assets. Meanwhile, the outcome of the presidential election won't impact a potential merger, if it makes sense, according to Ergen. It's likely to be a "doable deal no matter who the administration is..." The Hopper litigation also came up during the call. "The dirty secret is that about half the people skip commercials," whether it's the Hopper or somebody else's DVR, he said. Despite the controversy over the ad skipping feature, DISH sees broadcasters as partners. The intent isn't to kill the broadcast business model and once the litigation is over, the parties can work together to address ad skipping, Ergen said. For example: "We can target ads to customers so people don't want to skip them." DISH is awaiting FCC approval

### CableFAX

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to use its spectrum for a mobile broadband network. The company would like a partner, but Japanese mobile carrier **Softbank's** recent proposal to acquire 70% of **Sprint Nextel** and the pending **T-Mobile/MetroPCS** merger have taken 2 potential partners out of the equation, Ergen said. A merger with DirecTV is even more likely to be OKed by regulators if DISH is allowed to enter the mobile business, **Bernstein Research** analysts said. "A promise to join forces to develop a fixed wireless broadband network to compete with cable and DSL, even if only in limited portions of the country, would surely be a seductive one to regulators," they wrote in a research note.

**Cablevision Earnings:** Citing a "number" of parties expressing unsolicited interest in the former **Bresnan** systems, **Cablevision** CEO *Jim Dolan* confirmed Tues that the MSO has decided to explore a potential sale for the Optimum West division. Cablevision's pleased with Bresnan's prospects for growth and progress to date, but to the extent an attractive transaction is presented to us, we plan to pursue it, CFO *Gregg Seibert* said, noting that there's no assurance CVC will conclude a sale. Hurricane Sandy dominated the MSO's 3Q earnings call, with Dolan explaining that the MSO took several proactive steps, some based on lessons learned from Irene. Still, the impact will likely be "substantially" larger than the \$16mln hit it took last year with Irene. Some of the loss will be covered by insurance, but most probably will not, said Seibert. Cablevision expects to recognize most of the loss in 4Q. As of 2pm, more than 2.7mln Cablevision customers had both power and Optimum service, while 502K were still without power (20K had power, but no Cablevision service). There will be some homes in CVC's footprint that are completely lost. "They have told us that there are certain seaside communities that, at least at this point, they have no plans to restore power for. So, I could only guesstimate how many [homes lost] there will be, but there'll be some," Dolan said. Cablevision continues to push WiFi heavily, with execs noting that customers without power or Internet service could use CVC hotspots to stay connected during the storm. "We really see WiFi as a disruptive technology," Dolan said. It brings "a value that can't be duplicated by any other provider in the marketplace." For now, it's a data-only product, but he said the future could include a data product with voice given how the conversion between the 2 continues to happen. As for the Tribune retrans spat that kept stations off Cablevision for more than 2 months, Seibert said it had no impact. Cablevision shares closed down 6%, with the MSO posting a loss of \$3.8mln vs a profit of \$39.3mln a year ago (the Q included \$61.1mln of debt refinancing). Revenue rose to \$1.69bln from \$1.67bln. It lost 10K basic video customers, while adding 28K HSD and 22K phone subs for net PSUs of 40K—better than the consensus. Consolidated AOCF declined by (6.6)% to \$504mln. "While the subscriber growth is a comfort, we believe CVC shares could underperform today due to the EBITDA & FCF declines—after the shares' recent strong performance, there may be no hurry to go long until OCF declines appear to bottom," said a note from **ISI Group**. While revenue of \$1.69bln met consensus, organic rev growth was virtually flat YOY and down 1.5% sequentially, noted **Bernstein Research**. "With a long and costly recovery from the storm ahead, and with a longer term growth challenge that seems intractable, we continue to struggle to see the bull case for Cablevision," analysts said.

**DirecTV Q3:** It's a mixed bag when it comes to **DirecTV** 3Q results. While the company grew its sub base by just 67K due to the fight with **Viacom** (a big drop from the 327K net adds in the year-ago quarter), it posted \$565mln net income, a 9% YOY increase. The dispute involved a blackout of 26 Viacom nets July 10-19. Meanwhile, the DBS provider has active discussions with **Time Warner Cable** about potentially carrying the Lakers RSN, CEO *Mike White* said during a conference call Tues. "We hope to have a deal." White brought up the issue of rising cost of programming, especially sports programming, several times during the call. The RSN structure is "broken," and it's wrong to bundle sports channels into broader negotiations and secure higher rate increases than they otherwise might, he said. White made it clear that "all of us at DirecTV are going to continue to stand up" to keep cable programs affordable. Contract negotiations haven't gotten easier and they might remain difficult next year, he said. Elevating programming costs are likely to continue, he said. A few interesting comments on "Sunday Ticket" from execs: overall paying subs were up 50% YOY; there's a 25% increase in renewals; and the \$199 package attracted more subs than anticipated. **Bernstein Research** noted the company's gross sub additions remain strong. "This speaks to the brand appeal of the platform itself," they said. DirecTV is "staying true to its message of carefully balancing growth in favor of profitability as the U.S. MVPD market becomes increasingly saturated," said **ISI** analysts. Strength in Latin America is "still a positive but is decelerating..." they said. Latin American sub additions fell from 645K in 2Q to 543K this quarter. On ad sales, the company expects double digit YOY growth for the whole year.

**Charter Changes:** Charter is continuing on its transformation path, however bumpy it may be. It's centralizing network operations and revamping its product (going all digital, offering new pricing and packages and increasing the base Internet speed to 30Mbps). And there seems to be some traction, with the triple-play percentage of new connects increasing by 70%. "The company exhibited a rather financially painful quarter, as expected (OIBDA & FCF missed), because the firm is in the midst of a strategy shift," **ISI Group** said. "However, it already seems to be working, as new pricing and packaging offerings led to Charter posting residential Primary Service Unit net adds of +48K and commercial net adds of +18K for a +66K total net adds result, which beat our +61K estimate and the consensus +50K." Charter reported a 3Q loss of \$87mln compared with an \$85mln loss a year ago. Revenue was up 3.9% to \$1.88bln. The company lost 73K video customers vs 63K a year ago. Execs noted that expanded basic sub losses actually improved by 30K YOY because Charter's only actively marketing expanded basic (it lost 17K expanded basic customers vs 47K in 3Q11) and has stopped marketing analog. Broadband adds rose to 69K from 53K a year ago, and phone increased to 52K—nearly 5x the gain of 11K last 3Q. "We're making improvements across the organization and changing the way we do business," said CEO *Tom Rutledge*. "There is a lot of change, and I'm pleased with the way our employees have responded. Ultimately, we'll be a highly effective service organization with a superior product offering." Shares closed down 1.8% Tues.

**More Earnings:** **Discovery** shares closed down 3% Tues after it missed expectations, with 3Q net income falling to \$205mln from \$237mln a year ago and revenue off 0.4% to \$1.08bln. Blame some of this on the impact of foreign currency exchange and a decline in distribution revenue because of a big deal with **Netflix** signed a year ago. Total domestic revenues decreased 4% as ad growth of 7% was more than offset by a 14% decline to \$300mln in distribution rev. Discovery now expects '12 rev to be in the \$4.48bln-\$4.53bln range vs its previous guidance of \$4.55bln-\$4.65bln. Advertising was negatively impacted by the Olympics and soft July ratings, but execs said ad rev growth slightly exceeded mid-single digit growth due to sustained pricing strength and viewership gains across its portfolio after the Olympics. CFO *Andrew Warren* noted some softness in ad volume in early Oct but said it has picked up. "It feels quite strong now," said CEO *David Zaslav*. Income at intl nets was up 11% to \$173mln. -- The cable programming business at **News Corp** continued to shine during 3Q. Helped by 16% YOY growth at the company's Cable Network Programming segment, News posted total revenue of \$8.14bln, a 2% YOY increase. The growth was partially offset by declines at the company's Direct Broadcast Satellite TV and Publishing segments. Net income is \$2.23bln vs. \$738mln a year earlier. Affil revenue grew 16% YOY at domestic cable channels, reflecting higher rates across all nets (led by growth at RSNs and **Fox News Channel**). Ad revenue at domestic cable channels grew 8% YOY, led by RSNs and Fox.

**Storm Relief:** **The Disney/ABC TV Group** announced its national "Day of Giving," held Nov 5, raised more than \$16.8mln for the **American Red Cross** to aid those impacted by Hurricane Sandy. **Scripps Networks Interactive** donated \$250K to the Red Cross, and it's matching dollar-for-dollar employee donations.

**Programming:** **The Baseball Writers Assoc of America** will announce the winners of the Most Valuable Player, *Cy Young*, Manager of the Year and *Jackie Robinson* Rookie of the Year awards exclusively on **MLB Network**, Mon-Thurs. It's the 1st time the awards announcements will be televised live. In other MLB Net news, live talk show "Hot Stove" will relaunch Mon as a morning show (9am ET).

**Marketing:** **Univision** signed an exclusive agreement to represent Club América soccer in the US. The agreement with the Liga MX soccer team gives Univision exclusive rights to license the team's merchandise in the US beginning in Jan. Univision Deportes already holds the US media rights to the home games of Club América.

**Honors:** Six have been elected into the **Cable Center Hall of Fame's** Class of 2013: **Evolution Digital** chmn *John Egan*, **JLM Partners** principal *James Mooney*, **Pilot House** partner *Timothy Neher*, **Providence Equity** sr adviser

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# BUSINESS & FINANCE

Dick Parsons, AMC Nets pres/CEO Josh Sapan and BendBroadband pres/CEO Amy Tykeson. The 6 will be honored during the Cable Hall of Fame Celebration held in conjunction with The Cable Show, June 10-12, DC.

**On the Circuit: Arris, HBO, In Demand, Rovi, SeaChange, Synacor and thePlatform** are sponsoring student teams from 7 US business schools in a contest this fall to create marketing and launch plans for new video innovations. The competition concludes at the 2nd annual Cable Interacts Interactive Launch Competition on Nov 28 in NYC where the teams will put forth presentations to a panel of industry experts and top execs. Teams win cash prizes and gain valuable visibility toward a potential career in cable, broadband, television or related fields. The teams are composed of MBA students from Boston Univ, Columbia, Georgetown, Howard, MIT, NYU and Pace.

**People: Comcast** named *Rodrigo Lopez* as regional vp for OR and Southwest WA. He replaces *Hank Fore*, who accepted a new post running Comcast's CA operations. Lopez most recently served as regional vp of Comcast's Mountain region, a job that is going to former **NCTA** chief, Comcast/NBCU DC pres *Kyle McSarrow*. -- **Nickelodeon** named *Jill Sanford* vp, animation development.

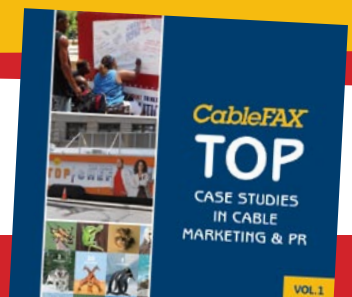
## CableFAX Daily Stockwatch

Company	11/06 Close	1-Day Ch	Company	11/06 Close	1-Day Ch
<b>BROADCASTERS/DBS/MMDS</b>					
DIRECTV:	50.51	(0.15)	CONVERGYS:	16.83	0.10
DISH:	36.00	1.17	CSG SYSTEMS:	20.00	0.07
DISNEY:	50.47	0.15	ECHOSTAR:	33.03	0.43
GE:	21.59	0.18	GOOGLE:	681.72	(1.24)
NEWS CORP:	24.59	0.23	HARMONIC:	4.43	0.06
<b>MSOS</b>					
CABLEVISION:	15.49	(1.04)	INTEL:	21.73	(0.11)
CHARTER:	71.62	(1.32)	JDSU:	10.63	0.17
COMCAST:	37.17	(0.26)	LEVEL 3:	20.20	0.06
COMCAST SPCL:	36.12	(0.13)	MICROSOFT:	29.86	0.23
GCI:	8.29	(0.05)	RENTRAK:	16.77	(0.16)
LIBERTY GLOBAL:	58.59	0.49	SEACHANGE:	9.06	0.14
LIBERTY INT:	20.49	0.03	SONY:	11.18	(0.07)
SHAW COMM:	21.60	0.12	SPRINT NEXTEL:	5.73	(0.02)
TIME WARNER CABLE:	94.17	2.24	TIVO:	10.44	0.10
VIRGIN MEDIA:	32.32	0.05	UNIVERSAL ELEC:	16.04	(0.09)
WASH POST:	345.40	(3.21)	VONAGE:	2.31	0.01
<b>PROGRAMMING</b>					
AMC NETWORKS:	48.38	0.56	YAHOO:	17.46	0.09
CBS:	34.43	0.42	<b>TELCOS</b>		
CROWN:	1.73	(0.02)	AT&T:	34.80	(0.03)
DISCOVERY:	57.46	(1.99)	VERIZON:	44.30	0.10
GRUPO TELEVISA:	23.23	0.68	<b>MARKET INDICES</b>		
HSN:	52.08	0.38	DOW:	13245.68	133.24
INTERACTIVE CORP:	46.64	0.78	NASDAQ:	3011.93	12.27
LIONSGATE:	15.39	(0.33)	S&P 500:	1428.39	11.13
LODGENET:	0.40	0.02			
NEW FRONTIER:	2.01	(0.02)			
OUTDOOR:	7.34	0.06			
SCRIPPS INT:	60.07	(0.38)			
TIME WARNER:	43.11	0.07			
VALUEVISION:	2.35	0.10			
VIACOM:	51.15	0.11			
WWE:	8.16	0.02			
<b>TECHNOLOGY</b>					
ADVANTAGE:	2.07	0.04			
ALCATEL LUCENT:	1.00	(0.02)			
AMDOCS:	33.28	(0.03)			
AMPHENOL:	62.10	0.35			
AOL:	43.70	7.89			
APPLE:	582.85	(1.77)			
ARRIS GROUP:	14.26	0.26			
AVID TECH:	6.41	0.11			
BROADCOM:	31.39	(0.19)			
CISCO:	17.48	0.08			
CLEARWIRE:	2.20	0.03			
CONCURRENT:	5.15	(0.05)			

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