

Letter from Ed

This is our inaugural Desser Sports Media analytical client newsletter. It is a service designed to make you aware of industry developments and provide insights and analysis into potential future opportunities. Please let us know what you think and anything you'd like to see in future newsletters!

Ed Desser
President

Desser Sports Media, Inc.
715 15th St, Suite 200
Santa Monica, CA 90402
(310) 393-2WIN

www.desser.tv
info@desser.tv

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Note: In cases where DSM was involved in a deal, we have exclusively used publicly available information. The inclusion of this information should not be construed as an endorsement or confirmation thereof.

Comcast Eyes #1 Spot in RSN Biz

Comcast's effort to roll out regional sports networks (RSNs) in all markets where they operate cable systems is gathering a considerable amount of steam. Comcast SportsNet has achieved an easy second place in the RSN business, although Fox still maintains a significantly larger number of networks and subscribers. Comcast's growth is fueled by their recent purchase of former Rainbow RSNs in the California Bay Area and in New England, and homegrown efforts like its new launch in the Pacific Northwest. In addition, Comcast plans to start a half-hour sports news operation that will run across all their networks.

RSNs	Regions	
11	8	Fox
9	8	Comcast
3	3	Liberty

Newest Launch in Pacific Northwest

The newest addition to the Comcast SportsNet family is CSN Northwest. Launching in October 2007, the net will feature NBA Portland Trailblazers (DSM client) games and assorted local programming. The net will cover Oregon and Washington state, following the Blazers and FSN Northwest not coming to terms over a new rights deal. Fox refused to match the Blazers' asking price, a reported \$12-13 mil, with a FSN representative calling the request "simply unrealistic" – though Comcast apparently thought otherwise.

Multiple RSN Markets:
Los Angeles (2)
San Francisco (2)
Pacific Northwest (2)
South (2)
Mid-Atlantic (2)
New York (4)
Mideast (2)
Ohio (2)
New England (2)
Denver (2)
Florida (2)

Comcast Regional Sports Networks – Current and Potential		
Comcast Homegrown	Comcast fmr. Rainbow	Fox-Branded Liberty
CSN Philadelphia	FSN Bay Area	FSN Pittsburgh
CSN West (N. Calif)	FSN New England	FSN Rocky Mtn.
CSN Chicago		FSN Northwest
CSN Mid-Atlantic		
CSN Northwest (Oct 07)		
SportsNet New York		
Comcast/Charter Sports Southeast (part owner)		

Future

Interestingly, the three Fox-branded regional sports networks sold to Liberty Media by News Corp. as part of the DIRECTV stock swap are all in Comcast-dominated cable markets. It is likely that Comcast will purchase these RSNs if Liberty makes them available. Rules governing these transactions require Liberty to hold these properties for approximately two years. Other possible markets that Comcast could target include South Florida, Houston, Detroit, Minnesota, Atlanta, and Kansas City.

Midwestern Showdown – Big Ten Network Carriage Battle Continues

The Big Ten Network's carriage fights continue, even after its August 30th launch. The network is priced aggressively, demanding a reported \$1.10 fee per subscriber and carriage on expanded basic tiers throughout Big Ten states, and a reported \$0.10 sub fee outside the Big Ten home states. Major cable operators like Comcast and Time Warner have balked at these demands, hesitant to take on an enormous financial and analog bandwidth burden for a network that may have limited interest outside of a few key markets. The dispute has led to public spats and marketing campaigns aimed at demonizing the other side, as other cable operators and college conferences watch the saga for lessons and a view towards the viability of other potential conference sports networks.

Facts

The Big Ten Network is a joint partnership between Fox Sports and the Big Ten Conference, and is the first network dedicated to a major sports conference. The reported \$1.10 sub fee would make the Big Ten Network one of the most expensive channels on cable, higher than networks like TNT or USA and trailing only ESPN and local regional sports networks. However, network

"Cable operator Insight Communications to carry Big Ten Network in 640,000 households"
 –Associated Press, August 29, 2007

executives have hinted that the \$1.10 figure is negotiable, and they have so far struck deals with DIRECTV, AT&T U-Verse, and smaller cable operators in the area, including Insight Communications. The DIRECTV deal was entered into while Fox owned DIRECTV.

Although interest in the Big Ten Conference is huge in its core states, the Big Ten's definition of its carriage territory includes areas like Philadelphia where there is a legitimate question of whether there is sufficient viewer interest to warrant expanded basic carriage. Cable operators are generally unreceptive to demands for pricey new analog networks, which has led to a heated showdown between BTN and Comcast. Fox Sports executive Bob Thompson publicly declared an impasse, and a Comcast executive replied by comparing Thompson to a "car salesman." Comcast has gone as far as to pull some sponsorships from individual Big Ten schools, and both sides have launched marketing campaigns to appeal directly to viewers in attempts to curry favor. The saga is being closely watched by other conferences, particularly the SEC, which may be looking to launch networks of their own should the Big Ten's effort be successful.

Lessons

If the Big Ten succeeds, it may open up a new area in the sports television marketplace, which has until now been divided into three chief areas: national nets like ESPN, over the air syndication on local stations, and regional sports networks, like Fox Sports Net and Comcast SportsNet. The Big Ten Network opens up a new flavor in regional sports networks, departing from the classic RSN, which focuses on professional sports, is city-centered, and due to rights restrictions, is distributed only in that particular local area. Conference networks, by contrast, are college-focused and on the argument that alums live in all corners, nationally distributed, although for a lower fee outside of core fan areas. The cable operators may be trying to send a message that the prospect of carrying possibly twelve new expensive conference networks is not welcome, and will not happen easily. Cable companies are engaged in an effort across the board to limit the spread of these expensive sports channels, aiming to put them in optional digital sports tiers. Those tiers avoid the operator having to buy the channel for each of its expanded basic subscribers, limiting it to only those avid fans willing to pay extra for the sports tier (and for a digital cable converter box).

The Big Ten Network offers classic lessons in carriage disputes. The Big Ten Network has content that is extremely popular in its core areas, but the cable operators seem to be weathering the initial shock of launch well. The operators are drawing an advantage from lessened expectations on the part of viewers, who have never had such an amount of Big Ten content available, and have other games, often more popular, available on ESPN and ABC. BTN's

"We are 100% confident that we will not have a deal with Comcast," said Bob Thompson, President of Fox National Cable Sports Networks and a member of BTN's BOD. He added, "Our last negotiation with Comcast was over a month ago, as it relates to this deal. Negotiations require two parties and a give-and-take."

—*Sports Business Daily*, August 23, 2007

dispute with Comcast is in some ways similar to their dispute with the NFL Network, which seems to have quieted down after an initial flurry of activity surrounding Comcast's decision to move the NFL Network to a sports tier and the filing of a lawsuit by the NFL seeking to reverse it. The New York Supreme Court ruled in favor of Comcast, and the NFL Network remains on a sports tier. The NFL Network filed a claim with the FCC that cable operators are discriminating against unaffiliated networks through less favorable economic terms and channel positioning. It remains to be seen if the pendulum will swing yet again as NFL Network's season starts up for 2007. In the case of the Big Ten Network, though, there is significantly more live game content available than in the case of the NFL Network, and die-hard college fans may have fewer outlets available than in the case of the NFL. The final outcome of the Big Ten Network controversy is hard to predict, but probably will not be ending anytime soon. Look for greater flexibility on carriage requirements, including digital options, and alternative pricing, including higher pricing for more narrow distribution.

New Availability of Non-Traditional Media Rights

The NBA has recently signaled its intention to liberalize rules pertaining to non-traditional video distribution in-market. No specific announcement has yet been made, but we would expect that teams and/or networks are soon to receive the ability to distribute live games via the Internet and more liberal use of video for VOD (Video On Demand) systems. In anticipation of this move, recent team negotiations have included provisions covering such potential rights. Look for the league to create a similar licensing approach as it developed for extended TV markets. The league will likely license RSNs these rights if they have television rights and team approval, for additional fees. The NHL, for its part, is this season allowing teams to stream games in-market for the first time.

New Deal Roundup

- Minnesota Timberwolves*/FSN North
- Dallas Mavericks*/FSN Southwest
- Milwaukee Bucks*/FSN North
- Indiana Pacers/FSN-Midwest
- Orlando Magic/Sun Sports
- Toronto Maple Leafs*/Rogers Sports Net
- Toronto Raptors*/CBC
- Detroit Tigers/FSN Detroit
- Detroit Red Wings/FSN Detroit
- Portland Trailblazers*/Comcast SportsNet Northwest

* DSM clients