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Standstill: Time Warner Cable Puts a Halt on Wireless

Last week, **Time Warner Cable** was saying it was evaluating future wireless launches. But on Wed, it was pretty clear that there are no plans for expanding **Pivot**. Time Warner Cable pres/CEO *Glenn Britt* said during Wed's earnings call that the MSO will continue to offer the cable-**Sprint** jv service where it's already launched but will "not roll it out further." Sprint announced last Thurs that it wouldn't offer the wireless Pivot phone service in any new markets because of the difficulty in provisioning it. Pivot launched in 33 of the planned 40 markets, with the remaining 7 all belonging to Time Warner. **Comcast**, **Cox** and **Bright House** never announced any future launch plans. "The first formulation of this, which was under the brand of Pivot, suffered from serious back office integration issues, and so we're slowing down the marketing of that," Britt said, adding that demand for the service has been "pretty tepid." Time Warner had planned to launch the service in NYC, Albany, additional parts of NC, parts of SC, Dallas, L.A., and its San Diego system. Time Warner has a "great" relationship with Sprint, and it will continue working with it, Britt said. As for the existing service, Britt explained it like this: "if our customers seek to buy that from us and if we can provide that in a profitable way, we should do that." As for all the new technologies out there—4G, WiMax, etc—the jury's still out on where it's going, he said. "Is there a natural product extension for cable operators… is there just a really good investment opportunity?" he said. "We continue to explore and look at it, including potential ways to use the spectrum that we acquired. We don't intend to do anything that is foolish or premature."

Basic Bloodletting: The figure garnering the most attention from **Time Warner Cable**'s 3Q earnings is 83K. That's the higher-than-expected number of basic subs lost during the Q, with the bulk (66K) of those defections coming from the acquired **Comcast**/**Adelphia** systems in L.A. and Dallas. **Sanford Bernstein** called the magnitude of loss from those 2 cities "shocking." TW Cable pres/CEO *Glenn Britt* acknowledged that "given the history of cable in these 2 cities, it's going to take a long time to create a positive consumer image." He said the most disruptive phase for those acquired systems—changing physical plant, marketing, customer care, etc—was largely complete. The MSO is now concentrating on launching advanced services, with Britt calling early demand "very encouraging." "We fully expect these divisions to begin to contribute to the company's growth in '08 and continue to believe they represent one of our greatest upside opportunities over time." While basic subs disappointed, phone adds of 275K and HSD adds of 224K were strong. The company said its commercial phone rollout is on track, with the service launched in 13 of 23 divisions at the end of 3Q. Revenue rose 25% year-over-year to $4bln, while OIBDA grew 28% to $309mln. Shares closed down 4.3% Wed. ***At Time Warner***: Not surprisingly, *Jeff Bewkes* offered little guidance during **Time Warner**'s earnings call on what the company will look like when he becomes CEO in Jan. Asked about the possibility of acquiring assets, such as **Scripps Nets** or **NBC**, Bewkes didn't discuss any specific transactions but said "we'll be looking at basically anything that can improve our

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strategic advantage over our competitors that has a good long-term return. That'll be true for acquisitions or divestitures." Rev for TW was up 9% to 11.7bln, while net income fell 53% to $1.08bln, reflecting asset sales.

Competition: **DirecTV** did net a tidy 240K sub additions in 3Q, but hefty increases in the associated SAC and upgrade costs somewhat marred the satcaster's balance sheet. While CEO *Chase Carey* acknowledged that cost improvements are necessary, he was nonetheless pleased with demand. One-half of the 1.03mln gross adds in the Q took at least 1 advanced service, he said, helping raise advanced product penetration to just under 40%, up nearly 10 percentage points over last year. Churn is improving, ARPU rose in spite of the large number of pricing discounts and promotions, and high-quality subs continue to flock to DirecTV, Carey added. In a research note, **Sanford Bernstein**'s *Craig Moffett* agreed that the net sub additions metric "is a clear win" and that DirecTV enjoys "the most affluent customer base in all of Pay-TV," which he said helps insulate against current US economy woes. Moffett also believes DirecTV owns the best video product available. But, he noted that "DirecTV has fallen unsustainably far behind its competitors in HDTV penetration, and has over-earned for years due to this under-spending. Now comes the cost of catching up." Moffett rates DirecTV as 'underperform,' target $19. Future costs will abate as advanced services tech becomes cheaper, said Carey, who expects an increasingly efficient direct sales channel (and cable defectors) to drive continuing improvement in demand HD/DVR services. True to recent form, pay-TV investors keyed on sub additions and sent DirecTV's stock up 2.53% Wed, even in the face of a 361-point market plummet. -- The satcaster also promoted *Steven Roberts* to svp, new media and business development, and added local high-def channels in Anchorage and Juneau, AK.

Earnings: Excluding **Travel Channel** (now operated by **Cox**), **Discovery**'s US nets achieved an 11% increase in 3Q revenue and a 6% rise in operating cash flow, powered mainly by a 19% surge in net ad rev (sans Travel). Discovery Channel and TLC led the sibling nets in sell-out rates, improved unit pricing and higher audience delivery. -- While **Playboy** chmn/CEO *Christine Hefner* reiterated the stability of the company's domestic TV segment after a difficult transition to VOD, the unit reported a 14% Y-over-Y decrease in 3Q revenue to $17.6mln, representing a 19% sequential slide. Revised information from a large cable op led to the drop, the company said. Online/mobile revenues were flat at $15.3mln.

A New Day: ***CableFAX*** has launched a new initiative to supplement our daily publication with special magazine issues, Webinars, networking events, roundtables, new awards programs and more. As a result, several of *CableWorld*'s signature issues will fold into CableFAX Magazine. CableWorld will cease publication after the Dec 10 issue, but Editor *Seth Arenstein* and Managing Editor *Steve Goldstein* will move into newly expanded roles overseeing the CableFAX magazines and compelling new Web features at our cable360.net Web site. *Michael Grebb* remains executive editor of CableFAX Daily and will head up several other areas, including CableFAX-branded events and new premium products. Grebb will also oversee a series of Webinars and roundtables. In '08, CableFAX will also present the first annual Programmies Awards for top cable programs across all categories. The new CableFAX group "will provide cable executives with the tools and ideas to expand their businesses and personal networks amid unprecedented competition," said *Diane Schwartz*, vp of the Media Communications Group, which includes the CableFAX portfolio and sister brands *min* and *PR News*.

BUSINESS & FINANCE

In the Courts: A Philly-area couple is suing **Verizon** for $58K in damages and cleanup costs stemming from a fire allegedly caused by FiOS TV techs. The suit claims that while VZ acknowledges the installers' culpability due to an electrical line strike, the telco refuses to make good on promises to cover the couple's housing and living expenses while they search for a new residence.

At the Portals: The **Hands Off the Internet** coalition told the **FCC** Thurs that it should investigate whether **Comcast** violated the FCC's 4 net neutrality principles. The MSO has said it doesn't block content and has only taken network management steps. The group used the letter to stress that it believes the FCC already has the authority to stop an Internet provider from blocking or degrading access if that proves to be the case.

In the States: **Cablevision** launched **CNN HD**, bringing to 42 the number of HD programming services it offers.

VOD: Free on demand net **Film Festival Channel** launched in more than 5mln US homes, on certain **Cox**, **Comcast**, **Mediacom**, **Armstrong** and **Bresnan** systems. The **Stella Artois**-sponsored net features indie and foreign films.

People: **Comedy Central** promoted *Paul Beddoe-Stephens* to vp, digital media. -- **MTVN** promoted *Laura Molen* to svp, ad sales, **VH1** brands and **The N**.

CableFAX Daily Stockwatch

Company	11/07 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
BRITISH SKY:	51.55	(1.3)
DIRECTV:	26.78	0.66
DISNEY:	33.50	(0.58)
ECHOSTAR:	49.28	0.18
GE:	39.08	(1.1)
HEARST-ARGYLE:	21.83	(0.23)
ION MEDIA:	1.39	(0.01)
NEWS CORP:	21.96	(0.67)
TRIBUNE:	27.86	(0.96)
MSOS		
CABLEVISION:	26.53	(0.45)
CHARTER:	1.78	(0.04)
COMCAST:	20.09	(0.6)
COMCAST SPCL:	19.94	(0.59)
GCI:	7.52	(0.39)
KNOLOGY:	15.41	(0.69)
LIBERTY CAPITAL:	124.12	2.19
LIBERTY GLOBAL:	40.41	(0.76)
LIBERTY INTERACTIVE:	20.56	(0.29)
MEDIACOM:	5.13	0.11
NTL:	28.22	0.00
ROGERS COMM:	42.97	0.00
SHAW COMM:	27.45	(0.56)
TIME WARNER CABLE:	26.37	(1.18)
WASH POST:	857.92	0.66
PROGRAMMING		
CBS:	27.03	(0.87)
CROWN:	6.90	(0.04)
DISCOVERY:	26.96	(0.51)
EW SCRIPPS:	44.08	(0.73)
GRUPO TELEVISA:	23.33	(0.47)
INTERACTIVE CORP:	29.73	(1.38)
LODGENET:	19.87	(1.1)
NEW FRONTIER:	5.76	0.01
OUTDOOR:	8.05	(0.13)
PLAYBOY:	10.90	(0.5)
TIME WARNER:	17.80	(0.53)
UNIVISION:	36.23	0.00
VALUEVISION:	4.78	(0.09)
VIACOM:	41.22	(1.24)
WWE:	14.65	(0.47)
TECHNOLOGY		
3COM:	4.80	(0.01)
ADC:	17.91	(0.28)
ADDVANTAGE:	6.56	(0.11)
ALCATEL LUCENT:	8.62	(0.46)
AMDOCS:	34.49	(0.56)
AMPHENOL:	43.26	(0.65)
APPLE:	186.30	(5.49)
ARRIS GROUP:	10.92	(0.34)
AVID TECH:	26.64	(1.04)
BIGBAND:	6.02	(0.02)
BLNDER TONGUE:	1.10	(0.06)
BROADCOM:	32.89	(0.6)
C-COR:	11.81	(0.24)
CISCO:	32.75	(1.33)
COMMSCOPE:	44.59	(0.77)
CONCURRENT:	1.02	(0.02)
CONVERGYS:	17.41	(0.37)
CSG SYSTEMS:	19.20	0.00
GEMSTAR TVG:	6.64	(0.28)
GOOGLE:	732.94	(8.85)
HARMONIC:	11.38	(0.27)
JDSU:	14.07	(0.6)
LEVEL 3:	3.01	(0.02)
MICROSOFT:	35.52	(0.89)
MOTOROLA:	17.02	(0.72)
NDS:	58.04	(0.28)
NORTEL:	18.46	(0.72)
OPENTV:	1.34	(0.03)
PHILIPS:	43.09	(0.75)
RENTRAK:	14.79	(0.28)
SEACHANGE:	5.32	(0.34)
SONY:	47.93	(0.92)
SPRINT NEXTEL:	16.57	(0.64)
THOMAS & BETTS:	53.86	(1.98)
TIVO:	6.96	(0.01)
TOLLGRADE:	8.13	(0.17)
UNIVERSAL ELEC:	33.96	(0.47)
VONAGE:	2.19	0.16
VYYO:	5.70	(0.13)
WEBB SYS:	0.07	(0.01)
YAHOO:	27.63	(2.3)
TELCOS		
AT&T:	38.66	(1.38)
QWEST:	6.55	(0.21)
VERIZON:	43.10	(0.64)
MARKET INDICES		
DOW:	13300.02	(360.92)
NASDAQ:	2748.76	(76.42)

Think about that for a minute...

Clear as MDU

I'm sure someone has used that headline by now, but it says everything. The FCC's decision last week on exclusive contracts to provide services to multiple dwelling units... MDU's... will result in both policies and legal positions that are a total mess. It's going to be clear as mud.

The Commission decided that consumer choice is paramount. They also decided that exclusive contracts interfere with that choice, and potentially lead to other bad things because they block competition. So they banned exclusive contracts for the delivery of… wait a minute, they didn't ban exclusive contracts, the things they said were so bad. They banned cable companies from having exclusive contracts. Anyone else is still allowed to have them!

Steve Effros

You can sympathize with some of the lawyers at the FCC (although, I know, that's hard) who pointed out to the Commissioners that their jurisdiction is really stretched just to ban those cable contracts, especially since they are abrogating existing contracts as well. So maybe some caution was needed, and an additional rulemaking or two to be able to get to the other exclusive contracts… you know, the ones the MDU and planned development folks have made with the satellite guys, or the "master antenna" guys, or, indeed, the telcos. (That's why the telcos offer virtually identical service as the cable folks, but always want to be called something other than cable!)

But the Commission has never been terribly fastidious about following the intent of the Administrative Procedure Act in the past. "Notices of Inquiry" have been almost completely abandoned, and "Notices of Proposed Rulemaking," were intended to have the actual, proposed rule in them, so that folks can comment on the details and the potential (usually unintended) consequences of the specific rule language. None of that is done any more, so why, all of a sudden, is there this concern about not having a "record" before deciding the issue? Heck, some Commissioners announce their decision on issues before a "Rulemaking" is ever issued!

In this case they might find they have created more of a mess, not solved an issue. I'm not going to support exclusive contracts in perpetuity. But when infrastructures are built, or companies are supposed to spend lots of money prior to being able to recover any, it is not unusual to grant exclusive contracts. Think of the Pentagon contracting procedures or any other government contract. They are almost always exclusive for that reason, or because they have concluded that they can get the "best deal" by contracting that way. In fact, the Commission made that same conclusion less than five years ago on this very issue to induce new broadband construction. Now they have reversed themselves, and instead of granting some reasonable period of time for the contracting party to recover the costs, they have just voted to do a "180," and the companies be damned.

Well, I don't think the Courts are going to look too kindly on that attitude, especially because other exclusive contracts are allowed to remain in force. The Commission could have done all this in a reasonable, all-inclusive, moderated fashion, but they decided not to. The result is going to be a litigated mess. What's worse, with "cable" now offering data and voice, how will the "inside wiring" rules be applied? I may not have a video customer in apartment A2, but they could become a voice customer, and the Commission wants cable to compete with telephone companies on voice! How's all that going to work? Clear as mud.

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