

CableFAX Daily™

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What the Industry Reads First

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The Aftermath: New Day Brings Democratic Power

As the Dems take control of the House and quite possibly the Senate, what's the status of **NCTA's** top-ranked Democratic lobbyist? The contract for *David Krone* expires at the end of the year, and he hasn't reupped (though the offer to renew has certainly been extended). We hear he's weighing a few different opportunities, including staying at the cable group. Krone appears to be in the catbird seat—the Democrats' win opens up the door for more opportunities outside NCTA, but it also makes him a more valuable part of the trade organization, led by Republican *Kyle McSarrow*, as it engages with new House Commerce chmn *John Dingell* (D-MI) and a telecom subcmte presumably led by *Ed Markey* (D-MA). Dingell told reporters Wed that Markey hasn't told him what he plans to do. Rep *Rick Boucher* (D-VA) would be the next most likely candidate for the telecom seat. Dingell ran through some of his plans as chmn, but provided few specific details on the telecom front. He does want to take another crack at a telecom bill. Chief among his concerns appears to be ensuring that the **FCC** is making spectrum available to first responders. He provided no details on net neutrality—one of the issues that kept him from voting for the telecom bill—simply saying, "Clearly, we have to address the question of network neutrality." USF is another of his telecom priorities. Franchising reform continues to sound more and more like a dead horse, with the Bells concentrating on state reform. "I think we'll take a look at it, but I can't tell you how far we'll go," Dingell said. He acknowledged being "very helpful" to the Bells over the years, but said that he would be looking for good public policy and the protection of public interest. Case in point, Dingell said he would like the FCC to hold off on the **AT&T-BellSouth** merger so that the new Congress can take a hard look at whether the public interest is being served. He later told CNBC he wasn't looking for a delay, but wants a careful review of the deal.

Election Wrap: CNN was the winner in last night's race for election coverage ratings at cable news channels. The net averaged 1.33mln prime viewers in the 25-54 demo, besting Fox News (1.25mln) and MSNBC (893K). -- Big props to **Comedy Central's** Indecider Blog, which appears to be the 1st place to report that *Donald Rumsfeld* was out as Sec of Defense, posting something at 12:15am ET. -- **FCC** Commish *Jonathan Adelstein* was spied at the **Democratic Congressional/Senatorial Campaign Committee** after midnight, listening to some of the last speeches (doesn't he have young children?). -- Should the Dems take over the Senate, *Daniel Inouye* (D-HI) is expected to chair the powerful Commerce committee. He and Commerce chmn *Ted Stevens* (R-AK) have worked so closely together that the change isn't expected to cause any major ripples. -- **C-SPAN** jumped into action, slating a 90-min special on incoming House Speaker *Nancy Pelosi* (D-CA) for Thurs, 8pm and 11pm ET.

Cablevision 3Q: The originator of the \$90 triple-play bundle continues to see success, with more than half of all Cablevision's 3Q new connects taking the package. The MSO's solid results included the 10th consecutive Q of basic customer gains, with nearly 10K adds. Digital added 93K customers, putting CVC at 76% penetration of basic subs. That industry

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leading digital penetration has helped in Cablevision's launch of switched digital. It's spent \$8mln this year to launch 60 intl channels using the tech. The high penetration has also allowed it to move several analog channels to digital, with all pay TV now digital. Cablevision's voice subs grew by 113K and HSD adds totaled 72K, with 56% of those customers also taking voice. No surprise that Cablevision didn't comment on the Dolans' proposal to take the company private or pending litigation over its remote storage DVR. *Tom Rutledge* did tackle a question about whether CVC's impressive penetration rates have more to do with its demos. "Our penetration in the Bronx is better than any MSO's national penetrations in every service category," he said. "Even in our weakest performing areas from a financial perspective, in other words the poorest communities we serve, we exceed the avg natl penetration in every product category of all the publicly traded MSOs." Overall, Cablevision's consolidated revenue rose 13% to \$1.4bln. Rev for cable climbed 18.7% to \$1bln.

DirectTV's Mixed Bag: Even as **DirectTV** reported weaker than expected 3Q sub growth, Wall St embraced the DBS op's 13% increase in rev growth to \$3.67bln and pushed DirectTV's stock to a 52-wk high of \$22.93 (+5%). Gross sub adds in the Q were 1mln and net adds were 165K, numbers that bested 2Q's 6-yr lows in each metric, yet are still noticeably lower than '05 stats. **Sanford Bernstein's Craig Moffett** was disturbed that the 227K net sub additions posted by DirecTV's telco partners (**BellSouth, Verizon, Qwest**) exceeded the satcaster's net adds. "It is clear that the telcos continue to be a crucial distribution channel for DirecTV. Their moves to build video distribution networks of their own are therefore particularly troubling," Moffett wrote in an analysis. During a Wed conference call, CFO *Mike Palkovic* cited churn as a key reason for the disappointing sub numbers. 3Q churn was a higher-than-expected 1.8%, although Palkovic said the steady drop in involuntary churn (46% to 38% of overall churn) continues to satisfy. But "we still have much work to do in the area of voluntary churn," he said. "Increased demand is causing a strain on our service infrastructure." Positive 3Q metrics include 6% ARPU growth to \$72.74 and a 51% increase in subs with HD, DVR or HD DVR services to 4.3mln. The penetration rate of subs with advanced services nearly doubled in the Q, said Palkovic. **UBS** maintained its 'reduce 2' rating on DirecTV shares with an \$18 price target. "We continue to believe satellite is fundamentally challenged over the next several years in an increasingly competitive pay-TV environment," the company wrote.

At the Portals: The **FCC** is seeking comment on **Mediacom's** emergency retransmission complaint against **Sinclair**. Comments are due Nov 28. The MSO wants the FCC to intervene or at least grant a temporary restraining order that would keep the 22 Sinclair stations on the air for at least 3 months after a Dec 1 deadline for reaching a deal.

Plug & Play: **NCTA** wasn't doing cartwheels over the 2-way plug & play proposal that **CEA** submitted to the **FCC** this week, saying the plan should be discussed at inter-industry discussions rather than at the FCC. "Cable will continue to support a minimal regulatory approach that leverages existing marketplace solutions rather than looking to the government to micromanage and potentially harm the evolution of a thriving retail environment," NCTA gen counsel *Neal Goldberg* said. NCTA also noted that a 2-way solution already exists, pointing to the number of CE manufacturers that have already signed deals with **CableLabs** (including **Samsung**, which demo'd a working 2-way set at this year's **CES**). CEA submitted a consensus proposal to the FCC that would allow CE makers to build products equivalent to cable's lower-end, interactive set-tops, and offer a way toward licensing and assuring support for competitive devices fully interactive with all cable ops.

Insight Earnings: **Insight's** 3Q total rev jumped 14% to \$318mln, led by rev increases in basic (8%), HSD (22%), digital



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BUSINESS & FINANCE

(28%) and telephone (47%) services. The MSO's total RGU's grew 14% to 2.61mln, powered by net gains of 16K basic subs (1.32mln total), 26K digital subs (598K), 45K HSD subs (580K) and 6K phone subs (113K). Avg monthly rev/basic sub in 3Q was \$80.90, compared to \$73.57 last year. Growth has been achieved, Insight said, through increased spending on sales and mktg efforts, an emphasis on bundling, and video service differentiation with VOD, HDTV and DVRs.

In the States: Comcast launched **Hallmark Channel** Oct 31 in its Sacramento, CA, system of 224K subs. -- **Suddenlink** and **Sprint Nextel** finally got around to announcing that 5-year VoIP agreement (*Cfax*, 10/27).

Ratings: Nielsen can add English-language, Latino producer **AIM TV** to its list of opponents. AIM TV launched Wed "Help! Change TV," a consumer-targeted campaign seeking to convince Nielsen to change its language preference method of monitoring US Hispanic TV viewing to one based on nativity (US born vs. foreign born). AIM TV contends that Nielsen's current methodology leads to underrepresentation of Latinos on English-language TV, resulting in skewed stereotypes by non-Latinos.

Business/Finance: Time Warner filed with the SEC a shelf registration statement and has begun an underwritten public offering of debt securities with maturities ranging from 3-30 years.

CableFAX Daily Stockwatch

Company	11/08 Close	1-Day Ch	Company	11/08 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
BRITISH SKY:	42.50	(0.17)	AVID TECH:	36.69	0.42
DIRECTV:	22.97	1.13	BLNDER TONGUE:	1.42	0.00
DISNEY:	33.10	0.25	BROADCOM:	31.89	(0.09)
ECHOSTAR:	36.68	0.70	C-COR:	9.99	0.04
GE:	35.58	0.04	CISCO:	25.10	0.26
HEARST-ARGYLE:	25.70	0.11	COMMSCOPE:	31.34	0.05
ION MEDIA:	0.78	0.01	CONCURRENT:	2.00	(0.02)
NEWS CORP:	21.86	0.29	CONVERGYS:	22.09	0.15
TRIBUNE:	32.48	0.86	CSG SYSTEMS:	27.93	0.42
MSOS					
CABLEVISION:	27.91	(0.02)	GEMSTAR TVG:	3.30	0.04
CHARTER:	2.73	(0.02)	GOOGLE:	475.00	2.43
COMCAST:	40.85	0.21	HARMONIC:	8.25	(0.07)
COMCAST SPCL:	40.44	0.19	JDSU:	15.06	(0.69)
GCI:	14.50	0.18	LEVEL 3:	5.54	0.01
KNOLOGY:	10.49	(0.37)	LUCENT:	2.53	0.03
LIBERTY CAPITAL:	89.98	0.24	MICROSOFT:	28.99	0.04
LIBERTY GLOBAL:	26.85	0.19	MOTOROLA:	21.47	(0.45)
LIBERTY INTERACTIVE:	22.49	(0.22)	NDS:	48.97	(0.42)
MEDIACOM:	8.22	(0.01)	NORTEL:	1.96	(0.17)
NTL:	27.27	0.27	OPENTV:	2.68	(0.07)
ROGERS COMM:	59.17	(0.59)	PHILIPS:	36.08	0.11
SHAW COMM:	31.33	(0.12)	RENTRAK:	12.76	(0.23)
TIME WARNER:	19.64	(0.16)	SEACHANGE:	8.67	(0.13)
WASH POST:	735.70	0.70	SONY:	40.95	0.14
PROGRAMMING					
CBS:	29.60	0.20	SPRINT NEXTEL:	19.89	0.35
CROWN:	3.59	0.03	THOMAS & BETTS:	51.05	0.92
DISCOVERY:	15.08	0.13	TIVO:	6.00	0.01
EW SCRIPPS:	50.21	0.15	TOLLGRADE:	8.25	(0.17)
GRUPO TELEVISIA:	25.00	0.21	UNIVERSAL ELEC:	21.60	(0.11)
INTERACTIVE CORP:	33.25	0.57	VONAGE:	6.73	(0.02)
LODGENET:	23.26	0.62	VYYO:	3.40	(0.07)
NEW FRONTIER:	9.40	(0.03)	WEBB SYS:	0.07	0.00
OUTDOOR:	13.67	0.07	WORLDGATE:	1.50	(0.09)
PLAYBOY:	12.15	0.80	YAHOO:	26.90	0.29
UNIVISION:	35.13	(0.03)	TELCOS		
VALUEVISION:	13.22	0.26	AT&T:	34.37	0.07
VIACOM:	39.67	(0.23)	BELLSOUTH:	44.57	(0.4)
WWE:	16.45	0.05	QWEST:	8.59	(0.25)
TECHNOLOGY					
3COM:	4.87	0.15	VERIZON:	36.86	(0.01)
ADC:	13.75	(0.04)	MARKET INDICES		
ADDVANTAGE:	4.00	(0.06)	DOW:	12176.54	19.77
AMDOCS:	38.47	(0.28)	NASDAQ:	2384.94	9.06
AMPHENOL:	67.22	(0.15)			
ARRIS GROUP:	11.95	0.48			



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Dead End

The programming community is heading down the wrong road, and I suspect that if they don't rethink their direction, they will lead us all down a dead end.

Instead of focusing on the many creative ways to provide new and value-added services connected to their products, some programmers are trying to revisit old issues and live in a business model past that no longer exists... and can't be recreated.

Some program owners (not all of them) are trying to maim or kill consumer adoption of DVRs. It's a big mistake, and it will ultimately fail. But in the meantime, other potential opportunities will slip away as programmers try to recreate the distant pre-BetaMax-case past, and those opportunities will be lost.



Steve Effros

The first step in the effort to stop DVR penetration is the court challenge to the Cablevision proposal to provide "network" DVR's. The oral argument in that case took place the other day, and it didn't sound good. Cablevision could lose this round.

The most significant thing about the case is that the issue is not really focused on the "network" part of what the DVR does but on the nature of the service itself.

In other words, the programmers don't concede that an individual has the right to record and manage how they view programming they have purchased via cable. Reading between the lines, that means programmers are trying to make a major distinction between the old VCR technology and this new digital DVR service technology. They want to say it should not be allowed.

As usual, this is a fight over how program owners can maximize the revenue they receive from their copyrighted product. I have no issue with that, but I think there

are ways to do it without harming the equally important rights of our customers to use and enjoy that product how they see fit—so long as they don't destroy its value by indiscriminately distributing it to others.

What the programmers want, apparently, is to go back to the days when consumers didn't have the ability to record and manage video in the home. As I have argued many times before, it shouldn't make any difference how long the cord is between the hard drive and the electronics that control it. A DVR, whether "networked" or not, should be allowed to be in the total control of the customer. But these folks really want to go farther and say that digital recording and management in the home, no matter how it is done, should be stopped.

Too late, folks. It is already in the home. Consumers are already both used to doing it and like it a lot. Re-fighting the BetaMax case is ultimately going to waste valuable time.

Valuable for what? Designing new services. Cable operators are experimenting with ways to add value by starting a program from the beginning even if you get to the set late, or archiving. Or offering the same program with or without commercials, or without the ability to "fast forward." Cable operators can be partners in all of this but not if everyone has already bought a DVR. If the value added services are of interest to customers and reduce their desire to buy a DVR to use in the home, great! The "network" services become more attractive than the device.

The "threat" of the DVR becomes an opportunity. If you want to change the consumer's approach, that's the way to do it, not by law suits.

Steve

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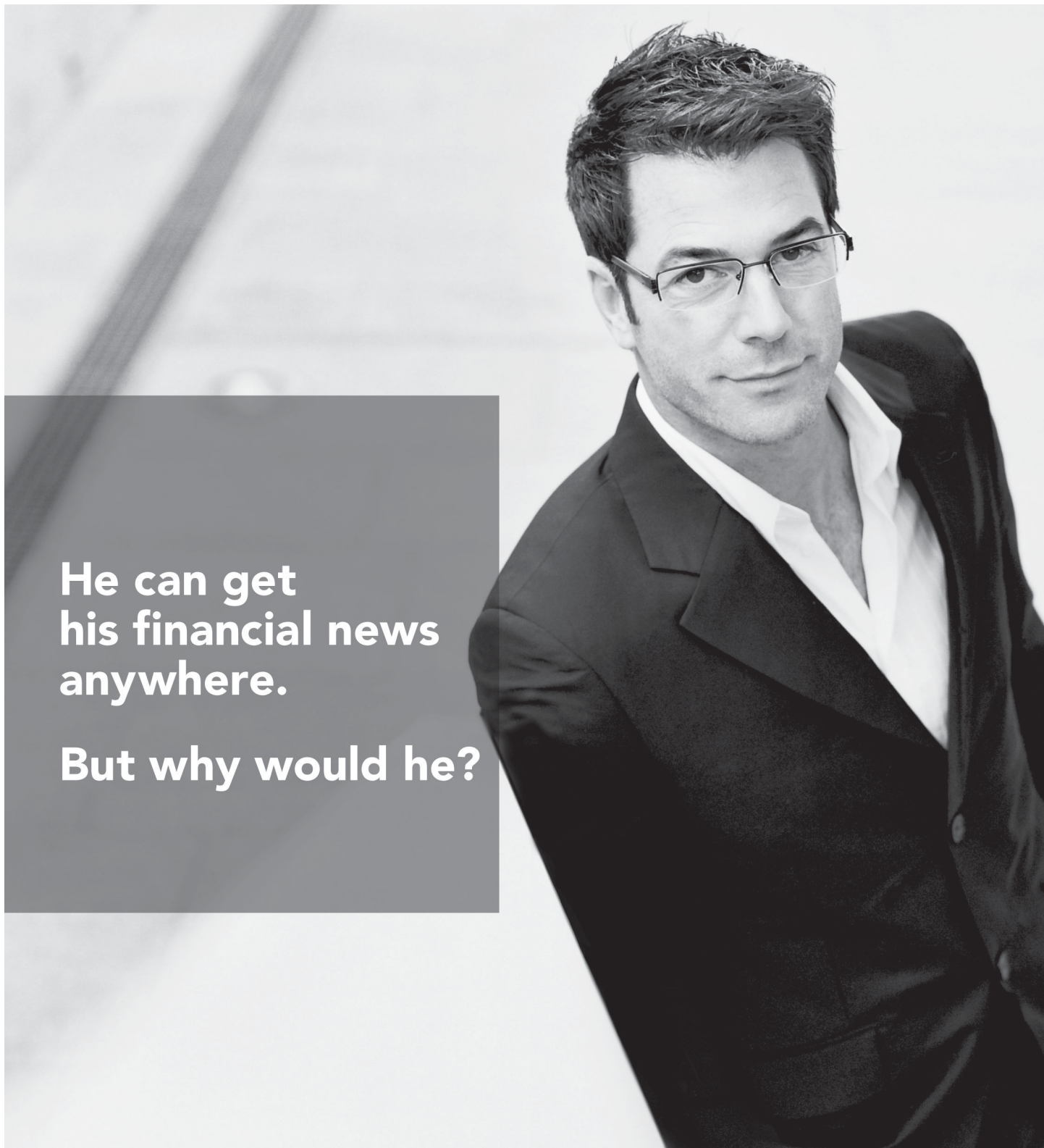


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