

CableFAX Daily™

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What the Industry Reads First

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Net Bet: Holiday Lobbying Over Broadband Classification

As speculation grows that FCC chmn *Julius Genachowski* will proceed with a net neutrality order next month (*Cfax*, 11/22), **Free Press** is making its case for the Commission to reclassify broadband under Title II. "The FCC has both the authority and the duty to step into the void, and to reclassify broadband," said *Aparna Sridhar*, Free Press policy counsel and author of a report released Mon, "Restoring FCC Authority to Make Broadband Policy: A Way Forward After Comcast v. FCC." "We can't wait for 5 or 10 years to get rural and low-income Americans hooked up to broadband," she said. "And we can't wait for five or 10 years to create policy preserving principles of openness that have made the Web so successful thus far. The public needs those changes now, and the FCC is really its only hope." There is some speculation that Genachowski's neutrality plan might resemble outgoing **House Commerce** chmn *Henry Waxman's* (D-CA) Title I-based compromise, which would let the FCC codify its existing open Internet principles and evaluate possible violations (and fine them) on a case-by-case basis for 2 years, while also preventing the Commission from reclassifying broadband under the more burdensome Title II during that period. But it's just speculation at this point. Cable was a part of the stakeholder negotiations that created the Waxman compromise, so a similar plan at the FCC would be welcomed. The same is not necessarily true for Free Press and its friends. "Title 1 is essentially leading an agency down a path of intense confusion and a lot of chaos," said **Columbia University Law** prof *Tim Wu* during a conference call with reporters Mon. Free Press pres *Josh Silver* said it's too early to know what the FCC will do. We agree. But expect plenty of lobbying in the coming weeks.

Tie Breaker: **Tennis Channel** and **Comcast** were unable to resolve their long-running carriage dispute, with the 2 telling the FCC late last week that mediation failed. They had until this Wed to work things out. That means a hearing will go forward before an FCC Administrative Law Judge. Tennis Channel filed its carriage complaint at the FCC on Jan 1, claiming the MSO discriminates against it because it carries the net on a sports tier while Comcast's own channels (**Golf** and **Versus**) are on more widely distributed tiers. Comcast says that Tennis agreed to its placement in an '05 contract.

Competition: **Verizon** has launched a 150/35 Mbps Internet service over **FiOS** that it bills as the fastest in the nation. The telco said it has begun to roll out the service to the majority of the 12.5mln HHs passed by FiOS and will make it





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12:00 – 2:30pm
Grand Hyatt, NYC

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available to small-business customers by year-end. The service costs \$194.99/ month when purchased with a Verizon wireline voice package and a 1-year contract. How fast is 150Mbps? You can download a 2-hour, HD movie (5GB) in less than 4.5mins. -- **Cox** reached an agreement on wholesale conditions with **CenturyLink** and **Qwest**. The deal resolves concerns the MSO raised about the companies' pending merger in AZ and NE, and it will no longer oppose the merger.

Comcast-NBCU: Small cable, phone and broadband providers continue to tell the **FCC** that they believe the **Comcast-NBCU** combo will result in higher programming prices for providers and that previous merger conditions don't go far enough. The heads of **ACA**, **Natl Telecom Coop Assoc**, **RICA**, **NRTC**, **OPASTCO** and the **Western Telecom Alliance** sent a letter to the FCC Mon urging it to adopt conditions, such as licensing O&Os and RSNs on a standalone basis. ACA also pointed to the FCC Media Bureau's ruling throwing out an arbitrator's award to **Massillon Cable** in its spat with **Fox (Cfax, 11/22)** as evidence that the agency needs to rethink jv conditions. "The Massillon ruling highlights the fact that the baseball-style commercial arbitration process is slanted in favor of large programmers over smaller operators," said ACA pres/CEO **Matt Polka**. "Put simply, a large programmer like **News Corp** or Comcast-NBCU has the incentive and substantial resources to ensure that the process is costly and unpredictable in an effort to dissuade budget-constrained smaller operators from ever considering arbitration a viable option." -- Word is that ex-**Turner Sports** head **Mark Lazarus** will leave **Career Sports & Entertainment** to join Comcast-NBCU. *Sports Business Journal* reports he'll oversee the co's cable sports assets, reporting to **Dick Ebersol**. Meanwhile, Sen **Al Franken** (D-MN) asked the **DOJ** to investigate whether Comcast had engaged in "illegal collaboration" by naming several key exec posts post-merger. Comcast, noting it has no role in NBCU business ops to-date, said post-closing management teams are regularly announced prior to antitrust approval.

5 Qs with Time Warner Cable's Landel Hobbs: We asked **CableFAX 100** honoree and **Time Warner Cable COO Landel Hobbs** to walk us through his vision of the MSO's strategy as it charges into 2011. We'll celebrate our **CableFAX 100** and **Most Powerful Women** honorees at our events in NYC on Dec 9 and 10, respectively. While our women's event is sold out, there are still a few seats left for the 100 event at http://www.cablefax.com/cfp/2010cablefax100_luncheon.html. **Despite basic sub losses, Time Warner Cable just reported a stellar quarter and is even buying back \$4 billion in stock. Is it becoming more about subscriber quality than quantity?** We're a diverse company and becoming more so... Still, video remains our biggest service. As we pointed out in our 3Q earnings report, we've experienced recent video sub losses. However, it has been more an issue of fewer connects than of increased disconnects, and the decline was mainly concentrated among lower ARPU customer segments. We've continued to grow, particularly among higher ARPU segments... Outside of residential, our commercial and ad sales businesses are having a very good year, which points to the power of multiple offerings. **As you roll out TV Everywhere, how does Time Warner Cable view the threat from over-the-top? Furthermore, do you see any TV Everywhere marketing challenges?** Our firm belief is that consumers want access to any content, anywhere, any time and from any device... Our TV Everywhere capability is a piece of the answer. Two, we have to constantly focus on our innovation cycles... so customers will have no reason to go over-the-top or elsewhere—especially considering the breadth of our content. Third, content owners need to work out what they're doing with respect to content over the top. The dual revenue stream model works well for consumers because it enables cable networks to continue producing the high quality content our customers enjoy. **What's your view on how cable operators and programmers can avoid channels getting pulled during retrans talks—and why do you think Washington should step in?** While going dark is never a good outcome, when broadcasters threaten blackouts we have no choice but to educate customers on what it means for them since the price they pay is directly impacted by what we pay for programming... Distributors and networks must always remember that. We will continue to work hard to reach fair agreements, but we believe existing retransmission consent rules—set by the government almost 20 years ago—have not kept up with a changing marketplace. **What's your biggest concern and/or hope about 3DTV?** We're following consumers on 3DTV. We've demonstrated we can deliver it, so we're ready—if and when there's demand. **Talk about the challenges of creating value tiers for subscribers who don't want as many channels. How do you preserve the all-you-can-eat business model while giving customers more choices?** We've heard loud and clear from customers that they want flexibility in packaging, including the ability to buy smaller packages. We're working hard to deliver what they're asking for... [Editor's Note: Shortly after this interview, Time Warner Cable announced that it would launch its 1st value-tier "TV Essentials" package in NYC]. And it just so happens our lower ARPU customer segments are most affected by the economy and are the same customers who are really shouting about smaller packages. [For an extended Q&A version, go to **CableFAX.com**].

BUSINESS & FINANCE

In the Courts: Tech licensing firm **Wi-LAN** has initiated patent litigation against **Comcast**, **Time Warner Cable** and **Charter** in the US District Court for the Eastern District of TX. It claims the companies have infringed and continue to infringe on one of its patents by offering to sell, operate, advertise and market cable systems and cable modem products. Wi-LAN has another patent case pending against **Alcatel-Lucent**, **Sony Ericsson**, **HTC**, **Exeda** and **LG Electronics**.

Online: As expected, **Netflix** launched a streaming-only subscription plan at \$7.99/mo. It also hiked the fees on its DVD plans. -- **Bright House** subs who receive **ESPN** now have access to **ESPN3** and a live simulcast of **ESPN3.com** on their computers. **Time Warner Cable** launched the authenticated services a few weeks ago.

Programming: **Discovery** and **BBC One** are teaming for 8-part series "History of the World," which will cover major turning points in history.

People: **Rainbow Media** upped **Bill Rosolie** to evp, **Rainbow National Services**, Ad Sales—a new post overseeing digital ad sales. **Scott Collins**, formerly evp, ad sales for **WE** and **Wedding Central**, expands his role to include overseeing advertising sales for **AMC**. -- **ION Media** named ex-**XM**'er **Joseph Titlebaum** as its gen counsel. -- **John Carlucci**, former **Time Warner Cable** chief network architect, has joined **Clear-leap** as CTO.

CableFAX Daily Stockwatch

Company	11/22 Close	1-Day Ch	Company	11/22 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	42.17	0.02	ARRIS GROUP:	10.35	0.04
DISH:	19.01	0.20	AVID TECH:	15.63	0.13
DISNEY:	36.95	(0.06)	BIGBAND:	2.98	0.05
GE:	16.03	(0.19)	BLNDER TONGUE:	2.07	(0.02)
NEWS CORP:	15.98	0.01	BROADCOM:	44.10	0.88
MSOS					
CABLEVISION:	30.91	(0.31)	CISCO:	19.56	(0.05)
CHARTER:	35.31	(0.38)	CLEARWIRE:	7.33	0.09
COMCAST:	20.40	(0.16)	COMMSCOPE:	31.95	(0.05)
COMCAST SPCL:	19.24	(0.15)	CONCURRENT:	4.84	(0.01)
GCI:	10.90	0.14	CONVERGYS:	12.66	(0.02)
KNOWLOGY:	15.07	0.19	CSG SYSTEMS:	19.10	(0.13)
LIBERTY CAPITAL:	58.46	0.21	ECHOSTAR:	21.11	0.10
LIBERTY GLOBAL:	37.65	(0.32)	GOOGLE:	591.22	0.39
LIBERTY INT:	15.66	0.10	HARMONIC:	6.74	0.16
MEDIACOM:	8.49	0.02	INTEL:	21.25	0.12
SHAW COMM:	20.46	(0.17)	JDSU:	12.21	0.18
TIME WARNER CABLE:	62.36	(0.33)	LEVEL 3:	1.06	0.06
VIRGIN MEDIA:	25.99	(1.07)	MICROSOFT:	25.73	0.04
WASH POST:	385.20	(1.13)	MOTOROLA:	8.09	(0.03)
PROGRAMMING					
CBS:	16.48	(0.01)	RENTRAK:	26.59	0.28
CROWN:	2.69	0.05	SEACHANGE:	8.54	0.13
DISCOVERY:	42.09	(0.25)	SONY:	35.37	(0.03)
GRUPO TELEVISIA:	22.94	(0.07)	SPRINT NEXTEL:	3.92	(0.09)
HSN:	28.35	0.01	THOMAS & BETTS:	44.12	(0.01)
INTERACTIVE CORP:	27.94	0.50	TIVO:	8.95	(0.04)
LIBERTY:	38.30	UNCH	TOLLGRADE:	8.38	0.08
LIBERTY STARZ:	62.51	(0.51)	UNIVERSAL ELEC:	28.16	1.15
LIONSGATE:	7.37	(0.07)	VONAGE:	2.53	0.02
LODGENET:	2.91	(0.09)	YAHOO:	16.56	(0.01)
NEW FRONTIER:	1.96	UNCH	TELCOS		
OUTDOOR:	6.15	(0.07)	AT&T:	28.29	(0.03)
PLAYBOY:	5.06	0.01	QWEST:	6.85	(0.08)
SCRIPPS INT:	52.92	(0.41)	VERIZON:	32.50	(0.09)
TIME WARNER:	30.82	0.06	MARKET INDICES		
VALUEVISION:	3.25	0.27	DOW:	11178.58	(24.97)
VIACOM:	44.57	UNCH	NASDAQ:	2532.02	13.90
WWE:	13.89	0.05	S&P 500:	1197.84	(1.89)
TECHNOLOGY					
ADC:	12.71	0.01			
ADVANTAGE:	3.35	0.08			
ALCATEL LUCENT:	2.83	(0.09)			
AMDOCS:	26.47	0.29			
AMPHENOL:	51.07	(0.17)			
AOL:	25.23	(0.1)			
APPLE:	313.36	6.63			

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EYE ON INNOVATION

Caught in the Web

At last week's **Web 2.0 Summit**, **Morgan Stanley** analyst *Mary Meeker's* presentation included a number of points about the Internet that bear noting by and/or demand reaction from media players.

Acting as an accelerant to the already raging industry discourse over streaming video and cord cutting is this: from Jan to Sept, North American Web/mobile usage for real-time entertainment viewing during peak traffic hours (read prime TV time) grew to 41% from 24% of the 8 measured app categories. That's more than Web surfing (32%) and social media interaction (8%) combined, with the increased share coming mainly from surfing and P2P file sharing. When looking at North American downstream fixed access share during Sept peak hours, Meeker said streaming video represented 37% of all traffic, with 1 company representing 21% by itself.

That company is **Netflix**, arguably the leading innovator in Web media today (some would say exasperator). CEO *Reed Hastings* was just named *Forbes'* Businessperson of the Year, the pub claiming Netflix's streaming strategy has helped transform the company from "a gnat to a giant." If the aforementioned traffic share isn't pesky enough for multichannel ops, Meeker expects Netflix to surpass **HBO's** US sub base in '12.

By the same year, Morgan Stanley said global shipments of smartphones will exceed those of desktop and notebook PCs combined. Which bodes particularly well for the wireless operations of **Verizon**, **AT&T** and other carriers, of course, yet poses considerable challenges for cable ops that haven't yet embraced the mobile Web. **Comcast**, **Time Warner Cable** and **Cablevision** are among those that have addressed the sea change through mobile Internet and WiFi, and perhaps Cox's new wireless phone service will feature video apps by then. But more work must be done.



For advertisers and ad space purveyors alike, the Web represents a cornucopia of opportunity. But while the **IAB** said US Internet ad rev totaled \$6.4bln in 3Q—marking a historical quarterly high and a 17% jump over a year ago—Meeker highlighted the relatively small bites advertisers have taken of the platform's potential feast. Consider consumers' time spent interacting in '09 with TV (31%), radio (16%), print (12%) and the Web (28%). As interaction with the former 3 media types continues to ebb while the Web expands, compare the previous percentages with the respective ad spend shares of 39%, 9%, 26% and 13%. While the difference between usage and ad spend in print appears absurd, at least ad spending in the space is declining—along with TV and radio. Not surprisingly, Web marketing is on the rise, and Meeker said the disparity between interaction and advertising represents a \$50bln global opportunity.

No wonder Comcast and other ops plus numerous programmers are scurrying to develop interactions with the **iPhone** and **iPad**. Along with the **iTouch**, the devices counted more than 120mln users after 13 quarters on the market, according to Morgan Stanley—leaving the depicted adoption curve looking like a hike that would've made *Sir Edmund Hillary* blanche. The steepness is cast into sharper relief when compared to the similar adoption curves of **AOL**, **Netscape** and others, all of which amount to comparative ant hills. Meeker said Netflix's acceptance as a key video content source on the iPad has aided its tremendous recent growth.

Lastly, a mention of another recent Web innovation, **Twitter**, or more specifically some media brands that excel on the platform. *Oprah* leads all brands with 4.5mln Twitter followers (hello **Discovery**), and also in the top 5 are **CNN Breaking News** (3.6mln) and **E! Online** (2.5mln).

—Chad Heiges

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