

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934  
Release No. 59277 / January 22, 2009

ACCOUNTING AND AUDITING ENFORCEMENT  
Release No. 2920 January 22, 2009

ADMINISTRATIVE PROCEEDING  
File No. 3-13347

**In the Matter of**  
  
**Cablevision Systems Corporation,**  
  
**Respondent.**

**ORDER INSTITUTING CEASE-AND-DESIST  
PROCEEDINGS PURSUANT TO SECTION  
21C OF THE SECURITIES EXCHANGE ACT  
OF 1934, MAKING FINDINGS, AND  
IMPOSING A CEASE-AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Cablevision Systems Corporation (“Cablevision” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### Summary

1. Cablevision Systems Corporation is a Delaware corporation located in Bethpage, New York. It is a diversified entertainment and telecommunications company with a market capitalization of approximately \$8.05 billion in 2007 and 2007 annual revenues of \$6.484 billion. Cablevision's stock is registered under Section 12(b) of the Exchange Act and is listed on the New York Stock Exchange.

2. Rainbow Media Holdings, Inc. ("Rainbow"), during the relevant period, was a subsidiary of Cablevision that owned interests in and managed national and regional entertainment programming networks, the Madison Square Garden sports and entertainment business and cable television advertising sales companies. At all relevant times, the financial statements of Rainbow and its majority-owned businesses were consolidated into Cablevision's financial reports.

3. From at least 1999 through mid-2003, contrary to Generally Accepted Accounting Principles ("GAAP"), Cablevision recognized certain costs as current expenses when, in fact, the costs should not have been recognized in those periods. These improper "prepays," as the practice was referred to, occurred because certain Cablevision managers and employees, most significantly within Rainbow, falsified invoices and other documents in order to accrue expenses earlier than when they in fact should have been accrued. These improperly recognized expenses were reflected in Cablevision's books, records and accounts and caused Cablevision to overstate expenses in earlier fiscal periods, and understate expenses in later periods.

4. Separately, from at least 2000 through late 2003, contrary to GAAP, Cablevision improperly recognized payments known as launch and marketing support (hereinafter collectively "launch support"), which were paid to Cablevision by television program vendors for advertising and marketing campaigns to attract viewers to the vendors' programs. These errors occurred in and directly affected financial reporting for Cablevision's cable distribution business. The improper timing of the recognition of launch support was reflected in Cablevision's books, records and accounts and caused Cablevision to reduce expenses in the periods in which launch support was improperly recognized and correspondingly increase expenses in the periods when the launch support should have been recognized.

5. The improper recognition of prepays and launch support payments caused Cablevision's reports to the Commission to be materially inaccurate. These errors, among others,

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

caused Cablevision in 2004 to restate its financial statements for the years 2000 through 2002 and for the nine months ended September 30, 2003. The improper recognition of prepaid expenses and launch support payments in Cablevision's books and records was possible because during the relevant period Respondent lacked sufficiently robust internal controls.

### **Improper Prepays**

6. Cablevision delegated to the corporation's individual business units the authority to incur expenses and authorize payments. A corporate, centralized accounting department recorded expenses in Cablevision's books and records and issued checks for payments. Cablevision's accounting department, however, had little direct knowledge of the type of details discussed below at a business unit level. Internal accounting procedures merely called for recognition of expenses and requests for payment of expenses to be reported to the accounting department on a standardized "authorization for payment" form ("APF"), signed by the appropriate level business unit manager, with evidence of the expense, such as an invoice, attached. These controls, however, were not sufficient to prevent the manipulation of expense recognition that occurred.

7. Certain Cablevision employees and managers for years were able to defeat Cablevision's internal accounting controls using methods that were neither particularly devious nor sophisticated. For example, some employees submitted counterfeit invoices to Cablevision's accounting department that were of noticeably poor quality, and were different in appearance from legitimate invoices. Certain Cablevision employees also asked vendors to submit false, vague or misdated invoices for services not yet provided. These invoices were used to submit fraudulent APFs to Cablevision's accounting department in support of early expense recognition and payments. In addition, Cablevision checks were sometimes sent to the business unit from which a counterfeit or false invoice originated, ostensibly for delivery to the vendor by an employee of the business unit. This deficient practice permitted the business unit to hold payment until the anticipated services were actually rendered.

8. The circumstances described above demonstrate that Cablevision's internal controls, including employee training, were inadequate during the relevant period and failed to provide reasonable assurance that transactions were executed as authorized by management, or that transactions were properly recorded so that Cablevision's financial statements could be prepared in accordance with GAAP and accountability for assets could be maintained.

### **Improper Launch Support Recognition**

9. Beginning in the middle to late 1990s, television program vendors began providing lump-sum launch support payments to Cablevision in connection with multi-year contracts with Cablevision to carry their programs. Contract provisions concerning launch support payments were generally understood to require Cablevision to use the funds for advertising and marketing campaigns to attract viewers to the vendors' programs. Contracts providing for large up-front payments of launch support to Cablevision were not uncommon. These contracts sometimes also

required that the launch support be refunded by Cablevision if, among other things, it dropped the program.

10. In some cases during the relevant period, Cablevision properly recognized non-refundable launch support as a reduction of expenses ratably over the life of the contract with the vendor and recognized refundable launch support ratably over the life of the refund period. In fact, in 2002, Cablevision publicly stated that this was how it accounted for launch support. From 2000 through the third quarter of 2003, however, Cablevision improperly accelerated the recognition of launch support received from several program vendors, rather than recognizing it ratably over the life of the contract or the refund period. This early recognition ran contrary to its general practice and its 2002 public statement, and violated GAAP's matching principle.

11. For example, after the first two years of an eight-year contract, Cablevision changed its recognition for \$15.16 million of launch support from recognition ratably over the life of the contract to immediate recognition of the remaining balance. Under the circumstances, however, Cablevision should have accounted for launch support payments ratably over the life of the contract where, as here, the contract term was fixed and there was no obligation to refund launch support. Another example involved a contract with a launch support refund period. After the first eight months of a 24 month refund period, Cablevision changed its recognition of \$5.3 million in launch support from recognition ratably over the life of the refund period to immediate recognition of the remaining balance. Under the circumstances, however, Cablevision should have accounted for launch support ratably over the refund period specified in the contracts.

12. Cablevision also improperly recognized launch support early by treating a 2002 seven-year agreement to carry certain programs as if it were two agreements – one of three years, and another of seven years. As two separate agreements, Cablevision recognized \$48 million in launch support over the 'three year' agreement (approximately \$16 million per year), and recognized \$16 million in launch support over the 'seven year' agreement (approximately \$2.28 million per year). Under GAAP, however, the two agreements should have been treated as one agreement, with the result that the total \$64 million in launch support should have been recognized ratably over seven years, i.e., approximately \$9.14 million per year. The purported two agreements were negotiated simultaneously and dated only five days apart, and the 'seven year' agreement also amended the terms of the 'three year' agreement. Cablevision employees improperly cast the single deal as two agreements to achieve early recognition of the launch support payments.

13. The accelerated recognition of launch support revealed further that Cablevision's internal accounting controls were insufficient to permit the preparation of its financial statements in conformity with GAAP. Cablevision personnel were, but should not have been, able to make unchecked changes to the scheduled recognition of launch support.

### **Cablevision Financial Misstatements**

14. As a result of the improper expense recognition discussed above, Cablevision's financial statements in its annual reports on Form 10-K and its quarterly reports on Forms 10-Q for

the years 2000 through 2002 and the nine months ended September 30, 2003 were materially inaccurate. As reported in Cablevision's 2004 restatement, the sum of the launch support and the expense recognition errors resulted in a \$15.184 million overstatement of expenses in 2000, a \$25.389 million understatement of expenses in 2001, and a \$7.581 million understatement of expenses in 2002. For the first 9 months of 2003, the sum of the errors in expense and launch support recognition resulted in a \$7.895 million understatement of expenses. The combined errors resulted in (net of estimated tax) a 3.8% understatement of Cablevision's net income in 2000, a 1.5% overstatement of net income in 2001, a 4.9% overstatement of net income in 2002 and a 5.1% understatement of Cablevision's net loss in the nine months ended September 30, 2003.

### **Violations**

15. Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder require issuers of securities registered pursuant to Section 12 of the Exchange Act to file periodic reports with the Commission containing complete and accurate financial information presented in accordance with GAAP. Exchange Act Rule 12b-20 further requires that periodic reports contain such further material information, if any, as may be necessary to make the required statements not misleading.

16. Section 13(b)(2)(A) of the Exchange Act requires issuers of securities registered pursuant to Exchange Act Section 12 to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the issuer. Section 13(b)(2)(B)(ii) of the Exchange Act requires reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP.

17. As a result of the conduct described above, Respondent violated Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1 and 13a-13.

### **Cablevision's Remedial Efforts**

18. In determining to accept Respondent's Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that, pursuant to Section 21C of the Exchange Act, Respondent cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1 and 13a-13.

By the Commission.

Elizabeth M. Murphy  
Secretary