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5 Pages Today

# CableFAX Daily™

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## Inauspicious Start: Time Warner Cable Begins MSO Earnings

**Time Warner Cable**'s plans to eliminate 1,250 jobs led a cascade of disappointing news concerning the MSO's operations, yet previous announcements from execs and a few bright spots appear to have prevented a sell-off of TWC shares, which gained 3.4% on the day. Although not unexpected, the MSO suffered a dramatic deceleration in net RGU adds in 4Q, totaling just 175K. "We warned of this slowdown during our last earnings call, but now it has happened," said pres/CEO *Glenn Britt*, citing the economy, increased competition and a focus on profitability over sub growth as reasons for net digital video adds that totaled just 44K, HSD 124K and phone 130K. Both **Sanford Bernstein** and **S&P** said the RGU data was far worse than expected. Telcos expanded the availability of their video offerings to 21% of TWC's footprint in 4Q, versus 18% in Sept, said execs, noting little change in satellite competition. "It's pretty clear that the effects of competition are interrelated with those of the increasingly challenging economy," said COO *Landel Hobbs*. To help turn the tide, said Hobbs, a restructuring to improve operational efficiency and cost management has been enacted. Beside the planned layoffs, it includes the appointment of 3 sr execs in each of the MSO's 6 regions to provide focused regional oversight of the residential business, commercial services and plant/tech management. The restructuring is expected to save TWC $90mln annually. Also of note: the MSO saw a 13% YOY decline in its core ad business despite strong political contributions, and the ad troubles have leaked into '09. There is good news, however. After suffering through an abject Nov, the MSO is witnessing continued improvement in sub metrics so far this year. "To be sure, net adds are still dramatically below last year's levels, but we're somewhat encouraged by the recent trends," said CFO *Rob Marcus*. The commercial segment delivered 21% rev growth in 4Q and is viewed as TWC's "biggest near-term growth opportunity," said Britt. Certain financials were decent as well, with 4Q rev increasing 8% and OIBDA 6%, the latter gain excluding the previously announced $14.8bln non-cash pretax impairment of cable franchise rights that made the posted operating loss of $13.9bln a little more palatable. S&P maintained its "strong buy" opinion on TWC shares, while Sanford Bernstein maintained its "outperform" rating.

***DTV Delay:*** As expected, the **House** passed a bill Wed delaying the DTV transition until June 12, sending it on to Pres *Barack Obama* for his expected signature. As of Tues, the **NTIA**'s waiting list for converter box coupons had grown to nearly 3.7mln from 3.5mln late last week. The legislation passed by a 265-158 vote, largely down party lines. Now that the date is finally settled there are several new questions to answer, such as which broadcasters will opt to cut off analog before June 12 and what does this mean for cable's quiet period pledge to not migrate channels to digital until Mar 1 in an effort to avoid confusion with the DTV switch. **Stifel Nicolaus** said Wed that "hundreds of broadcast stations are…moving ahead with efforts to make the transition from analog to digital by Feb 18, creating the potential for some over-the-air programming disruption and consumer confusion this month." The DTV bill also allows the NTIA to issue up to 1 replacement

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converter box coupon per HH for coupons that have expired without being redeemed. House Commerce chmn *Henry Waxman* (D-CA) and ranking member *Joe Barton* (R-TX) each sent last minute "Dear Colleague" letters Thurs in efforts to convince members to vote their way on the bill. Waxman titled his, "200K households added to digital television converter box waiting list in just 2 business days…how many are in your District?". Barton, who has fought hard to keep the Feb 17 date that he helped set, told colleagues that more than 1mln HHs had been removed from the waiting lists since Jan 4 and that more than half of the consumers currently on the list are DBS or cable subs and not in danger of losing their TV picture. Acting **FCC** chmn *Michael Copps* was among those praising the passage of the emergency legislation Wed. "The additional 4 months provided by the law affords urgently-needed time for a more phased transition, including a consumer-friendly converter box coupon program, stepped-up consumer outreach and support—particularly for vulnerable populations—and dealing with coverage, antenna and reception issues that went too long unaddressed," he said.

***Time Warner:*** **Time Warner**'s networks div posted 9% overall rev growth in 4Q, notably led by 7% growth in both subscription and ad rev. The latter was aided by higher CPMs and audiences across **Turner** nets, greater political spending on **CNN** and additional **MLB** playoff games on **TBS**, said CFO *John Martin*, adding that so far in '09 the current scatter market's typified by limited volume, flat pricing verses a year ago and normal cancellation rates. In the year ahead, TW plans (excluding **Time Warner Cable**) to reduce aggregate operating expenses and hold capex flat, said pres/CEO *Jeff Bewkes*, while investing more money in content development. 6 new originals will hit **TNT** this year, he said, and **HBO**'s set to bow more originals in '09 than it has in any other year. Bewkes isn't worried about any potential declines in premium net subs, saying "so far, even though everyone has an eye out for pay TV's theoretical erosion, it hasn't come through to HBO yet…it's just not likely to be a problem in 2009." As for the planned TW/TWC separation, Bewkes still expects the split to occur by the end of Mar, and afterward plans to keep Time Warner's dividend level. "That underscores our confidence in our businesses," he said. TW said it will effectuate a reverse stock split at the time of the separation and TWC is considering doing the same, with neither offering a ratio.

***Britt Speaks:*** **Time Warner Cable** pres/CEO *Glenn Britt* held forth Wed on 2 of his favorite recent topics: retrans and the proliferation of online content. "I think that retransmission consent as a mechanism is broken," said Britt, "at least the way in which negotiations are conducted and [the] holding hostage of the public." In the past, Britt has warned broadcasters that providing too much online content may sap much of their retrans negotiating power. On Wed, however, he carried the argument to cable. "As cable nets put more and more content online for free, that will over time start eroding the subscription revenue source," said Britt. "I think the cable network business will suffer mightily if this trend continues." On a related note, Britt said TWC is beginning to witness an uptick in cord-cutting—of video wires. Widespread online content coupled with younger persons' reliance on broadband, he said, is leading some to ditch TV altogether.

***Network Management:*** Internet company **Vuze**, which went after **Comcast**'s network management practices, is asking the **FCC** to probe **Cox**'s plan to test a new method of management this month by possibly delaying less time-sensitive traffic (such as file uploads, P2P and Usenet groups). Vuze's objection isn't surprising given that it delivers content via P2P tech **Bittorent**. "...We are loath to trust the judgments of a network operator about what does or does not hurt our business, particularly when they too are in the content business," Vuze gen counsel *Jay Monahan* wrote on Vuze's blog.

***Competition:*** **DirecTV** is running a customer referral program that gives subs $50 in bill credits for each customer

CONGRATULATIONS

# CableFAX

## DIGITAL HOT LIST

Amy Banse, President, **Comcast Interactive Media**
Christopher Barry, SVP, Digital Media and Business Strategy, **Sundance Channel**
Albert Cheng, EVP, Digital Media, **Disney/ABC**
Andy Cohen, SVP, Production & Programming and Writer of "Andy's Blog," **Bravo**
Eric Feng, SVP, Audience and CTO, **Hulu**
Erik Flannigan, EVP, Digital Media, **MTV Networks Entertainment Group**
Karin Gilford, SVP, Fancast and Online Entertainment, **Comcast Interactive Media**
Bruce Haymes, SVP, Product Leadership, **Nielsen**
Kathleen Kayse, EVP, Digital Media Sales, **Discovery**
Rob King, VP and Editor, **ESPN.com**
Jason Kint, SVP/GM, **CBSSports.com**
Suzanne Kolb, Chief Marketing Officer, E! and Style; GM, **E! Online**
John Kosner, SVP/GM, **ESPN Digital Media**
Peter Levinsohn, President, **Fox Interactive Media**
Philip Manwaring, VP, Digital Media, **Gospel Music Channel**
Craig Parks, Vice President of Branded Entertainment & Business Development, **IFC**
Jean-Briac Perrette, President, **NBCU Digital Distribution**
Jennifer Robertson, VP, Digital and Emerging Media, **WE tv**
Brian Rolapp, SVP, **NFL Digital Media**
Neal Scarbrough, VP, Digital Media, **Versus**
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Michael Spirito, VP, Business Development and Digital Media,**YES Network**

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# BUSINESS & FINANCE

they recruit. The promo is part of DirecTV's "Friends Don't Let Friends Watch Cable" campaign, and runs through Mar 3.

***Carriage:*** **ReelzChannel** has launched on various **NCTC** systems, including some belonging to **Massillon**, **TVMAX**, **Bevcomm**, **En-Tel**, **New Ulm Telecom**, **Paul Bunyan**, **Pine Island Telephone** and **Sleepy Eye Telephone**.

***At the Portals:*** Thurs' **FCC** meeting on the state of DTV transition will include testimony from **Time Warner Cable** evp *Sam Howe* and **NAB**'s *David Rehr*.

***In the States:*** **Comcast** completed its migration of the city of Detroit to digital this week. In Oct, it started migrating expanded basic customers to digital—a process that's already been completed in Chicago, Boston and a few other systems.

***Public Service:*** **Cablevision** and **The Lustgarten Foundation for Pancreatic Cancer Research** have launched a series of PSAs featuring former pres *Jimmy Carter* and actors *William Hurt* and *Matthew Modine*. The spots aim to raise awareness for pancreatic cancer.

***Editor's Note:* *Cfax's*** Webinar about the new **FCC** and what it means for cable is Thurs from 1:30-3pm ET. Speakers include: *Steve Effros, Ken Ferree* and *Howard Symons*. Register at www.cablefax.com/cfp/webinars.

## CableFAX Daily Stockwatch

| Company | 02/04 Close | 1-Day Ch |
|---|---|---|
| **BROADCASTERS/DBS/MMDS** | | |
| BRITISH SKY: | 28.35 | 0.10 |
| DIRECTV: | 22.98 | 0.43 |
| DISH: | 12.84 | 0.17 |
| DISNEY: | 19.00 | (1.62) |
| GE: | 11.26 | (0.11) |
| HEARST-ARGYLE: | 3.73 | (0.52) |
| NEWS CORP: | 7.25 | (0.28) |
| **MSOS** | | |
| CABLEVISION: | 14.83 | (0.53) |
| CHARTER: | 0.07 | 0.00 |
| COMCAST: | 14.16 | (0.52) |
| COMCAST SPCL: | 13.19 | (0.65) |
| GCI: | 6.26 | (0.11) |
| KNOLOGY: | 5.00 | (0.08) |
| LIBERTY CAPITAL: | 5.11 | 0.01 |
| LIBERTY ENT: | 19.71 | 0.51 |
| LIBERTY GLOBAL: | 14.38 | (0.33) |
| LIBERTY INT: | 3.25 | 0.00 |
| MEDIACOM: | 5.18 | (0.24) |
| SHAW COMM: | 16.40 | (0.04) |
| TIME WARNER CABLE: | 18.97 | 0.62 |
| VIRGIN MEDIA: | 4.55 | 0.09 |
| WASH POST: | 414.34 | (9.33) |
| **PROGRAMMING** | | |
| CBS: | 5.76 | (0.09) |
| CROWN: | 1.60 | (0.09) |
| DISCOVERY: | 13.75 | (0.89) |
| EW SCRIPPS: | 1.57 | (0.15) |
| GRUPO TELEVISA: | 13.57 | (0.5) |
| HSN: | 5.09 | (0.14) |
| INTERACTIVE CORP: | 14.13 | (0.6) |
| LIBERTY: | 23.50 | 0.11 |
| LODGENET: | 0.60 | (0.02) |
| NEW FRONTIER: | 1.56 | 0.04 |
| OUTDOOR: | 5.80 | (0.47) |
| PLAYBOY: | 1.58 | (0.12) |
| RHI: | 4.63 | 0.11 |
| SCRIPPS INT: | 20.75 | (1.29) |
| TIME WARNER: | 9.42 | (0.36) |
| VALUEVISION: | 0.24 | (0.02) |
| VIACOM: | 17.02 | (0.6) |
| WWE: | 9.66 | (0.15) |
| **TECHNOLOGY** | | |
| 3COM: | 2.40 | 0.03 |
| ADC: | 3.30 | (0.26) |
| ADDVANTAGE: | 1.97 | 0.32 |
| ALCATEL LUCENT: | 1.86 | (0.02) |

| Company | 02/04 Close | 1-Day Ch |
|---|---|---|
| AMDOCS: | 17.68 | 0.20 |
| AMPHENOL: | 28.51 | 1.94 |
| APPLE: | 93.55 | 0.57 |
| ARRIS GROUP: | 6.21 | (0.14) |
| AVID TECH: | 11.11 | 0.48 |
| BIGBAND: | 5.55 | (0.55) |
| BROADCOM: | 16.48 | (0.29) |
| CISCO: | 15.84 | 0.22 |
| CLEARWIRE: | 3.98 | 0.14 |
| COMMSCOPE: | 14.18 | 0.07 |
| CONCURRENT: | 3.66 | 0.06 |
| CONVERGYS: | 7.72 | 0.04 |
| CSG SYSTEMS: | 15.46 | 0.15 |
| ECHOSTAR: | 15.40 | (0.41) |
| GOOGLE: | 343.00 | 2.55 |
| HARMONIC: | 5.11 | 0.09 |
| INTEL: | 13.88 | 0.29 |
| JDSU: | 4.04 | 0.19 |
| LEVEL 3: | 0.96 | (0.04) |
| MICROSOFT: | 18.63 | 0.13 |
| MOTOROLA: | 3.75 | (0.29) |
| NDS: | 62.93 | 0.92 |
| OPENTV: | 1.29 | (0.06) |
| PHILIPS: | 19.05 | (0.61) |
| RENTRAK: | 12.48 | 0.25 |
| SEACHANGE: | 5.56 | (0.21) |
| SONY: | 19.97 | 0.08 |
| SPRINT NEXTEL: | 2.40 | (0.13) |
| THOMAS & BETTS: | 23.99 | 3.28 |
| TIVO: | 7.32 | (0.33) |
| TOLLGRADE: | 5.70 | 0.00 |
| UNIVERSAL ELEC: | 11.46 | 0.45 |
| VONAGE: | 0.58 | (0.02) |
| YAHOO: | 13.00 | 0.32 |
| **TELCOS** | | |
| AT&T: | 24.66 | (0.71) |
| QWEST: | 3.29 | (0.15) |
| VERIZON: | 30.61 | (0.95) |
| **MARKET INDICES** | | |
| DOW: | 7956.66 | (121.7) |
| NASDAQ: | 1515.05 | (1.25) |

# Think about that for a minute...

## Slow Motion

It appears we'll now be watching one of those slow-motion disasters so popular in the movies… you know, the ones where you can see it coming—the train wreck, the bullet, the punch, the sword—but just as it's in the process of impact, everything slows down to a crawl and the train, bullet or whatever inches forward, hitting with amazing force and creating an almost artistic shattering. The slow motion balloon bursting, the bullet going through the piece of wood.

**Steve Effros**

This one won't be as visually poetic, however. The DTV transition—an almost unavoidable train wreck no matter when it happened—is now going to be slowed down, delayed and drawn out. But the wreck will happen no matter what, and the worst part is that unlike the bullet heading for the balloon, now that the transition is going to be allowed to proceed piecemeal all the way from now until June 12, there will be wreckage all along the way.

As you may recall, I've long advocated just "tearing off the bandage" and being done with the "transition." No matter what we do, how much money is spent on boxes, advertising, call centers, etc., there will still be some folks who miss out, who don't get the word, or who simply ignore it until the day comes when their televisions don't work. And you know what? When that happens, if it's important to them, they'll then go out and get it taken care of. No great harm will be done if folks miss a few days of television.

But that apparently isn't the political calculus. There's great fear of the upheaval that might be caused by a few days of missed television. So the long-planned-for magic date of February 17 is being put off until June 12. However it's not that simple. The decision has also been made that broadcasters can, if they want, turn off their analog transmitters between now and June 12, and there's every indication that hundreds of them are planning to do just that. So signals will suddenly blink out on some channels, but not others. This compounding of the confusion can't help.

The whole situation is not as simple as some people think. It's not just changing one date to another, and everyone just waits to throw the switch. Millions of dollars have been spent creating materials, ads, videos, etc., focusing on the Feb. 17 date. Now what? Spend millions more? Contracts have been signed to sell transmitters with the next day emblazoned on them. Same thing is true of contracts with tower companies to tear down the old towers, or with cable companies to prepare to change out channels to make sure customers continue to get what they should, and as important, not see messages that could confuse them.

All of that is thrown into total disarray by this change of dates. Millions have already been spent preparing for thousands of people to man call centers. Programming decisions and "sweeps week" calculations were made based on the transition date. The cable industry delayed its own digital conversion to help avoid confusion. Clearly that can't continue.

And, of course, with all of this time, effort and money spent and now having to be spent again, at the end of the day politicians, regulators and "consumer advocates" will inevitably still demand to know why our costs and prices are continuing to go up, and why the consumer confusion persists.

There's a simple answer: look in the mirror. Technological change doesn't work well in slow motion.


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