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Back To Basics: Discovery Revisits Portfolio Stars

Discovery Comm pres/CEO *David Zaslav*'s staunch branding advocacy hasn't wavered in his 2-year tenure, but it has been recently tested in unexpected ways. As Zaslav noted at last year's **UBS** conference, Discovery remains focused on strengthening and growing its stable of emerging nets that includes 7 channels with distribution of 45-70mln homes. Fast-forward to this year's conference, however, and Zaslav told of how company pillars and firmly entrenched brands **Discovery Channel** and particularly **TLC** required resuscitation in '08—actions that served to reinforce his established branding mantra. "When we're at our best with our brands, we can take the majority of our content, take it around the world, and that gives us a very unique economic advantage," said Zaslav. But TLC wasn't at its best this summer, when a July ratings decline of 30% forced Zaslav to make "difficult" changes to the net's management. "We fell off brand," he said, noting that a disconnect had formed between TLC's audience and new content such as dance and singing contests. 60 days of speaking with the audience yielded a demo portrait dominated by women (62%) with wholesome middle-America values, and programming became appropriately tailored. The lesson: "you need to understand who your viewer is, and to respect that viewer," said Zaslav. In Oct and Nov, TLC's ratings were up "more than double digits," he said. But Discovery Channel's ratings had lagged in 3Q, albeit for a different but no less important reason. After all, 80% of Discovery's rev and operating cash flow stems from its namesake net, TLC and **Animal Planet** combined, said Zaslav, and 70% of that total is derived from the former pair alone. Discovery Channel's challenge was to "build more successful shows" to complement existing hits such as "Dirty Jobs" and "MythBusters," said Zaslav. Success has followed, with new series including "Time Warp" helping to build the net's audience during the current Q, he said. Now, Zaslav's armed with valuable branding experience covering both established and emerging nets, knowledge that should prove helpful in '09.

Bowick's Bow: **Cox** chief *Pat Esser* this week announced a realignment of his direct reports, effective Jan 1. Changes include integrating IT and engineering under *Scott Hatfield*, who will become svp, technology. *Chris Bowick*, svp, engineering, plans to retire in '09 but will help integrate the 2 organizations. "The five areas of how we will be organized are around people, financial services & business support, products & strategy, platform and technology and operations," Esser said in a memo obtained by ***CableFAX***. (**Travel Channel** will also continue to report to Esser.) Newly named COO *Leo Brennan (**Cfax**, 12/10)* will oversee field ops, field services, customer care, marketing public affairs, **Cox Media** and **Cox Business**. That shifts some of the areas that had reported into Esser to Brennan as the COO post has remained vacant since Esser was upped to pres in '06. Chief People Officer *Mae Douglas* will head "People Services." CFO *Mark Bowser* will lead "CFO and Business Support," with law & policy, headed by *Jim Hatcher*, now reporting to him instead of Esser. Product management, new biz dev and strategy will be headed by svp *Dallas Clement*. "My role will remain the same, but now I will have more time to look over the horizon and pay attention to the larger and longer-term business issues like our

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product portfolio, next generation business opportunities, public policy concerns, communications, and industry-related issues," Esser wrote. A Cox rep said the changes help the MSO retool as it moves into new ventures, including wireless.

UBS Notebook: **CBS** CEO *Les Moonves* told conference goers that he expects to have a "fairly large" retrans announcement in the next few weeks. He said retrans consent discussions are already underway with a few of the major operators and he's "guardedly optimistic" since conversations have been fairly positive thus far. Moonves also acknowledged that at some point down the road—say 10 years—CBS might nix the affiliate broadcast model and offer itself straight to video providers. At the same time, he made it clear that the network TV model "ain't broke," pointing to CBS' solid ratings. Despite the weak economy, Moonves said **Showtime** hasn't suffered with subs up by about 1.5mln this year. "Is there potential for some of the MSOs or people to drop premium cable? I guess, but we have not seen that yet," he said. -- **Liberty Media** CEO *Greg Maffei* said that spinning off Liberty Entertainment (LMIDA), which houses Liberty's **DirecTV** stake, as an asset-based stock is a priority. Given the depressed valuations of media stocks, plans to split off a Liberty Ent stock have been delayed, Maffei said. He didn't dismiss the possibility of combining its 3 tracking stocks into one under Liberty Media. "Although we still expect that recombining all three trackers is the most likely next step, Mr Maffei conceded that this would cause considerable discontent among LMDIA shareholders," **Collins Stewart**'s *Tom Eagan* said in a note to clients. "To us, this was a somewhat rare admission that recombining the stocks would not honor LMDIA shareholders' original intention." -- **Time Warner** pres/CEO *Jeff Bewkes* expects to receive government and tax approvals within the next month for the planned separation of **Time Warner Cable**, with no changes to the transaction's terms previously laid out. As for Time Warner post-separation, Bewkes said "the leadership position, the predictable and reliable operating performance of our Time Warner content businesses… it has been there, it's pretty much there now," he said. Don't look for Time Warner to go on a buying spree when it receives the planned cash infusion from Time Warner Cable. "Acquisitions have been the cause of most of the value destruction in the media [industry] and certainly for our company," said Bewkes.

Competition: **DirecTV** will eliminate its interactive **NASCAR** "Hot Pass" package and "evolve HOTPASS into a new product that will be available to all DIRECTV customers, free of charge, in 2009," said DirecTV. Separately, the company said it's bringing former **ABC** series "Wonderland" to it's entertainment net **The 101** beginning next month, including 6 never-before-seen eps. -- A satellite slated to boost **DISH**'s HD services was launched from Russia on Wed.

In the States: **Cablevision** formed the "office of strategic product development" to focus on long-range products and enhancements to CVC's current suite of services. It will be co-managed by sr adviser of engineering and tech, *Wilt Hildenbrand*, and *Kristin Dolan*, formerly svp, digital product management. *Patrick Donoghue* will serve as svp, strategic prod dev for the group after recently returning to CVC from **Time Warner Cable**. *Jonathan Greenfield* will serve as svp, strategic prod advancement after having served as vp, customer service operations center since '06.

At the Portals: **ACA** expressed "serious concerns" with **FCC** chmn *Kevin Martin*'s proposal to modify program carriage rules at next Thurs open meeting. In a filing, ACA voiced strong objections to any changes that would subject non-vertically integrated operators to complaints filed by unaffiliated video programmers for not agreeing to similar prices, terms or conditions for carriage as those agreed to for any other programmer. ACA said such ops have no incentive to "unreasonably restrain independent programmers' ability to compete fairly." At the same time, the group expressed its support for the FCC seeking further comment on unbundling of programming at the wholesale level. -- **Cablevision** responded

BUSINESS & FINANCE

Tues to a **Disney** filing challenging its position on wholesale unbundling. Disney suggested that Cablevision's stance in an antitrust, a la carte suit contradicts the MSO's proposal to not allow programmers to request carriage on a particular package. CVC said its position in the suit is not at odds with the FCC's plan to seek comment on wholesale unbundling, saying it and other ops have denied that the practice of purchasing and distributing programming in the industry constitutes a conspiracy to violate Section 1 of the Sherman Act. "At the same time, Cablevision believes that as a matter of public policy the time is right for the Commission to begin a public discussion of the regulator framework that permits programmers to require cable operators to place expensive programming, watched by only a percentage of their customer base, in the expanded basic tier," CVC's filing said.

People: **Comcast**'s board elected *Ralph Roberts* as founder, chmn emeritus of the board in lieu of his current position as chair, exec finance cmte of the board. He'll continue as an active dir and employee of Comcast, but is no longer a named exec officer of the company under **SEC** proxy rules. Added to that list of officers are *Arthur Block*, svp, gen counsel and sec and *Lawrence Salva*, svp, chief accounting officer and controller. -- **NTN Buzztime** appointed *Jeffrey Lewis* evp, digital ad sales.

CableFAX Daily Stockwatch

Company	12/10 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
BRITISH SKY:	27.51	0.07
DIRECTV:	23.13	0.34
DISNEY:	23.70	0.17
ECHOSTAR:	11.59	(0.09)
GE:	18.00	0.22
HEARST-ARGYLE:	6.91	0.26
NEWS CORP:	8.85	0.12
MSOS		
CABLEVISION:	15.06	(0.45)
CHARTER:	0.16	0.00
COMCAST:	16.45	0.04
COMCAST SPCL:	15.72	(0.05)
GCI:	7.74	0.27
KNOLOGY:	5.57	0.05
LIBERTY CAPITAL:	2.87	0.09
LIBERTY ENT:	11.70	0.29
LIBERTY GLOBAL:	13.61	(0.25)
LIBERTY INT:	2.65	(0.01)
MEDIACOM:	2.98	(0.02)
SHAW COMM:	16.90	(0.48)
TIME WARNER CABLE:	19.70	(0.13)
VIRGIN MEDIA:	4.61	0.05
WASH POST:	398.50	(1.3)
PROGRAMMING		
CBS:	7.93	0.48
CROWN:	2.20	0.10
DISCOVERY:	13.75	(0.27)
EW SCRIPPS:	2.09	(0.28)
GRUPO TELEVISA:	16.39	0.49
HSN:	1.66	0.05
INTERACTIVE CORP:	16.69	(0.26)
LIBERTY:	28.00	1.17
LODGENET:	0.64	0.08
NEW FRONTIER:	1.83	0.11
OUTDOOR:	6.82	(0.03)
PLAYBOY:	2.05	0.08
RHI:	4.93	0.12
SCRIPPS INT:	23.76	(0.4)
TIME WARNER:	10.16	0.48
VALUEVISION:	0.45	0.01
VIACOM:	17.85	0.44
WWE:	12.34	0.49
TECHNOLOGY		
3COM:	2.09	0.08
ADC:	5.01	(0.75)
ADDVANTAGE:	1.36	(0.05)
ALCATEL LUCENT:	2.48	0.23
AMDOCS:	18.12	0.32
AMPHENOL:	21.24	(0.16)
APPLE:	98.21	(1.85)
ARRIS GROUP:	7.03	(0.29)
AVID TECH:	11.25	(0.01)
BIGBAND:	4.56	0.16
BLNDER TONGUE:	0.87	0.05
BROADCOM:	16.79	0.25
CISCO:	17.33	0.17
COMMSCOPE:	13.77	0.64
CONCURRENT:	3.80	0.32
CONVERGYS:	6.36	0.03
CSG SYSTEMS:	16.57	0.04
ECHOSTAR HOLDING:	15.03	0.31
GOOGLE:	308.82	2.85
HARMONIC:	5.20	0.23
JDSU:	3.62	0.38
LEVEL 3:	0.77	0.02
MICROSOFT:	20.61	0.01
MOTOROLA:	4.22	0.07
NDS:	47.52	0.52
NORTEL:	0.40	(0.12)
OPENTV:	1.31	0.05
PHILIPS:	17.95	0.40
RENTRAK:	9.60	0.19
SEACHANGE:	7.36	0.25
SONY:	20.85	0.35
SPRINT NEXTEL:	2.42	(0.12)
THOMAS & BETTS:	22.21	1.05
TIVO:	6.73	0.23
TOLLGRADE:	4.45	0.06
UNIVERSAL ELEC:	16.75	0.55
VONAGE:	1.21	0.07
YAHOO:	13.40	1.21
TELCOS		
AT&T:	28.08	(1.08)
QWEST:	3.35	(0.03)
VERIZON:	32.74	(0.61)
MARKET INDICES		
DOW:	8761.42	70.09
NASDAQ:	1565.48	18.14

Think about that for a minute...

Killing Rural Broadband ...An Urgent Memo to the FCC

You may not be aware, but hundreds—and yes, I mean hundreds—of small, rural cable systems are shutting down. Right now, as you read this. The economics just don't make it any more. The result is we're seeing the exact opposite of what all the politicians, regulators and just about everyone else wants to see happen: more broadband deployment in underserved areas.

Steve Effros

Of course the economy has something to do with it. Cable, and especially more modern cable plants that are the primary way folks connect to the Internet these days, are very expensive to build. Capital expenditures mean heavy borrowing with the expectation that the business will return a profit, thus allowing both a repayment of the debt and a return on investment. That just isn't happening any more. The costs of running the systems are rising uncontrollably, and even if the economy was good, and loans were available, the math just doesn't make it. That business reality is killing rural broadband, and you can do something about that.

Aside from a seriously ailing economy and the inability to get new credit for CapEx, the reality is that new expenses which can be traced directly to government decisions are causing the die-off. And this is a die-off that no one should want!

Retransmission consent heads the list. It's no secret that small rural cable operators have no leverage when it comes to negotiating with television stations in their area. We have gone from "must carry" to extortion in one quick step. Small operators are being hit up for fees of 75 cents and up per subscriber, per local broadcast channel. That's a new uncalculated expense. The number of subscribers isn't great, consequently the income to the broadcaster isn't that great either, but for the smaller operator, spreading that cost across a very small base is a killer.

Two proposals: first, eliminate all retransmission consent for systems of under 500. Second, substitute a "lowest unit charge" rule, with no channel tying requirements (you do it for politicians!) for larger systems up to 2500 subs. That at least eases the over-leveraged broadcaster demands for excessive monopoly rent of a "free" product!

Another "killer" is pole fees. The current pole attachment rules make sense and allow for the growth of broadband. Changing them to higher rates would be totally counter-productive to the objective of major broadband upgrades and deployment in this country. But that's not enough. The small rural systems many times are not protected by those rules because they use municipal or co-op poles. Those fees were specifically exempted from the rules. The result: pole fees are jumping up sometimes 50 or 100 percent! A small, rural system cannot survive with those fees. As I said, the math just doesn't make it.

So there we have it; the government, Republicans and Democrats, liberals and conservatives say they want—and it is necessary for the country to get—improved broadband deployment. But at the same time, existing rules and government-empowered greed have combined to result in the exact opposite of what the policy folks want. The smaller systems are being shut down as we speak. They are dying. Rather than wait for a "stimulus" package to start building again from scratch with no competition, why not take reasonable steps to help those who are already trying to meet those needs?

More on this in future columns. But if you're serious about doing something to promote rural broadband, you had better do it quickly!

Steve

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