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Wednesday — December 7, 2011

What the Industry Reads First

Volume 22 / No. 235

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If Not Friends, Respected Competitors: HBO, Netflix Flex Online Muscle

UBS could've hosted the event of the year if it was able to get **Time Warner** chmn/CEO *Jeff Bewkes* and **Netflix** CEO *Reed Hastings* to sit down together Tues, but not surprisingly both execs were entertaining in separate interviews anyway. As Bewkes said, TWX has "been quite loud-mouthed" about TV Everywhere and the imperative move of programmers to alternative platforms, and the company's actions in recent months with **HBO Go** and other digital offerings arguably has it now playing successfully on Netflix's field. Yet while Bewkes toned down his anti-NFLX comments from a year ago and even said the subscription service is "our friend," this time Hastings was the one to ramp the swagger. "HBO Go is becoming more Netflix-like, and we're becoming more HBO-like... the two of us will compete for a very long time," said Hastings. "We'll always be better on the Internet, and we'll catch up in originals." Hastings did, however, intimate that Bewkes' online maneuverings mark good business, and feels HBO Go will eventually define what HBO is as a network because online "is so much better than the VOD system." Bewkes indirectly agreed, saying "the definition of TV today is what HBO is... we're trying to take TV and put in on every device." Viewership of HBO rises by 30-50% when subs use HBO Go, said Bewkes, and by the end of the month, **Turner's** TV Everywhere offerings are expected to be available in approx 80% of US homes. In short, said Hastings, there's HBO and NFLX, and then everyone else. Starting next year, NFLX will up its programming spend to HBO-like levels of \$1-2bln annually, and in '13 will begin doling out up to 15% of its overall spend for originals. Moreover, Hastings said NFLX will offer in both 1Q and 2Q twice the programming it did the prior year. He dismissed the current threats posed of competitors including **Amazon** and **Verizon**, which **Reuters** reported Tues plans to intro a streaming video service next year to rival NFLX in non-FiOS markets. Despite the exploding growth of online content and viewership—HBO Go has delivered approx 98mln video streams to date, and NFLX will stream more than 1bln hours this quarter—Bewkes and Hastings both backed the traditional MVPD business. While Hastings said NFLX is complementary to cable et al, Bewkes said "pay TV is quite healthy" and that any drop off in subscriptions is a result of economic woes instead of "some kind of distribution change."

Growing Up: Although **AMC Nets** is less than 6 months old on a publicly-traded basis, flagship net **AMC** has been growing considerably in terms of ratings and popular programming for years now. And AMC Nets CEO *Josh Sapan* foresees

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the intertwined entities gaining additional weight and size going forward. “We think there’s substantial advertising upside because we’re not yet realizing our full share based upon how we’re actually performing with the material we have on,” he said at the **UBS** conference. On the affil front, the rate card for AMC is “particularly out of whack... [the net] is very clearly at minimum a 75 cent channel” even if we’re not realizing that pricing, said Sapan. AMC is “now a channel of import,” he said, elevated by a string of hits that began with “Mad Men” and now includes “The Walking Dead” and “Hell on Wheels,” which he said is “performing extremely well.” It could take multiple years before AMC Nets gets rewarded by advertisers and distributors for its recent success, but Sapan believes it will happen. “We think that not only is [our programming] model sustainable, the model is incredibly attractive because it’s in place and it’s incumbent,” he said. Non-fiction Dead addendum “The Talking Dead” is “terrific,” said Sapan, delivering 2-3x AMC’s time period avg. As such, changes are being explored at AMC, where 4-5 non-fiction shows—much cheaper than the scripted variety—are in production. **WE tv** sports 10-15 such shows, and more originals are coming, said Sapan, and **IFC**, which launched a full ad load Jan 1, “is essentially right on plan.”

UBS Notebook: **CBS’ Les Moonves** said he’s not a big jv guy, but CBS’ \$10.8bln deal with **Turner** to share **NCAA** March Madness rights through ’24 is a partnership he would “characterize as working very well.” He said he assumes CBS will still be in business with the **NFL**. Moonves said the ad market is strong and suggested broadcast is taking share from cable. While it’s true cable has more original shows that 10 years ago, he said it hasn’t hurt CBS’ opportunity to sell its content to cablers. “There are a couple of nets riding high on the backs of our reproduced programming...,” he said. “Most [cable nets] don’t produce more than 2-3 shows. They still need us for the bulk of their programming.” Nothing really new on retrans. Moonves said reverse compensation won’t really get significant until ’13—more so in ’14.

At the Portals: **Michael Copps** made it official, saying he’ll retire as **FCC** commissioner effective Jan 1 unless the Senate confirms his successor prior to that date. **Senate Commerce** is slated to hold a mark-up on FCC and **FTC** nominees Thurs. Copps must vacate the post when the Senate adjourns sine die, so if the chamber did before Jan 1, he would leave sooner. “Ubiquitous, opportunity-creating broadband and a resource-rich media capable of informing our civic dialogue are critically-important components of our future success as a people, and I intend to keep speaking about these challenges as a private citizen in the years ahead,” Copps said. -- **The Africa Channel** has filed a petition at the FCC for exemption of its programming from the closed captioning requirements, claiming that compliance would impose an “undue economic burden.” The net said only about approx 6% of its programming contains subtitles.

Broadband Speed: Remember how the **FCC’s** initial broadband speed test results put **Cablevision’s** sustained peak performance download speed at 50% of its advertised rate—the biggest gap in the study (*Cfax*, 8/3)? Well, that’s turned around. In a blog post this week, the FCC said that during Oct, the most recent month for which data is available, Cablevision’s 15Mbps service saw average peak-hour download speeds at more than 90% of the advertised speed. When the initial results were released in Aug, Cablevision seemed surprised by the FCC’s findings, noting that its HSD product has won top ratings in much broader and more extensive consumer surveys by **J.D. Power**, *PC Magazine* and others.

Carriage: **MLB Net** said its HH increase to 67mln from 55mln since Jan marks the greatest growth of any cable net over the time period. The net is now available on all top 10 video providers in the US. -- **FIOSTV** inked a deal with **AlternaTV** to feature 5 Latin American channels including **Once TV Mexico** and **AyM Sports** as part of its Spanish-language packages.

Social Circle: **Twitter** released its top 5 hot topics in TV for 2011, and leading them all is **ABC Family’s** “Pretty Little Liars.” It even beat out “Two and a Half Men” with its *Charlie Sheen* adventures (#tigerblood was the 2nd most popular hashtag for the year, however). Also on the TV hot list: “The Craigslist Killer” (**Lifetime**), Golden Globes and People’s Choice Awards.

Online: **Mediacom** is adding free, ad-supported **Hulu** content to its broadband customer portal, Mediacomtoday.com. With the addition of Hulu content, the site will stream free TV episodes from major networks, including **ABC**, **NBC**, **FOX**, **AMC**, **Bravo**, **Comedy Central**, **Food Network**, **FX**, **HGTV**, **Nat Geo**, **Oxygen**, and **Syfy**.

Advertising/Marketing: **History**, **Verizon** and **Delivery Agent** bowed a contextual t-commerce play giving **FIOS** TV subs 24/7 access to the net’s shopping app, meaning those watching History can use their remotes to purchase merchandise related to and seen on shows including “Pawn Stars” and “American Pickers” using **Delivery Agent’s** TV Wallet. -- **GroupM** revised downward its expectations for US ad spending in ’11 (+3.3% from 3.8%) and ’12 (+4% from +4.2%)—even with notable help expected to come next year from the Olympics and elections. -- Citing its work

BUSINESS & FINANCE

with several brands to study how their campaigns were impacted by the presence of an interactive RFI overlay, **Canoe** said such overlays led to a 26% increase in unaided ad awareness, 23% rise in unaided brand awareness and 28% jump in viewer purchase intent.

Ratings: **Disney Channel's** original movie "Good Luck Charlie: It's Christmas" became the top live-action cable movie of '11 in total viewers and the top live-action scripted telecast on TV among kids 6-11 by delivering 6.9mln total viewers, 3.3mln kids 6-11, 2.4mln tweens and 1.4mln 18-49s. -- **NFL Net's** Thurs night Eagles-Seahawks tilt earned an avg of 5.9mln viewers, giving the Thurs Night Football franchise a record avg of 7.1mln viewers through 4 games, up 24% YOY. -- 4.9mln unduplicated viewers tuned into **Hallmark Channel's** original movie "A Princess for Christmas" to rank as ad-supported cable's top program on Sat.

Programming: From "Deadliest Catch" creator **Thom Beers' Original Productions** comes "Bering Sea Gold," which will follow 4 gold dredge crews on **Discovery Channel** beginning Jan 27.

People: **Time Warner Cable** tapped **Craig Collins** as pres, biz services for the West region. He most recently served as svp, biz services sales and marketing for the company. -- **IFC** named **Andrew Siegal** to the newly created position of vp, prod.

CableFAX Daily Stockwatch

Company	12/06 Close	1-Day Ch	Company	12/06 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	47.20	0.25	CLEARWIRE:	2.50	0.25
DISH:	26.90	(0.47)	CONCURRENT:	3.37	0.03
DISNEY:	36.83	(0.11)	CONVERGYS:	12.42	(0.46)
GE:	16.72	0.39	CSG SYSTEMS:	15.13	(0.12)
NEWS CORP:	18.29	0.14	ECHOSTAR:	23.16	(0.29)
MSOS					
CABLEVISION:	14.87	(0.07)	GOOGLE:	623.77	(1.88)
CHARTER:	52.97	0.93	HARMONIC:	5.46	(0.02)
COMCAST:	23.19	0.04	INTEL:	25.35	0.34
COMCAST SPCL:	22.96	0.04	JDSU:	10.47	(0.24)
GCI:	10.32	0.14	LEVEL 3:	20.14	(0.75)
KNOLGY:	14.41	(0.13)	MICROSOFT:	25.66	(0.04)
LIBERTY GLOBAL:	39.77	0.02	MOTOROLA MOBILITY:	38.85	(0.04)
LIBERTY INT:	16.10	(0.03)	RENTRAK:	14.26	0.11
SHAW COMM:	19.84	0.02	SEACHANGE:	7.70	0.11
TIME WARNER CABLE:	62.68	(0.03)	SONY:	17.68	(0.2)
VIRGIN MEDIA:	22.42	0.20	SPRINT NEXTEL:	2.61	(0.04)
WASH POST:	347.34	(3)	THOMAS & BETTS:	53.05	(0.05)
PROGRAMMING					
AMC NETWORKS:	35.01	(0.14)	TIVO:	10.04	(0.01)
CBS:	26.23	0.59	UNIVERSAL ELEC:	16.16	0.07
CROWN:	1.38	(0.08)	VONAGE:	2.51	(0.14)
DISCOVERY:	41.84	0.20	YAHOO:	15.84	(0.05)
GRUPO TELEVISIA:	20.75	0.05	TELCOS		
HSN:	36.98	(0.3)	AT&T:	29.17	0.02
INTERACTIVE CORP:	43.41	0.17	VERIZON:	38.32	0.27
LIONSGATE:	8.64	0.10	MARKET INDICES		
LODGENET:	2.45	0.14	DOW:	12150.13	52.30
NEW FRONTIER:	1.05	(0.01)	NASDAQ:	2649.56	(6.2)
OUTDOOR:	7.11	(0.08)	S&P 500:	1258.47	1.39
SCRIPPS INT:	41.37	0.49			
TIME WARNER:	34.72	0.15			
VALUEVISION:	2.21	0.04			
VIACOM:	50.06	0.21			
WWE:	10.37	0.39			
TECHNOLOGY					
ADDVANTAGE:	2.08	(0.07)			
ALCATEL LUCENT:	1.60	(0.08)			
AMDOCS:	28.18	(0.51)			
AMPHENOL:	45.50	(0.33)			
AOL:	14.07	(0.39)			
APPLE:	390.95	(2.06)			
ARRIS GROUP:	10.40	(0.2)			
AVID TECH:	7.59	(0.14)			
BLNDER TONGUE:	1.20	(0.05)			
BROADCOM:	30.10	(0.32)			
CISCO:	18.73	(0.06)			



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Entry Questions: Mary Lou French at 301-354-1851; mfrench@accessintel.com

Think about that for a minute...

A Different Reality

Commentary by Steve Effros

We often hear about the “digital divide.” In theory, that’s the disparity between the adoption and use of broadband between rich and poor or urban and rural, depending on who is lobbying for what, where.

In Washington the concern is about both the poorer segments of the population, regarding adoption and use of the Internet, or “broadband” less than the more affluent, and the rural population which doesn’t in some cases enjoy the same access to broadband as do others.



Let’s focus on the obvious. The poorer population doesn’t have computers or disposable income, but does have the highest rates of illiteracy. There’s no wonder that this segment doesn’t see

the “value proposition” in broadband! They’re right. The answer here is a clear focus on improving education and jobs before worrying about faster broadband.

The rural population has always experienced challenges with infrastructure availability. Roads, water, electricity, telephone and now, yes, broadband. Again, this is not hard to understand. It’s very expensive to build a road all the way out to that small, remote community. A toll road would not make enough money to support building it, and neither does a mega- cable/broadband infrastructure.

In the case of the rural folks, there are several alternatives; you can have the government (in other words, all other taxpayers) chip in and pay for the road, even though it’s not economic. Remember, the rural dweller chose to enjoy the benefits of rural life knowing that it would not—and probably could not—provide the same infrastructure benefits as does life in more densely populated areas. Alternatively, you can acknowledge that the rural dweller is not likely to get as big, or as fast a road as those other folks. It just doesn’t make any sense to build a six-lane highway to the farm.

Now that’s nothing “against” rural folks; it’s just reality. It’s time we all started dealing with reality, despite the politics. Sure, “the people” (read; constituents) don’t really want to hear the truth. Practical economics is forcing the issue anyway.

So here’s some of that reality: there is a difference—and there always will be—between “big” and “small” broadband providers and services in various demographic areas. That’s not a value judgment, just the truth.

A “small” cable operator (the only ones willing to build in the more rural areas, given the margins required of the big guys to satisfy Wall Street) in a more rural area simply doesn’t have the bargaining power to deal with “Free TV” retransmission consent demands, and is penalized by much higher pole rates because of the political muscle of the local co-ops which have gotten themselves exempted from national rules establishing reasonable prices. The operators can’t do anything about the demands of programmers to “bundle” channels that aren’t wanted but eat up valuable bandwidth. They can’t get financing because the Feds have a built-in preference for their long-time beneficiaries, the old rural telephone companies, and bank lending laws have been applied to both the biggest and the neighborhood banks in the same way, so loans are impossible to get.

It’s the implications and unintended consequences of that uniformity of treatment and regulation I intend to focus on in upcoming columns: the industry and the government seem to still have trouble acknowledging that there are two vastly different businesses and infrastructures out there. Again, no negative judgment about either, just an insistence that we have to understand, of necessity, they are very different. They have to be recognized and treated differently or we all lose.

Steve

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