Mediacom

Rocco B. Commisso
Chairman and Chief Executive Officer

October 3, 2012

Commissioner Robert McDowell
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Mediacom Communications Corporation
MB Docket Nos. 10-71, 12-68, 07-18, 05-192

Dear Commissioner McDowell:

I am writing to thank you and your staff for taking the time to meet with me on September 25, 2012 to discuss Mediacom's concerns regarding the state of the video marketplace and, in particular, how consumers are being harmed because of the absence of effective competitive or regulatory constraints on wholesale programming costs.

As a follow-up to our discussion, I am enclosing for your attention a copy of a report by Craig Moffett of Bernstein Research that was published on October 1, 2012. Mr. Moffett's "Something's Gotta Give" report highlights and reinforces some of the key points that I made during our meeting. In particular, Mr. Moffett's report uses DirecTV's monthly programming costs to illustrate how programming costs are rising at an "unsustainable rate" at a time when real household income growth in the United States has been negative. Moreover, Mr. Moffett's report shows that the rate at which programming costs are increasing is accelerating as programmers push for higher rates to compensate for "flat lining" subscriber growth – a trend that Mr. Moffett rightly attributes, in part, to the rising price of video service.

According to Mr. Moffett, the current situation is a "train wreck in the making." Moreover, as I pointed out in our meeting (and, as I understand Pat Esser, CEO of Cox Communications also noted in a recent meeting with your office), the programmers' unjustified volume discounting practices further exacerbate the pressures that smaller and medium-sized MVPDs are under from rising programming costs. The programmers' demands not only harm consumers by pushing video service prices up and, in many cases, out of the consumers' reach, but also by inhibiting investment in broadband and broadband adoption.

As I indicated during our meeting, prompt Commission action to protect competition and consumers from runaway programming costs is imperative. I stand ready to work with the Commission to come up with creative, meaningful solutions to the problems confronting today's video marketplace.

Sincerely,

cc: Erin McGrath

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U.S. Telecom, Cable & Satellite - Monday Chart of the Week: The "Something's Gotta Give" Chart of Programming Expense

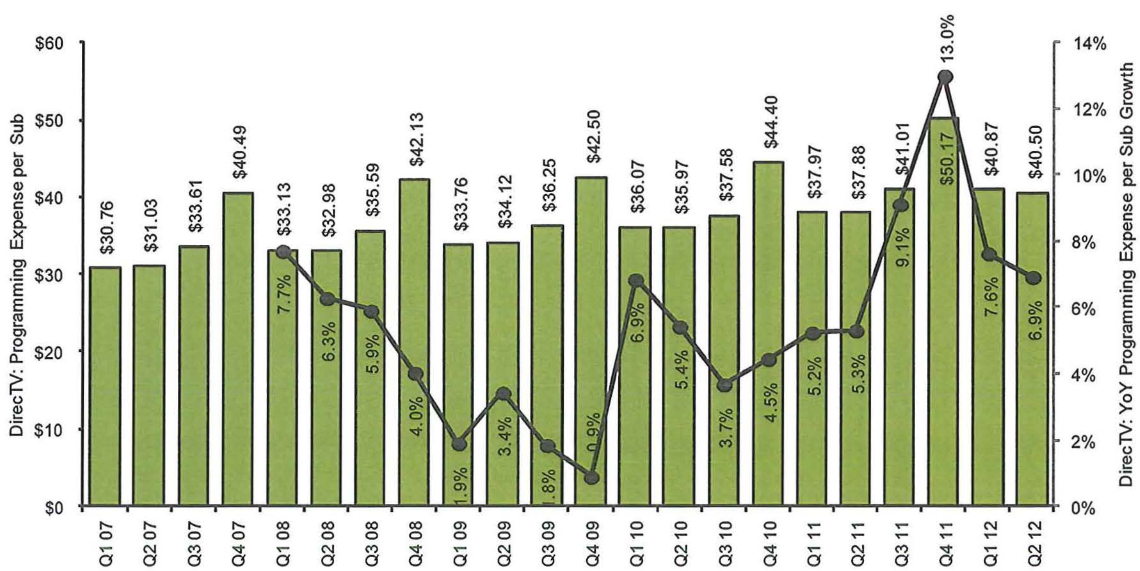
			28 Sep 2012		TTM	EPS			P/E			
Ticker	Rating	CUR	Closing Price	Target Price	Rel. Perf.	2011A	2012E	2013E	2011A	2012E	2013E	Yield
DTV	O	USD	52.44	63.00	-6.9%	3.48	4.34	5.46	15.1	12.1	9.6	NA
SPX			1440.67			96.22	102.50	114.07	15.0	14.1	12.6	2.1%

O – Outperform, M – Market-Perform, U – Underperform, N – Not Rated

Highlights

- By now, everyone is aware that Pay TV programming costs are rising at unsustainable rates. But the numbers themselves are staggering.
- This week's *Chart of the Week* uses DirecTV's monthly programming expense per subscriber as illustrative of a broader industry-wide trend. There are any number of important conclusions one can reach when faced with this stark escalation in content costs.

Exhibit 1
DirecTV US: Programming Expense per Sub



Source: Company reports

- First, the most obvious one. *Something's gotta give.* Over the five years illustrated in our Chart of the Week, the monthly programming expense paid by DirecTV for each customer has climbed by a staggering 32%. Over the same period, real household income growth in the U.S. has been *negative*.

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- ...and the rate of increase is *accelerating*. DirecTV has already indicated that the most recent quarter's moderation (to "just" 6.9%) is illusory (a few one-time items). The underlying growth rate is really in the high single digits. And why is programming cost growth accelerating? It's because *subscriber* growth is flat-lining. In a P *x* Q world, if you can't get growth from Q, then you accelerate the increase in P. But why is Q flat-lining? It's because prices are rising too fast. In a *Weekend Media Blast* last year we used the analogy of a car heading for a cliff... the closer it gets, the harder the content companies are stepping on the accelerator.[1]

- There are some less obvious conclusions as well. For example, consider the simple fact that content providers are, in aggregate, getting $40 per month for each Pay TV subscription and that that number is growing at nearly 10% annually. It should be obvious to anyone paying attention that the content providers are NEVER going to embrace Internet-based alternatives for which the retail *price* is only a small fraction of today's wholesale *cost* they receive today. Why would they? They will either raise their prices to those alternative providers, or they will simply withdraw their content rights.

- For years we've argued that for precisely this reason, online video won't overtake the traditional linear model any time soon. But we also recognize that soaring programming costs are the best counter argument to the stability of the status quo. At 10% per year, the $40 wholesale cost of goods sold today would more than double, to about $80, in another seven years. Incidentally, the monthly *retail* ARPU of Pay TV service today is about $80. This is a train wreck in the making. Again, something's gotta give.

- Incidentally, since this data does come from DirecTV, what of the satellite operators specifically? We're bullish on DirecTV, but we certainly aren't bullish about margins for the U.S. business. As we've argued for years, the cable operators will eventually shift their pricing from video to broadband (where they have greater leverage) and in the process they will consciously allow video margins to compress. The satellite operators will then have to either match those low margins, in which case the returns on new customer acquisition will compress to the point that there are fewer and fewer customer segments profitable enough to acquire, or they will raise prices to preserve margins, in which case there will be fewer and fewer customers willing to pay. Either way, it's not a pretty picture. Faced with this reality, however, they will have almost no choice but to at least *try* (again) to merge.[2]

Investment Conclusion

We rate DirecTV outperform at a target price of $63.

Details

See above.

[1] *Weekend Media Blast: The Long Run Has Arrived* (September 23, 2011)

[2] *Weekend Media Blast: Electioneering* (September 21, 2012)

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Disclosure Appendix

Valuation Methodology

DIRECTV Group Inc

We value DirecTV using Steady State Cash Flow (SSCF) multiples, adjusted for market value estimates for non-DBS assets. We apply a 6.5x SSCF multiple to our forecast forward 12 month SSCF for DirecTV US. We value the company's Latin American assets using a forward SSCF multiple of 12.0x for PanAmericana and Sky Brazil, and a 12.0x forward EBITDA multiple for Sky Mexico.

Risks

DIRECTV Group Inc

Downside risks to our DirecTV target price include:

- Slower-than-expected subscriber growth would likely yield multiple contraction.
- A weaker-than-expected economic recovery could result in reduced demand for premium services, providing downside to ARPU.
- A premium of some amount is likely baked into DirecTV's share price based on the widely-held expectation that an acquisition by AT&T or Verizon is likely. A change in these expectations could result in multiple contraction.
- DirecTV's Latin American businesses are subject to significant macroeconomic risks.

Upside risks to our DirecTV target price include:

- Faster-than-expected subscriber growth would likely yield multiple expansion.
- A stronger-than-expected economic recovery could result in increased demand for premium services, providing upside to ARPU.
- An acquisition of Dish Network by AT&T or Verizon, which has been the subject of speculation for years, if it were to occur, would likely create perceived "scarcity value," and would raise valuation multiples for DirecTV.
- DirecTV's Latin American businesses could outperform expectations.

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  Market-Perform: Stock will perform in line with the market index to within +/-15 pp in the year ahead.

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12-Month Rating History as of 09/30/2012

Ticker	Rating Changes	
DTV	O (RC) 01/11/12	M (RC) 04/24/08

Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated
Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

DTV / DIRECTV Group Inc

Date	Rating	Target(USD)
07/02/09	M	28.00
10/28/09	M	31.00
02/02/10	M	32.00
06/08/10	M	40.00
10/26/10	M	42.00
01/20/11	M	44.00
06/30/11	M	51.00
08/24/11	M	48.00
01/11/12	O	52.00
03/13/12	O	55.00
06/27/12	O	54.00

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