June 14, 2010

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Ex Parte* Communication in MB Docket No. 10-56

Dear Ms. Dortch:

On June 10, 2010, I spoke by telephone with William Lake, William Freedman, Dana Scherer, Judy Herman, and Daniel Shiman of the Media Bureau; Jim Bird and Virginia Metallo of the Office of General Counsel; Chuck Needy of the Office of Strategic Planning and Policy Analysis; and Erin McGrath of the Wireless Telecommunications Bureau. The discussion focused on the Commission's review of the proposed joint venture between Comcast Corporation and NBC Universal, Inc. I also presented slides providing a general overview of the current state of the media industries, including trends in cash flows, viewership, and advertising.

I provided my views on the advertising landscape in the United States. It is my opinion that advertising is a key factor in determining the long-term viability of cable networks, broadcast networks, and broadcast television stations. Although advertising on the Internet is experiencing the highest growth rate among all media, broadcast television networks are second only to direct mail in generating commanding advertising revenue. Internet usage and the availability of online video is increasing. While broadcast television networks' combined audience is decreasing, they are still able to command increases in advertising rates, because relative to all other media, a single broadcast television network still reaches the most people on a daily basis. In fact, the time spent watching television programming still exceeds the time spent surfing the Internet, and the hours of television watched per month continues to increase despite the emergence of the Internet. Thus, it is more efficient to advertise on broadcast television networks than on the Internet, because advertisers can reach a mass audience. In contrast, targeting a large audience on the Internet is challenging due to the almost limitless volume of websites and the niche markets that many websites serve. It is also difficult to predict the number of people who will visit any particular website at a given time. For these reasons and others, I explained that it is my opinion that the importance of broadcast network television as an advertising medium will not fade in the near term.

I also explained that advertising on cable networks has increased over time. However, relative to individual cable networks, individual broadcast television networks continue to provide larger audiences for advertisers. Cable viewership tends to be divided amongst more cable networks. Thus, advertising on the broadcast networks remains more efficient. In general, for broadcast television, advertisers are able to choose the programs in which their commercials will appear, whereas for cable networks they tend to purchase advertising on a run-of-schedule basis. I also clarified that cable networks can generate large incomes without a huge share of the viewership. In addition to receiving advertising revenues, cable networks receive subscriber fees based on the total number of households they reach, regardless of whether viewers actually watch their programming. I also discussed how multiple revenue streams have increased cable networks' cash flow margins, but that the expanding number of cable networks will likely curb this trend. I also discussed that, if an MVPD must pay more to carry broadcast television stations and cable networks, the programming costs will ultimately be passed on to consumers in the form of higher video subscription rates. However, I explained that the amount cable providers can charge subscribers is limited, especially in a weak economy. Consumer households are spending an increasing portion of their after-tax income on communications subscriptions (*i.e.,* cell phones, cable, internet, and other media). Once consumers hit their breaking point, MVPDs may not be able to continue increasing prices. As a result, over the next five years, MVPDs will likely begin to generate lower profit margins as their costs continue to rise. Also important is that of the top ten cable networks ranked by total 2008 revenues, the combined Comcast-NBCU would have only one, ranked at number 5.

I noted that the weakened economy and constantly evolving technology platforms present Comcast with strategic challenges. I discussed that Comcast's strategy in entering into the proposed joint venture could be to retain its current customers by offering them more product and services, as a result of Comcast's access to NBC Universal's content. It is my opinion that acquiring content may help Comcast stabilize its cash flow margins, but that in the long-run, the margins will nonetheless decrease. As an example, I explained that I see the viewing of video on mobile wireless devices to be the next wave of video technology, thanks in part to the high resolution of Apple's new IPad and 4G IPhone. I believe that this medium will be used to view both movies and television programming, in addition to user-generated videos, such as those found on YouTube. I also discussed that Comcast's TV Everywhere initiative could be a strategy to combat technology changes. Once a low-cost device that will enable consumers to easily watch professional online video on their television sets becomes available, mass adoption of online video viewing of feature films and broadcast-quality television programs is likely. This may occur within next three years.

I continued by addressing that there are inherent risks to acquiring content, because the value of a content library is uncertain. In addition to having a limited budget, consumers have a limited amount of time and attention. The wide range of programming and movies already available on a plethora of distribution outlets has reduced the value of libraries, including Universal's catalog. I discussed examples of content libraries deals that have languished, because potential buyers were unwilling to pay the sellers' threshold prices. Furthermore, the cost of creating movies and television programs has increased dramatically over the past ten or so years at a rate exceeding that of overall inflation. Up until the past few years, DVD sales and rentals had largely offset production cost increases. Since 2006, however, DVD revenues have declined significantly, and the revenues from online viewing have not yet supplanted them.

We concluded with a discussion of the possible reasons for the proposed joint venture. I suggested that Comcast would gain efficiencies by minimizing the transaction costs of negotiating for NBC Universal content. I also stated that NBC Universal has valuable assets, including its television networks, substantial libraries of feature films and television episodes, and brand image. Finally, I stated that it is my opinion that transitioning NBC from a broadcast to a cable network, or making its programs exclusively available on an on-demand basis would not be a reasonable business decision at this time. I believe that the most profitable model for the joint venture is to follow audiences by distributing content on as many platforms as possible.

Sincerely,

Harold (Hal) Vogel

Attachment: PowerPoint Presentation