

CableFAX Daily™

Thursday — November 7, 2013

What the Industry Reads First

Volume 24 / No. 217

Premium Plans: How the Pay TV Nets See Bundles, Netflix and More

Other premium nets are taking note of **Comcast's** limited basic, Internet and **HBO** offering and looking for a piece of the action. This month, the MSO unveiled the "Internet Plus" promo for \$40/mo for the first year, \$70/mo after (the package includes Comcast's streaming service **Streampix** as well as 25Mbps Internet). It's "something we've been asking for for a while," **Starz** CEO *Chris Albrecht* said during its earnings call Wed. "We certainly hope other distributors will look at that. We think it shows the value of these brands and how historically they've pulled through and cemented a lot of technologies." **Time Warner** CEO *Jeff Bewkes* called the Comcast offering a pretty limited video package that probably won't be attractive to most people. "It could be an effective way to reach the 8mln to 10mln homes with broadband that don't have multichannel TV... I think what we've all got to see is whether there's an interest because there's another [60-70mln people who don't pay for HBO]," he said, explaining that affiliates can create whatever packages they think will be attractive to those people, whether they are basic cable customers or broadband subs. Bewkes was keen on HBO's performance internationally and in the US, saying the premium net is having its strongest year in domestic subs in many years. Time Warner recorded a profit of \$1.18bln in 3Q, thanks to cable and gains from an acquisition. Rev for the cable unit increased 5% to \$3.5bln. Does a strong HBO performance mean it's taking share from Starz and **Showtime**? Not in Albrecht's opinion. "Most distributors package premium services together... Good news for 1 premium service is most likely good news for all premium services," he said. "I absolutely believe that the more that distributors focus on the high margin benefit of the premium brands, the better it's going to be for them and for us—as in all the premium brands, the 3 of us." Starz hit 22mln customers in 3Q, a 1st in its history. It added about 200K subscriptions in the Q, while **Encore** was flat, ending the period with 35mln subs. Net income for Starz dipped to \$52.2mln from \$56.4mln in the same quarter a year ago, while revenue rose 11% YOY to \$446.1mln. With **Netflix** now touting more subs than HBO in the US, are the premium nets feeling the heat? Despite reports that the OTT service has discussed set-top integration with MVPDs, Albrecht didn't sound worried. Netflix CEO *Reed Hastings* himself has said such a development could take many years. "I think there are a lot of reasons why cable operators wouldn't want to do that, including that they have higher margin product that they can sell on their own platforms that bring a much more robust, cumulative amount of programming to the consumer in earlier windows," Albrecht said.

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CABLEFAX DAILY (ISSN 1069-6644) is published daily by Access Intelligence, LLC ● www.cablefax.com ● 301.354.2101 ● Editor-in-Chief: Amy Maclean, 301.354.1760, amaclean@accessintel.com ● Exec Editor: Michael Grebb, 323.380.6263, mgrebb@accessintel.com ● Editor: Joyce Wang, 301.354.1828, jwang@accessintel.com ● Community Editor: Kaylee Hultgren, 212.621.4200, khultgren@accessintel.com ● Advisor: Seth Arenstein ● Assoc Publisher: Amy Abbey, 301.354.1629, aabbey@accessintel.com ● Sales Mgr: Susan Kim, 301.354.2010, skim@accessintel.com ● Dir of Market Dev: Laurie Hofmann, 301.354.1796, lhofmann@accessintel.com ● Prod: Jo Fato, jfato@accessintel.com ● Diane Schwartz, SVP Media Comms Group ● Scott Gentry, Dir of Bus Dev, sgentry@accessintel.com ● Group Subs: Amy Russell, 301.354.1599, arussell@accessintel.com ● Sub Questions, Client Services: 301.354.2101, clientservices@accessintel.com
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CBS 3Q: Unlike **Time Warner Cable**, **CBS** didn't suffer from the month-long retrans spat with the MSO as it scored its best-ever 3Q. CBS' flagship NY stations even saw ad revenue jump 10% YOY during the quarter, pres/CEO *Les Moonves* said during the company's earnings call late Wed. It's "unfortunate" that CBS didn't reach a deal with TWC more quickly and more peacefully like it did with **Verizon FiOS**, but it scored the rights to ink digital deals for its content, he said. "It's our content, and we spent a lot of money on those intellectual properties, and we want to monetize that," he said, citing recent deals with **Comcast's** Streampix, **Netflix** and **Amazon** and an expansion of CBS TVE apps to mobile platforms. "The deals show the importance of retaining our digital rights," said Moonves. It will also help CBS as it negotiates rates with distributors in the future, he said. Speculation on potential cable MSO consolidation didn't worry CBS. "We will get fair market value for our content" despite potential changes in the distributor space, Moonves said. What about potential regulatory intervention? "Every indication suggests the government will stay out of it [retrans disputes]," he said. The Eye's good quarter was helped by "very strong growth" in areas like retrans fees and reverse compensation. Earnings of 76 cents a share were up 19% YOY as revenue increased 11% to \$3.6bln. Revenue from the cable nets grew 37% to \$596mln, thanks to higher revenues from the licensing of **Showtime** original series, primarily "Dexter," and higher affil revenues, which reflect increases in rates and subscriptions at Showtime and **Smithsonian Networks**.

Turner: *John Martin* is still CFO at Time Warner until the end of the year. But during TWX's 3Q earnings call Wed, he gave a glimpse of how he views **Turner**, which he will head in Jan following CEO *Phil Kent's* retirement. Calling **TBS** and **TNT 2** of the most profitable networks in the world, he wants to attract the best projects possible. He sees a huge opportunity in **Adult Swim**, and said **truTV** should see a completely refreshed lineup of programming sometime next year under new pres *Chris Linn*. Martin praised **CNN's** introduction of new shows with *Anthony Bourdain* and *Morgan Spurlock* (total day ratings in CNN's demo grew by 15% in the Q). "I'm working with a world-class team and, obviously, the world-class team up here, and we see bright days ahead," he said. Turner now has signed renewals with 4 of the top 10 US distributors. 4Q should see a big YOY ramp up in original programming investment and marketing spend, a result of more than an 80% increase in original eps at Turner, as well as an increase in spending on original series and films at **HBO**.

At the Portals: The **FCC** Enforcement Bureau proposed a \$25K fine against **Turner** for a **TBS** "Conan" commercial that featured audio similar to the Emergency Alert System tone. KY TV stations **WNKY**, licensed by **MMK**, negotiated a voluntary contribution of \$39K following a complaint of misuse of the EAS signal during an ad for a store. Turner declined to comment on the proposed fine. The Bureau also issued an enforcement advisory to address "growing concern" about misuse of these sounds to capture audience attention during ads. While it has been against FCC rules for 2 decades to transmit EAS tones or similar tones other than for a test or real alert, the Bureau cited a recent spike in consumer complaints about misuse of the sound. "It is inexcusable to trivialize the sounds specifically used to notify viewers of the dangers of an incoming tornado or to alert them to be on the lookout for a kidnapped child, merely to advertise a talk show or a clothing store," said Enforcement Bureau acting chief *Robert Ratcliffe*.

BlockBusted: **Blockbuster** is finally biting the dust as parent **DISH** announced plans to end its retail and by-mail DVD distribution operations by early Jan, 2.5 years after DISH acquired the video rental business for \$320mln. Some 300 remaining retail stores and distribution centers will shutter. The Blockbuster By Mail service will end mid-Dec and will serve existing customers until that time. Moving forward, DISH will retain licensing rights to the Blockbuster brand and key assets, including a video library. DISH will focus on offering subs the streaming service, Blockbuster @Home (offers 15 movie channels such as **Starz Cinema**, **Epix**, and **Hallmark Movie Channel**), and on its transactional streaming service Blockbuster On Demand for the general market. DISH also will continue to support Blockbuster's franchise operations, relationships and agreements. Blockbuster has divested itself of assets in the US and abroad over the past 18 months. "This is not an easy decision, yet consumer demand is clearly moving to digital distribution of video entertainment," said DISH pres/CEO *Joseph Clayton*. "Despite our closing of the physical distribution elements of the business, we continue to see value in the Blockbuster brand, and we expect to leverage that brand as we continue to expand our digital offerings," he said.

M&A: **Synacor** agreed to acquire Android development platform company **Teknision** to enable content delivery across Android devices. Synacor said the deal allows it to offer device makers a customizable platform as a service (PaaS) that improve personalized and curated online experiences for end-users.

Technology: The **US Patent Office** granted **Beyond Broadband Technology** a core patent, comprising 202 individual

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claims, for consumer electronics hardware tech that protects the transmission of electronic data in a new, flexible and secure way. **CableFAX** columnist *Steve Effros* is a part of BBT, which has developed a downloadable security system that uses a secure microchip that can work with TVs, tablets, smartphones, computers and other CE devices. The tech already has been deployed in an initial application in cable set-tops.

Online: Netflix bows Season 2 of its original series "Lilyhammer" on Dec 13. All 8 eps of the 1-hour series about a mobster entering a witness protection program in Lillehammer, Norway, will be available for Netflix subs at launch.

Programming: FX ordered a 4th installment of "American Horror Story" from **20th Century Fox Television**, which includes 13 eps. -- **Sportsman Channel** will launch a military-themed programming initiative called the "Salute to Service" on Mon (Veterans' Day), focusing on key holidays and special events that celebrate the country's freedom and independent lifestyle. Actor/humanitarian *Gary Sinise* is the official spokesman for the initiative.

Stork Visit: Congrats to **Cablevision** communications exec *Sarah Chaikin Lyons* and husband *Joe Lyons* on the birth of their 2nd daughter, *Talia Anastasia Lyons*, who was born Wed morning. Mom and Talia (7 pounds, 14 ounces) are doing just fine!

CableFAX Daily Stockwatch

Company	11/06 Close	1-Day Ch	Company	11/06 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
21ST CENTURY FOX:	33.92	(0.17)	GOOGLE:	1022.75	1.23
DIRECTV:	63.50	(0.03)	HARMONIC:	7.30	UNCH
DISH:	48.84	(0.02)	INTEL:	24.25	0.21
DISNEY:	69.00	0.15	JDSU:	12.85	(0.23)
GE:	26.90	0.48	LEVEL 3:	30.03	(0.56)
MSOS					
CABLEVISION:	15.96	(0.24)	MICROSOFT:	38.18	1.54
CHARTER:	128.92	(2.14)	MOTOROLA MOBILITY:	13.92	0.33
COMCAST:	47.81	(0.03)	NIELSEN:	39.70	0.22
COMCAST SPCL:	46.75	0.07	RENTRAK:	35.94	(0.03)
GCI:	9.80	(0.07)	SEACHANGE:	14.00	(0.29)
LIBERTY GLOBAL:	80.98	4.94	SONY:	17.07	0.22
LIBERTY INT:	27.58	(0.17)	SPRINT NEXTEL:	7.07	(0.12)
SHAW COMM:	23.95	0.29	TIVO:	13.56	(0.31)
TIME WARNER CABLE:	120.21	0.24	UNIVERSAL ELEC:	39.13	(0.34)
WASH POST:	643.72	3.42	VONAGE:	3.46	(0.28)
PROGRAMMING					
AMC NETWORKS:	72.35	0.34	YAHOO:	32.88	(0.09)
CBS:	59.62	(0.28)	TELCOS		
CROWN:	3.13	UNCH	AT&T:	35.82	0.29
DISCOVERY:	85.65	(1.25)	VERIZON:	50.61	0.51
GRUPO TELEVISIA:	29.82	(0.45)	MARKET INDICES		
HSN:	53.97	0.12	DOW:	15746.88	128.66
INTERACTIVE CORP:	55.17	(0.23)	NASDAQ:	3931.95	(7.92)
LIONSGATE:	33.82	(1.1)	S&P 500:	1770.49	7.52
MADISON SQUARE GARDEN:	57.00	(0.79)			
SCRIPPS INT:	80.29	0.17			
STARZ:	28.93	(1.36)			
TIME WARNER:	67.69	(0.54)			
VALUEVISION:	5.31	(0.03)			
VIACOM:	83.77	(0.42)			
WWE:	12.72	(0.23)			
TECHNOLOGY					
ADVANTAGE:	2.57	0.03			
ALCATEL LUCENT:	4.20	0.09			
AMDOCS:	39.50	1.23			
AMPHENOL:	80.88	1.08			
AOL:	43.12	1.10			
APPLE:	520.92	(4.53)			
ARRIS GROUP:	17.25	0.04			
AVID TECH:	7.50	0.17			
BROADCOM:	26.72	0.26			
CISCO:	23.28	0.21			
CONCURRENT:	7.41	0.04			
CONVERGYS:	19.60	0.08			
CSG SYSTEMS:	27.36	UNCH			
ECHOSTAR:	47.24	(0.3)			

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Think about that for a minute...

The MVPD Mess

Commentary by Steve Effros

MVPD stands for “multichannel video program distributor,” the name the federal government now uses to refer to both cable and satellite services that offer aggregated video programming to the public. The statutory definition is: “a person such as, but not limited to, a cable operator, a multichannel, multipoint distribution service, a direct broadcast satellite service or a television receive-only satellite program distributor, who makes available for purchase, by subscribers or customers, multiple channels of video programming.”



As anyone with a heartbeat has to know by now, the primary video service this definition refers to has vastly expanded since adoption in 1996.

The FCC can expand the scope of its rules to include additional MVPDs, but has yet to do so. Hence we have the strange situation where a company like Aereo can charge and make available, with its own transmitting equipment (its servers), to customers, multiple channels of video programming but at the moment not be listed as an MVPD! So none of the other consumer protection, privacy, disability, EAS, etc, rules regarding that video apply to them.

This is at the heart of the Aereo fight, but most reporters and analysts don't seem to know it, and the broadcaster's attorneys chose not to say so in their legal briefs. All the legal stuff so far about Aereo focuses on whether that service is violating the Copyright Law by not paying copyright fees for the video they are sending to customers over the Internet. Lots of time is being spent arguing whether the angels are dancing on the head of a definitional pin regarding “transmissions” and copyright.

The broadcasters are suing, however, because they fear losing “retransmission fees.” But “retransmission consent

fees” are NOT part of the copyright law! They are part of a statute enforced by the FCC. All “MVPDs” are required to get “retransmission consent.” All. The Commission could rule very quickly (they already had a public notice asking for input and could do a rulemaking any time) that Aereo and any other distributor (deliverer?) of “multiple channels of video programming” to paying customers via broadband was an MVPD. The “retrans” fight would be over. Aereo would have to pay “retransmission consent” fees regardless of copyright.

So the real underlying issue is what the heck an “MVPD” is, and then why ALL the relevant rules for cable, DBS, etc., shouldn't apply equally to everyone else. They should. Note that the legal language lists cable and DBS, but also specifically says “..not limited to.” For my money, the Commission simply has to get going and clean up this mess because Congress won't right now, (eventually they will have to!) and the disparate application of rules to folks who are all doing the same things, seeking the same paying customers and are all delivering “multiple channels of video programming” is getting totally out of hand.

We have read and speculated about “convergence” for years in this industry. Well, it's happened. The screen doesn't care whether the picture it gets is via QAM or IP or QPSK (cable, broadband, satellite). Neither does the viewer. That the rules governing the obligations for delivering that picture should be totally different depending on which technical way it arrives is just inane. The Commission can begin doing something about it without waiting for a likely-to-fail Supreme Court cert request. A lot of time could be saved if the FCC would start clearing up the MVPD definitional mess and apply all the relevant rules equally.

Steve

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(Steve Effros was President of CATA for 23 years and is now an advisor and consultant to the cable industry)



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Entry Deadline:
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