

## Comcast Joins In the Gigamania

Cable operator Will Offer 2-Gbps Over Fiber To 18 Million Homes 4/06/2015

8:00 AM Eastern

By: **Jeff Baumgartner**

### TakeAway

**Comcast has doubled down on Google Fiber and other high-speed rivals, setting plans to launch a 2 Gigabit-per-second “Gigabit Pro” platform.**

If Google Fiber’s true aim is to prod Internet-service providers to move ahead with 1 Gigabit upgrades, then consider it mission accomplished ... times two. One-upping the speeds currently offered in limited areas by Google Fiber and AT&T’s “GigaPower” platform, Comcast announced last Thursday (April 2) that it would offer a symmetrical 2 Gigabit-per-second residential broadband service that will be available to about 18 million homes before the end of 2015.

The service, called “Gigabit Pro,” will initially be available next month to 1.5 million customers in Atlanta, and then start its march into other Comcast markets.

Comcast is still evaluating pricing on the new service, but to deliver it, the Philadelphia-based MSO will use fiber-to-the-home technology that it has been relying on for Extreme 505, a residential service that pairs a 505-Mbps downstream path with one at 100 Mbps upstream. Comcast said it plans to convert Extreme 505 customers to Gigabit Pro and offer the faster service for less than what they’re paying now (\$399.95 a month with a three-year contract).

Comcast will offer the uncapped Gigabit Pro service to customers within “close proximity” (about one-third of a mile) of Comcast’s existing fiber network. Using this capital-friendly, success-based model, the MSO will perform a separate install for Gigabit Pro customers that will involve pulling fiber to the home and equipping the household with a new termination device and modem that links to the fiber-to-the-premises network.

Comcast will expand and complement its Gigabit capabilities via the coming deployment of DOCSIS 3.1, a next-generation platform for hybrid fiber coaxial networks that will be capable of delivering speeds of up to 10 Gbps downstream and at least 1 Gbps upstream. Comcast intends to start DOCSIS 3.1 rollouts in “early 2016,” Marcien Jenckes, executive vice president, consumer services for Comcast Cable, explained in a blog post.

Comcast, which is still seeking approval for its proposed merger with Time Warner Cable, announced the 2-Gig initiative and offered an update on its DOCSIS 3.1 deployment plan five weeks after the Federal Communications Commission reclassified broadband as a Title II service, a move that the cable industry had warned could chill investment.

- See more at: <http://www.multichannel.com/comcast-joins-gigamania/389440#sthash.qwlbDxEf.dpuf>

Multichannel News

## FCC Eyeing Charter Over Tussle With Modem Maker

4/06/2015 8:00 AM Eastern

By: **John Eggerton**

### TakeAway

**The FCC is vetting Charter's third-party modem policies after tech firm Zoom made them an issue in the Comcast-Time Warner Cable merger-approval process.**

WASHINGTON — Charter Communications's third-party cable modem practices are getting a thorough vetting at the Federal Communications Commission, and could result in a condition on the Comcast-Time Warner Cable merger that would apply rules governing cable set-top boxes to modems.

Executives at cable-modem maker Zoom Telephonics met with no fewer than 20 members of the transaction team last month to hammer Charter over its third-party modem certification standards.

While the FCC is mostly concentrated on the Comcast portion of the proposed Time Warner Cable merger, it also includes system swaps and spinoffs to Charter. The modem issue appears to be the Charter-related part of the deal getting most of the agency's attention.

Zoom has filed a petition to deny the deal, but said that if it is approved, the FCC should condition that approval on Charter stating an unsubsidized price for leasing cable modems and not "unreasonably" refusing to allow "nonharmful" modems to attach to its network.

Since 2012, Charter has bundled the price of leasing its modems into the overall price of service, which Zoom has said gives customers no financial incentive to purchase their own devices.

Charter said that not charging a separate modem fee is good for subscribers. The Stamford, Conn.-based MSO said its decision to bundle the price of the modem, as well as taxes and Universal Service fees, was a way to give its customers "greater transparency about the services they are paying for" and to reduce "bill shock." The bundled price is still lower for a higher-speed service than its competitors offer, Charter said, even with the lease fee.

Charter has a list of modems it argues meet the requirements for the functionality needed on its systems, and that modems that don't meet that standard — and pass Charter's testing — could harm the network and prompt

customer complaints to the ISP. Zoom has argued that the standard is unreasonably high and meant to discourage third-party modems, such as its devices.

Zoom has argued that Charter is required by law to provide a separate price for its leased boxes, while Charter claims that rule only applies to navigation devices for basic-tier cable video service and not to cable modems.

Attorney Andrew Schwartzman, who is representing Zoom, says the law and FCC policy are clear. "Consumers are entitled to attach non-harmful equipment to any network," he said. "Similarly, cable operators are prohibited from bundling the price of leasing cable modems with the price of Internet service."

He also said that if the FCC does not "successfully resolve" the modem issue in the Comcast/TWC review, Zoom will likely oppose Charter's just-announced proposal to buy Bright House Networks as well (see cover story).

In a filing late last week, Charter told the FCC it had reached out to Zoom to get the company to submit its modem to cable operator's certification process. The MSO said that Zoom informed it that without Charter breaking out the price of modem rental, it did not wish to engage.

*Jeff Baumgartner contributed to this report.*

- See more at: <http://www.multichannel.com/fcc-eyeing-charter-over-tussle-modem-maker/389443#sthash.xGuJv0hE.dpuf>

Multichannel News

## **Charter Flight**

### **Op Soars to No. 4 With \$10B Bright House Buy. Who's Next?**

4/06/2015 8:00 AM Eastern

**By: Mike Farrell**

When Tom Rutledge became CEO of Charter Communications in late 2011, he announced a clear vision of his goals, which centered around his vow for broadband: Be the fastest.

With the proposed purchase of Bright House Networks for \$10.4 billion last week, he's now not only one of the fastest — he's one of the biggest.

Rutledge and Charter have spent that past three years upgrading plant, boosting HD channel capacity, raising highspeed data service speeds and repackaging video offerings in an attempt to hold on to and grow the operator's 4.2 million-strong subscriber base.

"We have invested in our plant, our products, our service and our employees," Rutledge said after announcing the Bright House deal. "Today, we are all-digital; we offer minimum Internet speeds that are some of the fastest in the country; we offer more high-definition channels than do our satellite competitors, all at highly attractive prices, and the results are showing."

#### ***RETURN ON INVESTMENT***

Charter has spent about \$560 million on upgrades and rebuilds since 2012, and the results have been strong, according to its financial statements. It added 3,000 residential video customers in the fourth quarter and finished the year with 4.3 million video subscribers, down slightly from the 4.34 million in the prior year.

Rutledge has applied to Charter the same principles he applied at his past two jobs: Better customer service, aggressive pricing and even more aggressive packaging. As chief operating officer of Cablevision Systems, he helped introduce the first \$90 triple-play package of video, voice and data; before that, as Time Warner Cable's president, he helped run some of the Bright House systems Charter is now buying. At TWC, he also helped usher in such innovations as the Full Service Network, the precursor for video-on-demand and interactive TV.

At Charter, Rutledge has focused on high-speed data. As soon as Charter markets went all-digital, the Stamford, Conn.-based MSO immediately ratcheted up minimum broadband speeds to 60 Megabits per second. In some Charter markets, the minimum data speed is 100 Mbps, compared with 15 Mbps for the rest of the industry. And Rutledge said he believes speeds can be even faster.

“By going all-digital and investing in all-digital and clearing out our networks and taking full advantage of the capacity of our networks, we can actually add that capacity into the broadband network and take speeds up dramatically at relatively low cost on a per box or per customer basis,” Rutledge said. “We will take our networks and use the networks as well as they can be used by making them all-digital.

“There are digital technologies coming down the line in DOCSIS — DOCSIS 3.1 — which actually take the capacity that we already have and make it even greater,” he added. “That’s a bigger investment in the long run, but still relatively small because you are not rebuilding plant.”

The \$10.4 billion purchase of Bright House Networks will add 2.5 million quality cable subscribers to Charter’s rolls. When coupled with the customers Charter will gain in a series of swaps, sales and spinoffs related to Comcast’s pending acquisition of Time Warner Cable, the mid-market Charter will vault into a solid second place among U.S. cable operators and No. 4 among all domestic pay TV distributors, with about 10.1 million owned or serviced customers.

### ***SCALING UP***

That could go a long way toward easing Charter’s programming cost burden. With the Bright House deal, Charter crosses the 10 million-subscriber threshold, approaching Time Warner Cable’s current customer tally of 10.8 million subscribers. It was an irony not lost on Rutledge.

“And while it’s not assumed by us, as we now go over 10 million video customers and by programming for 10 million plus video customers, we are kind of in the shoes of where Time Warner was proportionally in the rest of the industry and we had not really assumed that kind of product pricing in our modeling, but it should be available to us over time if we are good negotiators and take advantage of our scale,” Rutledge said.

The deal also gives a vote of confidence to the much-maligned Comcast-Time Warner Cable merger — both Charter deals are contingent on that larger transaction closing. And Rutledge added last week that by removing 2 million

video customers (and 1.9 million highspeed data subscribers) from TWC, his deal could make it easier for the Federal Communications Commission to approve the larger deal. Opponents of the \$67 billion Comcast-TWC marriage have objected to the combined company's dominance over the broadband market.

With Bright House, Charter gains markets outside its customary footprint, with Tampa and Orlando, Fla., systems, as well as markets adjacent to its existing properties, with smaller systems in Detroit; Birmingham, Ala.; Bakersfield, Calif.; and Indianapolis.

When Rutledge first joined Charter, the strategy was to build scale organically, not through acquisition. Armed with a stronger balance sheet — a 2009 bankruptcy erased about \$8 billion in debt and pumped \$3 billion in new equity into the company — Charter finally had the financial wherewithal to invest in its plant and equipment to grow the business.

In a 2012 interview with *Multichannel News*, Rutledge said the new capital structure removed the obstacles to growth.

"I do think the capital structure makes a huge difference, because it doesn't handicap management," Rutledge said at the time. "Management can do what it needs to do to be successful; it can spend money where it needs to spend money and it can spend money to make money. That wasn't always the case in the past."

When Liberty Media and cable legend John Malone invested \$2.6 billion for a 27% interest in Charter in 2012, the MSO's growth path shifted toward acquisitions. After a run at Time Warner Cable that ended with Comcast winning the prize, Charter managed to wrangle a consolation prize that could effectively add 3 million owned and serviced customers to its rolls — purchasing about 1.4 million subscribers, swapping systems with about 1.6 million customers and by taking a 33% interest in a spinoff entity called GreatLand Connections with 2.5 million customers, which Charter will manage.

Now, with the Bright House deal, Charter will get a new largest individual shareholder in Advance/Newhouse; its 26.3% stake will outstrip Liberty's 19.4% equity interest (it will have equal voting footing with A/N at about 25%). And it gains breathing room to pursue further acquisitions.

"The macro trends in the cable business point towards an increasingly greater need for scale — from acquiring programming, to product development, to an increasingly centralized operational approach — which is driving smaller operators to look to get larger and/or exit," Morgan Stanley cable analyst Ben Swinburne said in a recent research note. "Charter is benefiting from this trend as

the natural acquirer for operators serving much of the mid- and smaller-sized footprint in the U.S.”

Pivotal Research Group principal and senior media & communications analyst Jeff Wlodarczak, who recently raised his 12-month price target on Charter to \$230 per share from \$215 per share, believes the time is right for the operator to start its consolidation binge.

### ***DOMINO EFFECT***

“I think this starts the dominos falling, and Charter consolidates most of the rest of the U.S. cable industry,” Wlodarczak said. “But they may want to wait a bit to consolidate these two fairly big deals, likely until sometime in 2016.”

Charter certainly has the currency in a robust stock — its shares were up 8%, or about \$10 per share, after the Bright House announcement to \$193.11 each — and ample debt capacity, as it will have about \$6 billion in available credit lines after the Bright House deal.

There is a line of candidates for possible consolidation. In a note to clients Wlodarczak named four: Suddenlink Communications (private), Mediacom Communications (private), Cable One (planned to be spun off from Graham Holdings as a separate public company this year) and Cablevision Systems (public), with the latter possibly involved in a later system swap with Comcast.

Charter also is expected to eventually acquire the remaining two-thirds of Great-Land Connections, the publicly traded entity that will be spun off as part of the Comcast- Time Warner Cable deal. Greatland will have about 2.5 million customers and will be 33% owned by Charter once it is spun off.

A potentially harsher regulatory environment also could spur consolidation, especially among smaller operators. FCC chairman Tom Wheeler’s moves to regulate cable companies as common carriers could be the final straw for some smaller MSOs. Some pointed toward the last big sea change in the regulatory environment that caused some operators to seek larger suitors— the 1992 Cable Act, which set pricing parameters for cable service.

“It’s forcing people to ask themselves, ‘Is there a place for me going forward?’” said one executive in the cable financial community that asked not to be named.

- See more at: <http://www.multichannel.com/news/distribution/charter-flight/389446#sthash.7Y4d75Qb.dpuf>

Multichannel News



## D.C. Court Gets Net-Neutrality Challenge — Again

4/06/2015 8:00 AM Eastern

By: **John Eggerton**

WASHINGTON — The federal appeals court that has twice rejected the Federal Communications Commission's efforts to regulate network neutrality will get a third bite at the apple, according to the U.S. Judicial Panel on Multidistrict Litigation.

The U.S. Court of Appeals for the D.C. Circuit, considered the most friendly to regulatory challenges, has been chosen to hear USTelecom and Alamo Broadband's challenges to the FCC's reclassification of broadband Internet service as a Title II common-carrier service. The lawsuits are the first filed against the FCC's Feb. 26 majority decision to reclassify Internet-service providers as telecommunications providers.

The panel randomly picks the circuit if challenges are filed in more than one venue. USTelecom, the phone-company trade association, filed its suit in the D.C. Circuit, while Texas-based Alamo filed in the 5th U.S. Circuit Court of Appeals.

The D.C. court is the one that threw out the FCC's 2010 Open Internet order, rejected the FCC's Comcast/BitTorrent ruling and is generally the venue of choice for regulatory challenges; it is also the court with primary jurisdiction over FCC decisions.

The FCC has signaled it will ask for dismissal of the USTelecom and Alamo suits, arguing that they were premature because they were filed before the decision was published in the *Federal Register*. USTelecom said it filed out of an abundance of caution, in case the 10-day window for suing was triggered by the FCC's release of the declaratory ruling portion of the order rather than triggered by publication.

Other critics of the FCC Title II decision are likely to file their own suits after *Federal Register* publication, and USTelecom and Alamo can do so as well.

One veteran attorney said there now "might be some arguing" that the D.C. Circuit should still get the case even if there is a lottery for a second flight of suits that winds them up in a different court.

- See more at: <http://www.multichannel.com/dc-court-gets-net-neutrality-challenge-again/389455#sthash.n5wh6J5U.dpuf>

Multichannel News

## **Don't Force-Fit Legacy Cable Rules to Online Video**

4/06/2015 8:00 AM Eastern

**By: Seth Cooper**

The Federal Communications Commission is proposing to bring Internet-based streaming video services within the scope of its legacy cable regulations, and reply comments have just been filed. Specifically, the FCC seeks to redefine the legal meaning of the term “multichannel video programming distributor” — MVPD — to include subscription-based online video distributors, or OVDs. According to the FCC, its proposed changes would take stock of new video competition from online services, such as Netflix or Amazon Prime Instant Video.

But the FCC's new-wine-in-old-wineskins approach to video regulation raises profound law and policy issues. The text of the Communications Act appears to foreclose the agency making such a change. Extending regulations based on early 1990s assumptions about cable monopolies to the dynamic Internet is also dubious. And such a redefinition of terms raises serious First Amendment questions.

If anything, the FCC's move should prompt Congress to act with greater urgency in bringing about the reforms that are truly needed. Congress should adopt a simplified marketbased framework for video services that treats competition, rather than regulation, as the norm.

The FCC proposes to redefine the Communications Act's term for “multichannel video-programming distributor” — or MVPD — by including within its scope “services that make available for purchase, by subscribers or customers, multiple linear streams of video programming, regardless of the technology used to distribute the programming.”

In particular, the FCC proposes extending to OVDs the ostensible benefits of program access regulations enjoyed by MVPDs. Program access regulations limit the ability of MVPDs to withhold satellite programming from competing video distributors. They are intended to ensure that MVPDs that also own video programming make their programming available at wholesale for their rivals to sell at retail to subscribers. Program-access regulations thereby impose restrictions on free market entrepreneurship and decisions about protected speech content. The FCC suggests expanding such regulations will spur further video competition.

The FCC's MVPD redefinition proposal should prompt Congress to comprehensively reform the outdated federal video services regulatory policy. Congress should regard competition rather than regulation as the norm, seek to treat all video providers equally and respect First Amendment freespeech strictures.

*Seth Cooper is a senior fellow at the Free State Foundation, a Rockville, Md.-based nonpartisan think tank.*

- See more at: <http://www.multichannel.com/don-t-force-fit-legacy-cable-rules-online-video/389462#sthash.GIRCWXbg.dpuf>

Multichannel News

## **Horowitz: OTT Claims Bigger Viewing Share**

3/30/2015 8:00 AM Eastern

**By: R. Thomas Umstead**

NEW YORK — Over-the-top services continue to claim more of Americans' video viewing time, a new survey from Horowitz Research found.

Nearly 40% of viewers spend at least one-fifth of their viewing time watching OTT services such as Netflix, Hulu and Crackle, up from 31% of viewers in 2014, Adriana Waterson, senior vice president of marketing and business development for Horowitz, said in leading off the research organization's Cultural Insights Forum here.

"About half of TV content viewers today have access to an over-the-top SVOD service that they either subscribe to or they access with someone else's login," she said, using the term for subscription (paid) video-on-demand outlets.

"Whether you're a pay TV subscriber, a subscription OTT subscriber or both, the bottom line is that you are a consumer in a market for a wide variety of fantastic entertainment content."

As OTT viewing increases, the time spent watching live and recorded shows has decreased, according to Waterson. The survey (of 2,864 people, in January and February) finds OTT viewing as a percentage of all weekly video consumption has risen to 24% in 2015 from 14% in 2013. Live TV viewing has dropped to 54% from 58% two years ago.

Video-on-demand and DVR viewing declined to 16% overall from 20% in 2013, the survey found.

OTT services play a major role in millennials' viewing. Horowitz reported that 90% of millennials (generally speaking, ages 18-34) have the capability to stream content to the television set. Overall, 82% of millennials have a multichannel-TV package. Millennials spend 46% of their weekly viewing time streaming video content compared with 30% of time spent watching live, scheduled television.

A silver lining for pay TV providers: Only three out of 10 millennials are considering cutting the cord, Waterston said. She found that 90% of older millennials, who have children, subscribe to pay TV.

Multicultural millennials are more likely than white millennials to subscribe to a pay TV package and are also less likely to cut the cord, according to Horowitz.

- See more at: <http://www.multichannel.com/horowitz-ott-claims-bigger-viewing-share/389245#sthash.HMKI4j4u.dpuf>

Multichannel News

## TV Everywhere Makes Strides Against OTT Rivals: Study

3/30/2015 8:00 AM Eastern

By: **Jeff Baumgartner**

### TakeAway

**TV Everywhere adoption is on the rise among pay TV subscribers, a new Adobe study has found.**

If TV Everywhere aims to help traditional pay TV providers fend off a surge of over-the-top competition, new data suggests that the needle is moving in the right direction.

Consumers continue to gravitate to authenticated streaming services that complement their video subscription bundles. Although adoption hurdles remain, overall authenticated video usage climbed 467% over a 24-month period, according to Adobe's *2014 U.S. Digital Video Benchmark Report*.

Major sporting events continue to serve as the primary TVE catalyst — about three times as many TV Everywhere users watch sports as watch movies.

But viewership is rising in other content categories, such as episodic broadcast and cable TV, per Adobe, which based its new findings on 191 billion total online video starts and 2.67 billion TVE authentications.

Adobe's analysis found that 12.5% of pay TV subscribers were actively viewing TVE content in the fourth quarter of 2014, up from just 4.4% of subscribers in the first quarter of 2013.

Overall for 2014, an average 11.6% of subscribers regularly viewed TVE content, suggesting that TVE is "only a few quarters away" from shifting from a platform for early adopters to one that is used by the early majority, Adobe said.

But it's not all rainbows and unicorns. Adobe acknowledged that convincing users to set up TVE accounts remains "a bit of a hurdle."

Those who make the jump tend to return frequently, as consumers logged 2.1 billion authenticated video views in 2014, up 266% year-over-year.

On average, 13 million viewers logged in at least once per quarter during 2014 to watch TVE content, Adobe said.

"From an aggregate perspective, the frequency with which viewers are logging in and engaging with premium subscription-gated content is growing rapidly," Adobe said. "This behavior is a primary reason why TV Everywhere is becoming

more mainstream. To make it sustainable, developers need to provide deeper value to TV Everywhere.”

Getting consumers to get set up for TVE is just one hurdle. Once operators and programmers get them there, they must also maintain a high level of quality to keep them there.

In a separate study, Conviva, an OTT vendor that works with Liberty Global, HBO and NBCUniversal, found that 29% of streamers will abandon ship if they encounter buffering and other tech ailments, and 75% will give up within just four minutes if the video experience is poor.

At the device level, the iPad remains the most popular for TVE streaming, with a 29% share of authenticated video starts in Q4 2014, according to Adobe.

The iPad's hold could slip a bit, though; Adobe said it sees the category of gaming consoles and OTT devices achieving a 20% share of TVE streaming this year as consumers tap products such as the Google Chromecast, Roku devices, Apple TV boxes and gaming consoles to fulfill their video needs.

Adobe added that it believes the proliferation of new devices and faster connections will drive mobile to overtake desktop video viewing by the fourth quarter of 2016.

Adobe also said it expects TVE active viewership to reach 18% by the end of 2015, driven by auto-authentication and social logins, and aided by marketing campaigns from content companies and multichannel distributors.

- See more at: <http://www.multichannel.com/tv-everywhere-makes-strides-against-ott-rivals-study/389246#sthash.AUUod1O7.dpuf>

Multichannel News

## Over-The-Top (Prices)

Pricing Out OTT Packages Shows Value Of The Bundle: Analysts 3/30/2015 8:00 AM Eastern

By: **Mike Farrell**

### TakeAway

**An analysis of how much over-the-top services cost and what they offer suggests cord-cutters might not be getting the value they think they are.**

The debate around over-the-top services has heated up recently as new players like Sling TV, Sony's PlayStation Vue and HBO Now join existing subscription video-on-demand services like Netflix, Hulu and Amazon Instant Video. But as consumers have more options to cut the pay TV cord, the discussion boils down to one key point: Price.

Several analysts have chimed in already. Recently, Sanford Bernstein media analyst Todd Juenger held two focus groups that showed what cable, satellite and telco TV operators have been saying all along: There is value in the bundle.

According to Juenger's admittedly sparse sample — the focus groups in New York and San Francisco polled about 34 at-risk cord-cutters between the ages of 21 and 38 — once confronted with the reality of cord-cutting, most see it is more expensive than a standard cable/Internet package.

Despite the hype, OTT packages offer a severely limited number of channels, and most don't have all of the sports — both cable and broadcast — that younger viewers seem to crave. Even non-sports fans are left out in the lurch, having to subscribe to several packages or services to satisfy even the most basic entertainment needs. Factor in the price of a standalone broadband connection, and the total cost approaches a standard double- or triple-play pay TV subscription.

"We remain cautiously optimistic that cord-cutting, in large numbers, isn't likely to happen," Juenger wrote. "It's one of those ideas that sounds great in the abstract but crumbles when faced with the reality."

MoffettNathanson analyst Craig Moffett in a recent note to clients said that while on the surface none of the OTT offerings appear to be game changers — packages are too small and the ultimate price is too high — the industry is at an inflection point.



“From here, we will see a steady stream of innovation that makes forecasting a challenge,” Moffett wrote. “The Orcs of OTT are storming the pay TV citadel. They will keep coming.”

- See more at: <http://www.multichannel.com/over-top-prices/389248#sthash.ENiRmsA6.dpuf>

Multichannel News

## Wheeler Faces 'Defining' Moment

NCTA to FCC: Fill Broadband Need, Don't Up the Speed 4/13/2015 8:00 AM Eastern

**By: John Eggerton**

WASHINGTON — This is, quite literally, a defining moment for Federal Communications Commission chairman Thomas Wheeler.

Even as the agency was collecting final comments on its proposal to define linear online video distributors as multichannel video programming distributors (see Rules), it was getting an earful from commenters on its decision, issued in the latest Section 706 report to Congress on the advancement of broadband, to redefine high-speed broadband as 25 Megabits per second.

Even Netflix, which is all for boosting speeds, told the FCC last week in response to a data request in the Comcast-TWC deal review, that customers only need 0.5-Megabit speeds to get the service, though preferably 1.5 Mbps or higher, and 15 Mbps for 4K HD.

As part of the Section 706 decision, the FCC had asked what it should do in response to the conclusion broadband was, again, not being deployed in a reasonable and timely fashion. Cable operators aren't arguing that higher speeds are better. In fact, they are upping speeds almost constantly to meet customer demands, they said.

What they argued with, per a National Cable & Telecommunications Association filing at the FCC last week, is the FCC arbitrarily redefining broadband in a way that they say won't advance faster, cheaper service. The NCTA put the blame back on the FCC itself, saying that the deployment gaps the FCC points fingers at are largely due to the agency's own failures, particularly its failure to expand the lifeline portion of the Universal Service Fund support to broadband.

The NCTA suggested setting a speed standard to accommodate 4K Ultra HD video would be putting the super-detailed video viewing experience cart before the lifeline basic-service horse. "While the commission has spent its time worrying about whether broadband customers are able to stream nascent 4K programming, it has virtually ignored those who have no broadband whatsoever," the cable trade group said.

What would cable operators have the FCC do, since it is asking? The American Cable Association, which represents smaller independent operators, said the best way to promote broadband is to make it more affordable by reining in programming costs (see sidebar).

For its part, the NCTA said the FCC should (1) revoke the \$10 billion in high-cost Universal Service Fund support it is offering incumbent phone companies and offer it to cable operators too, or any other qualified ISPs; (2) get more money to unserved remote areas, as it signaled it would do in 2011; (3) immediately create a broadband lifeline program; and (4) figure out where the \$28 billion in federal funding has gone since the FCC identified the goal of extending broadband to unserved areas back in 2010.

Then there is that other big definitional change: The redefinition of Internet-service providers as telecommunications companies.

“Compounding the situation, the commission’s recent adoption of Title II regulation for previously unregulated services will affirmatively harm deployment and adoption,” the NCTA said.

Cable operators are hoping a federal court, most likely the U.S. Court of Appeals for the D.C. Circuit, will provide its own new definition of the Title II reclassification: illegal.

## ***ACA to FCC: Get With the Programming***

WASHINGTON — The American Cable Association is using the Federal Communications Commission's comment cycle on its Section 706 report to push for agency action on programming costs, a drum it has been beating here at nearly every turn of the regulatory wheel.

The ACA said the key barrier to broadband deployment is the high cost of programming and that, without some relief, the video portion of the triple play could become unsustainable for smaller operators.

The organization made that point to the FCC in initial comments on the Section 706 deployment report and reiterated it this week in reply comments.

In the Section 706 report to Congress, the FCC once again concluded that advanced telecommunications was not being deployed to all Americans in a reasonable and timely manner and asked for input on steps it could take ASAP to address that shortfall.

The ACA cited a research analysis that concluded, "If current trends continue, traditional MVPD margins will be reduced substantially each year, and multichannel video service, which has been the foundational service for triple-play providers, may become a losing proposition for small to medium-sized providers within the next five years — by 2020 — or even sooner should conditions deteriorate more rapidly than anticipated."

- See more at: <http://www.multichannel.com/news/technology/wheeler-faces-defining-moment/389672#sthash.lLEojmB.dpuf>

Multichannel News

## Threat From the Skies

Pay TV's Newest Rival Is an Old Foe: Over-the-Air Antennas 4/13/2015 8:00 AM Eastern

By: **Mike Farrell**

### TakeAway

**Cable operators are facing a high-tech threat from an old rival: the over-the-air antenna.**

Television viewers are starting to get back to their wireless roots.

As if traditional pay TV companies don't have enough headaches from all the new over-the-top upstarts such as Sling TV and Sony's PlayStation Vue — not to mention HBO Now's recent debut on Apple TV devices — the nation's cable, satellite and telco TV distributors have another new over-the-top threat to contend with: TV antennas.

Make no mistake: These offerings aren't your grandfather's rabbit ears. Companies with high-tech, futuristic names like Nuvvyo and Mohu are jumping into the game, along with TiVo, ChannelMaster, Tablet TV and Simple TV, all of which are combining state-of-the-art digital antennas with over-the-air digital video recorders.

New DVRs can snag content from over-the-air TV stations, the Internet and from subscription over-the-top services like Netflix, Hulu Plus and Amazon Prime Instant Video. Cobbled together, free broadcast TV and an online video-on-demand service offer a viable alternative to increasingly expensive pay TV packages.

Digital video recorder pioneer TiVo is probably the most well-known name to enter the space — it launched its OTA "Roamio" product last year and has since debuted a \$49.99 version that allows customers to watch and record HD-quality broadcast stations, streaming video and subscription VOD.

In February, Roamio introduced a "One Pass" feature that allows viewers to track every episode of specific shows they want to catch up on and display them in a "My Shows" folder. Roamio also includes the intuitive TiVo guide and requires customers to pay a \$14.99 monthly fee for storage and guide usage.

Other offerings from Mohu, Nuvvyo, ChannelMaster and Simple TV pair up desktop-size HD antennas that can draw in as many as 40 or 50 digital over-the-air channels in high-quality HD, with DVR capabilities and access to online video and over-the-top subscription services like Netflix, Hulu and Amazon Prime Instant Video, with hopes of extending it to HBO Now, Sling TV and Sony PlayStation Vue.

### ***WHO'S THE AUDIENCE?***

While choices continue to grow, the burning question for OTA companies will be just which demographic they are targeting, Telsey Advisory Group analyst Tom Eagan said.

“What is the demographic and psychographic of those viewers: Are they willing to pay for a box and a monthly fee?” Eagan asked. “I think that the TiVo OTA device has potential, but the question is, how many of those 10 million [cord-nevers] will pay?”

For that reason, Eagan believes cable operators are safe for now.

“I don’t think it puts pressure on the MSOs because they don’t serve those viewers anyway,” Eagan said. “But it could serve to add marginal revenue to the programmers which they’ll need with the squeeze we expect due to operator consolidation.”

The idea is that cost-conscious viewers can significantly slash their pay TV bills by combining free over-the-air service with one or several OTT offerings. While the viewer won’t get all the channels they get on cable — and will still require a standalone broadband service for the online-video offerings — they can get most of the programming they want for a much-lower price.

For example, while a traditional expanded basic-cable package can cost about \$75 per month for 150 channels, a consumer with an antenna (with a one-time equipment cost of \$49.99 to \$149.99) and a Sling TV subscription (\$20 per month for around 20 channels and counting) will spend less than half that amount.

Over-the-air transmission is nothing new — it was TV’s original delivery method more than 70 years ago. But gone are the bulky and unattractive rooftop antennas and the unwieldy set-top rabbit ears that dominated the space for years. In their place are sleek, small and unobtrusive antennas that don’t look out of place on a bookshelf or mantle. And when coupled with an over-the-air digital video recorder and an online subscription video-on-demand service, they can offer an attractive alternative to traditional pay TV service.

There are about 12.6 million U.S. homes that watch only broadcast TV, according to Nielsen, versus about 100 million homes that have some type of pay TV subscription. And despite the free nature of OTA, getting access to subscription video-on-demand still requires a broadband connection. In most areas, that means maintaining a relationship with a cable or telco broadband provider.

Pay TV operators have responded to the competitive threat with attractive bundle pricing: Comcast offers a package of 140 video channels and 25 Megabits-per-second Internet service for \$79.99 per month for one year (rising to \$121.90-\$136.90 after the first year). The non-promotional price of standalone broadband can cost about \$66.95 per month, making the bundle the better value.

But as consumers grow more frustrated and programming packages become more flexible, the pairing of over-the-air service with “skinny” video could become more compelling.

“In the same way that we’ve seen an enormous fragmentation of the channels people watch, “our view is that over the next 20 years, we’ll see a similar fragmentation in the platforms they use to watch these channels,” TiVo chief marketing officer Ira Bahr said.

### **WEB COMPLEMENT**

Free OTA television makes an ideal partner with emerging over-the-top subscription video services like Dish Network’s Sling TV (which brought ESPN outside of the traditional programming bundle), Sony PlayStation Vue and existing services like Netflix, Hulu and Amazon Prime Instant Video.

“You take an over-the-top service — whether it be either Apple or Sony or Sling TV or whatever, it really doesn’t matter — and you marry it with over-the-air signals, that’s going to be a powerful proposition for many consumers,” Bahr said.

The situation is a little different for TiVo, which has a large customer base for its more traditional DVR set-tops in the pay TV sector. Bahr doesn’t see TiVo’s Roamio box as a total replacement for pay TV, but as a way for consumers to access — and integrate — all of their services more easily.

But other companies focusing on the over-the-air space see two markets emerging — one for the 10 million or so households that have never had a pay TV subscription and a second for additional sets in pay TV homes.

According to Nielsen, the number of broadcast TV-only homes rose from 12.3 million in the fourth quarter of 2014 to 12.6 million in first-quarter 2015, while the number of TV sets has stayed relatively steady, at about three per household. Increasingly, TV antennas are beginning to attract interest from cost-conscious customers and younger viewers who don't want to pay for channels they don't watch.

That could be a big selling point for OTA because, according to Nuvvyo CEO Grant Hall, broadcast is what most people are watching anyway.

"About 47 of the top 50 shows are available over the air," Hall said. "There is still a lot of content that people rely on."

Nuvvyo just launched the latest version of its broadcast digital video recorder, the Tablo Metro, in the first quarter, and believes the market may be more like 20 million or 30 million homes, or between 20% and 25% of the nation's 110 million television households.

Driving that increase, Hall argued, is the introduction of devices like Roku and Apple TV — estimated to be in about 20% of U.S. homes.

"I would argue that we're kind of at the tipping point [where] OTT and OTA is really going to take off this year," Hall said. "A lot of people are saying that this will be the year of the cord-cutter, 2015. All the tools are falling into place to replace the old legacy experience and I think there is demand out there."

Unlike the not-too-distant past, when some antenna companies had to wait for the latest retransmission-consent blackout for a sales boost, consumers are increasingly warming up to the idea of free TV. Last year, Antennas Direct hosted an event in Washington, D.C., in conjunction with TVFreedom, a consortium of stations, small businesses and other groups interested in preserving over-the-air TV. It gave away 1,000 HD antennas in about an hour. Antennas Direct has said it has given away about 15,000 antennas over the past two years.

Others, like Mohu, have paired up with cable operators during blackouts for giveaways — CEO Mark Buff said the company has sold about 1.5 million to 2 million TV antennas since 2010 (it was initially a manufacturer of military antennas and has had pay TV-provider customers in the past). Though the momentum seems to be shifting toward a combination of over-the-top services and over-the-air stations targeting consumers who either never had a pay TV service or have recently cut the cord, Buff sees opportunity in providing a broadcast alternative for customers of more traditional pay TV providers.



“We certainly get phone calls from companies we wouldn’t expect to get phone calls from,” Buff said, adding that that fights over retransmission consent have helped Mohu’s antenna business.

But not everyone is warming up to the idea that free TV will take a bite out of pay television subscriptions.

### ***NOT QUITE ENOUGH***

Pivotal Research Group principal and senior media and communications analyst Jeff Wlodarczak said he was skeptical that over-the-air television offers enough to get customers to cut the cord.

“Realistically, Netflix could drive consumers into these options better than anyone, but I doubt they would actually do so, given it would alienate the folks they buy content from,” Wlodarczak said. “So in the end I don’t think this makes pay TV nervous.”

Mohu has four antenna products: the Leaf Metro, the Leaf 30, the Leaf 50 and the Sky 60, ranging in price from \$24.99 to \$149.99 and delivering from 32 to 60 over-the-air channels. The devices are sleek, thin and compact — the Leaf 30 and Leaf 50 can fit on a bookshelf — and deliver high-quality HD signals that outperform pay TV in quality because signals are not compressed.

The over-the-air choices depend on the individual market but in metropolitan New York City, at least 58 digital OTA channels are available, including the digital feeds of the major broadcast networks, three public broadcast channels, Spanish-language broadcasters Telemundo and Univision and digital niche channels such as Antenna TV, Decades, Cozi TV and Bounce TV.

Earlier in March, Mohu launched Channels, a service that ties in SVOD providers like Netflix, Hulu and Amazon with its over-the-air offerings, which it hopes will resonate with customers. Mohu also is in talks with Dish Network to be a certified Sling TV partner.

“Up until Sling TV, your only option was Comcast and Time Warner Cable,” Hall said. “Now, that option is available if you have Netflix and Hulu, Sling and us — the local broadcast networks, two-thirds of all the shows that people watch — that combination gives you ammunition to say goodbye Comcast, goodbye Time Warner, goodbye Verizon.”

ChannelMaster executive vice president Joe Bingochea said OTA companies should strive to offer a growing menu of services. Channel- Master, which has

sold a line of antenna products since 1949 and has an over-the-air DVR product (DVR Plus), is readying its own OTA “linear” service to add to the mix.

Bingochea said the company expects to launch the service, which basically allows it to aggregate and integrate over-the-top and online content, including The Pursuit Channel, the Outdoor Cooking Channel and Foodie TV, into its guide product at the April 13 NAB Show in Las Vegas.

“We want to give the consumer options,” Bingochea said. “If you want Sling TV, we want to have it on our box. If you want to order movies a la carte, we have Vudu for transactional VOD. If you want online video, we have YouTube for online.”

## **Five Things You Didn't Know About Over-The-Air Broadcast TV**

**1. MORE CHANNELS THAN YOU THOUGHT.** Beyond ABC, CBS, NBC and Fox, in some markets there are as many as 50 digital broadcast channels available over the air, including Spanish-language Telemundo, Univision and Unimas, Chinese-language NTDTV, kids' channel Qubo and family-friendly and classic TV channels such as Cozi TV, MeTV, Antenna TV, Bounce TV, Escape TV, Grit and This TV. All for free.

**2. DVRs ARE EVERYWHERE.** You don't need a cable, telco or satellite subscription to record over-the-air shows on a digital video recorder. Companies like TiVo, Nuvvyo, Channel Master, Simple TV and others have all come out with variations of products that will record, pause and rewind live broadcast shows, complete with programing guides that offer show synopses, cover art and metadata.

**3. QUALITY TV FOR CHEAP.** Broadcasters still spend big on original programming. And broadcast shows are consistently at the top of the most-watched programming. According to the Television Bureau of Advertising, 96 of the top 100 shows in 2014 were broadcast shows.

**4. BROADCAST-ONLY HOMES ARE GROWING.** According to Nielsen, the number of broadcast-only homes is on the rise. As of March, 12.6 million TV homes received their TV via broadcast-only, up from 12.3 million in the fourth quarter of 2014.

**5. NOT MUCH BROADBAND.** More than half of the broadcast- only homes in the U.S., about 6.6 million households, also have no access to broadband or narrowband Internet, according to Nielsen's Total Audience Report

- See more at: <http://www.multichannel.com/news/technology/threat-skies/389682#sthash.VdCuo3gr.dpuf>

Multichannel News

## Cable, Broadcast Wage OTT Battle

FCC Weighs Implications of Redefining Online Video 4/13/2015 8:00 AM Eastern

By: **John Eggerton**

### TakeAway

**How the FCC defines a multichannel video programming distributor will shape the growth of online video distribution.**

WASHINGTON — The reply comments to the Federal Communications Commission’s proposal to redefine online video providers were over-the-top in more ways than one.

With broadcast-TV stations and cable operators on opposite sides of the issue of redefining some OTT video providers as multichannel video programming distributors (MVPDs) — and each suggesting their counterparts were simply trying to gain a competitive advantage — the fault lines clearly showed in sometimes heated rhetoric against a backdrop of the inexorable rise of video content on the Web.

The fight over how to classify online video distributors (OVDs) is also related to the cable-broadcast fight over retransmission consent. Cable operators have been trying to get their traditional video business out from under the regime and don’t want retrans applied to online distribution.

Cable operators clearly want the freedom to move to an online distribution model, where they could get some of the support the FCC has been extending to edge content providers as part of its effort to boost broadband penetration. The same goes for edge providers such as Amazon, which don’t want the FCC impinging on the binge viewing that’s become a new model of online video consumption.

### ***FUTURE PRECEDENT***

How the FCC ultimately defines OTT video will determine the future course of video distribution, something the commenters to the agency recognized.

Broadcasters don’t want cable operators to gain any distribution advantage through the proceeding. “MVPDs’ meritless proposals to tip the balance of retransmission-consent negotiations in their favor to further line their pockets have no greater merit as applied to OVDs,” the National Association of

Broadcasters said in its filing, the “further” a reference to ongoing broadcaster criticism of cable providers on the price of traditional video service.

The National Cable & Telecommunications Association has said the FCC doesn’t have the authority to redefine over-the-top video. Even if it does, cable-supplied online video services — either authenticated “TV everywhere” (TVE) services or separate online offerings MSOs might want to deliver to nonsubscribers — should not be reclassified. The FCC has tentatively agreed that TVE services won’t be subject to reclassification.

When Congress came up with the original definition of an MVPD, the NCTA said, it meant facilities-based distributors such as cable operators, satellite-TV providers and telcos, as was the FCC’s initial tentative conclusion.

Cable operators are concerned that local franchising authorities will start to assert jurisdiction over these online distribution models — and with good reason.

There were some mad men (and women) at cable programmer AMC Networks : Its attorneys. “AMC has the right to present its speech in the environment and context it chooses, including whether, when, and how its programming is distributed over the Internet (including whether to purchase online rights from copyright holders),” the company told the FCC. On that last point, if AMC does not have the online rights to some of its programming, it can’t sell those rights to someone else, it said.

And while it did not employ drones to deliver the news, online retail and e-commerce giant Amazon made it clear it’s siding with cable operators on the matter.

Amazon told the FCC it agreed with MSO Cox Communications that the FCC is off the mark when it presumes that over-the-top providers need the agency to intervene in order to successfully compete with traditional MVPDs.

Amazon suggested online content providers, like Amazon Instant Video, Netflix, Hulu and others, have drawn eyeballs and generated award-winning content, so what’s the beef?

### ***DON’T PURGE BINGE-WATCHING***

And if the FCC does go ahead, it should definitely not “force every entity offering online video content” into the MVPD mold, Amazon said. The company wants the FCC to ensure that the “linear” programmers it wants to redefine does not include the binge-watchers of such content as *Transparent*, on platforms such as Amazon Prime Instant Video.

Amazon is also concerned that “linear” is the only thing preventing the FCC from regulating the majority of OTT providers, and that is a pretty thin line.

“So while the commission should clarify that ‘binge-watching’ is not included within the definition of a ‘linear stream,’ this step alone is not enough to address our concerns,” it said. “It would be a mistake if companies are forced to distort their offerings to avoid classification as an MVPD when they have no ambition to replicate the traditional MVPD model.”

The FCC is under no timetable to vote on a final order and will likely take some time mulling the comments, particularly given the pushback from the online video providers that the proposal was meant to benefit.

- See more at: <http://www.multichannel.com/cable-broadcast-wage-ott-battle/389685#sthash.eL6BMMba.dpuf>

Multichannel News

## Title II Foes Launch Full-Court Press

Cable, Telco ISPs Say fight with FCC is about authority, not neutrality 4/20/2015

8:00 AM Eastern

**By: John Eggerton**

### TakeAway

**Title II faces likely years of legal challenges, which last week began in earnest — and in the U.S. Court of Appeals for the D.C. Circuit.**

WASHINGTON — The punches had been telegraphed, but they came in a flurry last week as the cable and telco industries made good on threats to sue the Federal Communications Commission over its Title II decision.

Five years ago, cable operators and all but Verizon Communications on the telco side stayed out of that fight, essentially agreeing to accept rules they said were unnecessary — no blocking or unreasonable discrimination — for fear of the alternative: reclassification of their service under as a common-carrier telecom service under Title II of the Telecommunications Act.

Their fears were realized last week with the publication of the FCC's Title II order in the *Federal Register*, which triggers their effective date 60 days hence and brought on the flurry of suits.

### **'CHEVRON' MIGHT NOT HELP**

The courts generally grant federal agencies *Chevron* deference in interpreting how to enforce laws, but the court that will be hearing these claims — the U.S. Court of Appeals for the D.C. Circuit — has already rejected FCC Internet-neutrality actions twice.

The first time was a 2008 FCC decision against Comcast's management of traffic generated by the Internet file-sharing application BitTorrent over its network, in which the court ruled the FCC was trying to enforce guidelines as though they were regulations.

The second instance was last year's conclusion in *Verizon vs. FCC* that the commission's 2010 rules were insufficiently justified and smacked too much of an absolute ban.

Cable operators and telcos will have to convince the court that the FCC's latest approach, which the agency said was consistent with court instructions in the Verizon decision, was arbitrary and capricious. They will argue, in part, that the FCC did not give stakeholders a chance to comment on the pivot from rules based on its authority under Section 706 (of the 1996 Telecommunications Act) to promote broadband to rules that reclassify Internet providers as common carriers.

Lining up against the FCC at press time last week were the National Cable & Telecommunications Association, the American Cable Association, CTIA: The Wireless Association, AT&T and the trade group USTelecom. That just about licks the platter clean when it comes to aggrieved parties, as those groups represent AT&T, Verizon, wired and wireless providers, as well as cable operators large and small.

"This appeal is not about net neutrality but the FCC's unnecessary action to apply outdated, utility-style regulation to the most innovative network in our history," NCTA president and CEO Michael Powell said in announcing the suit last week. "The FCC went far beyond the public's call for sound net-neutrality rules. Instead, it took the opportunity to engineer for itself a central role in regulating and directing the evolution of the Internet."

Powell said: "We believe that the FCC action basically undermines if not destroys a distinction that Congress codified and alone can change in which it intended that services defined as information services would not be subjected to Title II."

The law was clear that acquiring, storing and processing information via telecommunications was an information service, Powell said. "We believe you could not write a clearer definition of what information Internet access service is than that," he said. "When they purchase information access, they get the ability to interact with information. A federal agency is not allowed to rewrite an act of Congress."

The NCTA and others filing suit all emphasized that Congress needs to step in to clear up what they suggested was the FCC's errant call.

Republicans have introduced legislation that would essentially uphold the no-blocking and paid prioritization rules, but would preclude reclassifying ISPs under Title II and would narrow the Section 706 authority the FCC has been using to justify a host of broadband-boosting moves.



Narrowing Section 706 authority is a non-starter with Democrats, but Powell told *Multichannel News* last week that the NCTA would not oppose taking that language out, and he thought the industry wouldn't oppose it either.

### **HIGH-POWERED LEGAL HELP**

The NCTA has retained a couple of high-powered lawyers, and something of a shadow solicitor general's office, to make its case. Representing the cable association are former U.S. Solicitor General Theodore Olson and former assistant to the solicitor general Miguel Estrada. Estrada has become something of a go-to attorney for media companies before Washington courts. Olson has been on the case for three or four weeks, said Powell.

Estrada has said the case turns on critical principles of administrative law and the FCC's fundamental misapplication of the statute.

Elsewhere last week, Republicans launched a move to block enforcement of the new rules, but that is a long shot and more a shot across the bow (see box). Asked if NCTA supported that move, Powell said it was not "playing" in that space and was focusing instead on bipartisan legislation.

### **Neutralizing Net-Neutrality Regs**

WASHINGTON — Rep. Doug Collins (R-Ga.) has introduced a resolution of disapproval that, if passed by both the House and Senate and not blocked by the president, would invalidate the Federal Communications Commission's new network-neutrality order, which takes effect 60 days from April 13, the day it after was published in the *Federal Register*.

That is the same deadline lawmakers face to pass the resolution and get it signed by President Obama.

The resolution is a fast-track method of overturning federal agency regulations, but would almost certainly need a two-thirds supermajority to survive the almost certain veto by a president who strongly backed that order and its reclassification of Internet access as a Title II telecom service.

Echoing the sentiments of many Republicans, Collins said, "The FCC is proposing a federal takeover of the Internet, adding layers of slow-moving bureaucracy to high-speed communications."

Collins said the FCC's new rules "will impose new Internet restrictions, stifling technological innovation and economic growth."

Co-sponsoring the resolution are Republican Reps. Bob Goodlatte, Steve Chabot, Lynn Westmoreland, Glenn Grothman, Bob Latta, Bill Posey, Rick Allen, Ryan Zinke, Barry Loudermilk, Sam Johnson, Dennis Ross, Buddy Carter and Vern Buchanan.

Demand Progress, which is a big backer of Title II reclassification, offered up a warning.

“Doug Collins should think twice before he bucks the will of millions of Americans — and 85% of Republicans — by working to let ISPs shove most websites into slow lanes,” the group said. “His resolution is the latest attempt by the Big Cable industry and the members of Congress who do its bidding to roll back protections that will allow the public, innovators, and small businesses to benefit from an open Internet.”

Those “Big Cable” players have said they are not interested in fast and slow lanes, are willing to abide by rules, just not with Title II reclassification. They have argued that the FCC’s Title II approach could chill investment and wind up morphing into case-by-case rate regulation by degrees.

- See more at: <http://www.multichannel.com/title-ii-foes-launch-full-court-press/389885#sthash.M3G7fsek.dpuf>

Multichannel News

## Study: Cord-Cutters, Nevers Keep Rising

Comfort, not Competition, Drives Flight From Pay TV providers 4/20/2015 8:00 AM Eastern

By: **Mike Farrell**

TakeAway

The ranks of cord-cutters and pay TV-nevers will continue to rise in 2015, per research firm Convergence Consulting.

The number of cord-cutters and cord-nevers grew in 2014 and their ranks are expected to grow even stronger in 2015 and beyond, according to a study by Canadian research company Convergence Consulting Group.

About 22.77 million U.S. homes did not have a pay TV subscription in 2014, up from 21.5 million in 2013, according to the firm's report, titled "**The Battle for the American Couch Potato.**" This year, Convergence Consulting estimated the ranks of cord-cutters and homes that never had a pay TV subscription will grow even faster, to 24.08 million (19.9% of U.S. households).

The increase isn't necessarily because of new entrants into the OTT space like Sling TV and Sony's PlayStation Vue, Convergence CEO Brahm Eiley said, although those players could be a factor down the road. Rather, existing OTT services like Netflix and Hulu are more than enough to fuel the rise, while some will be attracted to good, old-fashioned cost savings, he said.

The average monthly revenue per unit for pay TV video service is about \$83 per month, he said.

"People are paying more than \$1,000 a year for TV and about \$43 per month for Internet," Eiley said. "You may not get everything you want, but you'll save yourself a chunk of money."

### **COMFORT LEVEL**

That said, price isn't as much a driving force for cord-cutting as is preference, according to Eiley. "This generation is getting a little more comfortable with that," he said.

Pivotal Research Group principal and senior media & communications analyst Jeff Wlodarczak said he believes the price for standalone broadband is much higher. Non-promotional prices (including modem rentals) from some operators can

reach as high as \$91 per month, he noted. Couple that with thin offerings from existing OTT services, and that's enough to keep most content consumers on the sidelines, he argued.

"I think all this stuff ends up being nichey," Wlodarczak said. "The bigger draw away from pay TV is not only the emergence of Netflix, but Facebook, Instagram, etc. They are simply multiplying Internet-based alternatives to people's time and, as the content guys keep raising the price aggressively, these relatively cheap alternatives become more attractive."

Eiley hasn't predicted the downfall of traditional TV either. While OTT offerings are getting all the attention, he said, it will be years before those services catch up to linear viewing levels.

"TV is going to have the bulk of viewers for decades," Eiley said. "It isn't like linear has given up. The hourly cost of TV is still pretty low. That's why they have 100 million homes. And the declines are not that radical, given the choices."

Convergence's estimated 24.08 million cord-cutters and cord-nevers in 2015 represented about 19.9% of total U.S. homes, up from about 22.7 million (or 19% of U.S. homes) in 2014.

"We're talking about [a] 1% [difference]," Eiley said. "At this run rate, it's going to take decades for this to change."

Adding to pay TV's advantage is that traditional distributors spent about \$49.9 billion on programming last year, compared to \$5.2 billion for OTT services such as Netflix, Hulu and Amazon. Those expenditures are expected to rise to \$53.3 billion and \$7.2 billion, respectively, in 2015.

"The TV-access guys are spending nine times what the nonlinear players are spending," Eiley said. "What's more interesting is, can the nonlinear guys like Netflix keep it up?"

### ***COSTLY CONTENT***

Netflix and other such services can't keep raising the original programming bar without raising prices, in Eiley's opinion. And he has been right before — in 2013, Eiley predicted Netflix would have to raise its prices to keep afloat and, last May, it announced a price hike for new subscribers to \$8.99 per month from \$7.99.

Netflix's operating profit margins are notoriously low — they were about 7% in 2014, compared to 20.3% for Time Warner Cable — and are expected to fall to 3% in 2015, according to Eiley. Those low profit margins leave little room to increase programming spending without raising prices, he said.

Wlodarczak disagreed, likening Netflix to the early days of satellite TV, when providers like Dish Network and DirecTV added millions of new subscribers as their subscriber-acquisition costs soared. Netflix's investment in original programming could help in terms of driving more subscriptions and reducing churn, he added, as will its investments to expand its international reach.

"All of these depress short-term results, but if they succeed in driving their subscribers towards where HBO is today globally and an increasing percentage of their content is much-higher-margin original programming, relative to purchased movies," Wlodarczak said. "When growth begins to slow, partly driven by the launch of fewer markets, they should begin to see a significant increase in margins, [meaning] no need to take additional price hikes.

"That being said, I think they will take price hikes and they will still appear to consumers to be a relatively cheap addition to their entertainment alternatives," he added.

On the other hand, pay TV providers have more wiggle room in pricing their broadband service. The average monthly charge for high-speed Internet service is \$43, according to Convergence, leaving room for increases. But raising prices comes with risks.

"Broadband growing will hurt TV, which isn't growing," Eiley said. "But if one player decides to raise prices and the other doesn't, it may not work out for the one who raises prices."

- See more at: <http://www.multichannel.com/study-cord-cutters-nevers-keep-rising/389886#sthash.rllt2fTK.dpuf>

Multichannel News

## TabletTV Ready to Spring Into Action

Preps for Bigger Relaunch in Bay Area, Will Add VOD Later this Year **4/20/2015**

8:00 AM Eastern

By: **Jeff Baumgartner**

### TakeAway

**TabletTV, a service that delivers over-the-air signals to tablets via antenna, is prepping an aggressive relaunch.**

Following a small trial in San Francisco, TabletTV is preparing for a more aggressive relaunch as early as this month as it seeks buyers for a new subscription-free TV platform that delivers dozens of broadcast channels to tablets via the digital airwaves.

TabletTV, a joint venture of Motive Television and Granite Broadcasting, began testing its service in the Bay Area in December, billing it as a limited beta offering.

“We’ve spent the last three months debugging the app and having our engineers focus and finalize the product,” Luc Tomasino, TabletTV’s chief marketing officer and launch director, said. “We’re reaching the end of that period.”

TabletTV, in partnership with Granite-owned station KOFY-TV in San Francisco, has been selling a startup kit that includes an \$89.95 “T-Pod” unit that works in tandem with an iOS-compatible app. This spring, the company expects to extend support to the Google Chromecast adapter and introduce an app that is compatible with Android-powered tablets.

The T-Pod performs the function of an antenna tuner, able to capture free, over-the-air TV signals for display on tablets that are running the TabletTV app.

Depending on signal availability, TabletTV estimates that its customers will have access to as many as 50 digital TV stations, including local ABC, CBS, Fox and PBS affiliates.

The T-Pod also allows users to record programming to an integrated DVR with 7 Gigabytes of storage (with an SD card slot for expanded storage), and weaves in social media from sources such as Twitter, Facebook and Instagram.

The aim of TabletTV’s amplified market launch is to deepen its presence in the Bay Area as it prepares for a wider national rollout in several major markets. The company hasn’t announced which cities are on deck, but candidates include New York, Los Angeles, Dallas and Chicago.

Toward the end of 2015, TabletTV will add a video-on-demand service that will deliver content via an unused portion of the broadcast spectrum using Motive's datacasting technology. TabletTV is also working on a version of the product that will support broadband connectivity for over-the-top video from sources such as Netflix.

"We think OTA-plus-OTT is a very powerful video solution for the consumer," Tomasino said.

But the bigger mission, he added, is "bringing eyeballs back to the broadcasters. [TabletTV] offers a compelling opportunity for broadcasters to reconnect with cord-cutters and deepen their engagement with existing viewers," he said.

Tomasino said it's too early to get a solid fix on the type of customer TabletTV will attract, as its initial trial was limited to a small batch of consumers. However, local and national news and sports programming have been the most popular types during a beta trial.

Early into the relaunch, TabletTV will continue to sell its product on directly online, though it's already looking at other sales channels.

In January, TabletTV announced it had joined **TVFreedom.org**, a coalition that has been pushing for continued access to free TV while also fighting cable industry efforts to revamp the retransmission regime.

Motive Television also has eyes for Europe. Last week, it released TabletTV Europe following its approval by Apple's App Store. TabletTV Europe will enable broadcast-TV viewing wherever digital terrestrial television uses the DVB-T broadcast standard in the MPEG-2 format.

TabletTV is just one of several companies that developed products tailored for cord-cutters and cord-nevers that emphasize over-the-air and over-the-top TV, including Mohu, TiVo, Channel Master and Simple TV (See "Threat from the Skies," April 13, 2015).

- See more at: <http://www.multichannel.com/tablettv-ready-spring-action/389887#sthash.8zh8xlt5.dpuf>

Multichannel News

## CenturyLink closing in on a TV franchise in Minneapolis

Wed, 04/29/2015 - 1:56pm

Helena Fahrnich, @CEDmagazine

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CenturyLink has been approved by a Minneapolis City Council panel to begin providing pay TV service. CenturyLink has agreed to extend the service to at least 15 percent of the city within two years.

The franchise agreement will go before the full City Council for approval on May 15, and certain CenturyLink customers could have the option to select service by early June.

The company is seeking additional franchise agreements within the Twin Cities. It has applied for them in several suburbs.

CenturyLink's goal is to offer its Prism cable TV service to the entire city within five years, though its position is that this is a goal, not a commitment. Comcast is the incumbent cable TV provider in the area.

According to local reports, CenturyLink gained approval from the panel because it promised to offer services in each of the city's 13 wards. Under the agreement CenturyLink must include households below the city's median income of \$49,560. However, the company has not provided exact locations on where it will bring service to.

The company is currently constructing the 1 Gbps fiber-optic network in Minnesota, which could support the service. It started planning the build out of gigabit service to 16 markets last October.

[http://www.cedmagazine.com/news/2015/04/centurylink-closing-in-on-a-tv-franchise-in-minneapolis?et\\_cid=4543213&et\\_rid=691458658&type=cta](http://www.cedmagazine.com/news/2015/04/centurylink-closing-in-on-a-tv-franchise-in-minneapolis?et_cid=4543213&et_rid=691458658&type=cta)



## **Comcast spikes \$45B Time Warner Cable deal that would have created Internet and TV giant**

Article by: TALI ARBEL and MICHELLE CHAPMAN, Associated Press

Updated: April 24, 2015 - 9:50 PM

NEW YORK — What killed Comcast's \$45 billion bid for Time Warner Cable? Regulators' desire to protect the Internet video industry that is reshaping TV.

A combination of the No. 1 and No. 2 U.S. cable companies would have put nearly 30 percent of TV and about 55 percent of broadband subscribers under one roof, along with NBCUniversal, giving the resulting behemoth unprecedented power over what Americans watch and download.

Competitors, consumer groups, and politicians have criticized the deal, saying it would lead to higher prices and less choice.

"The proposed merger would have posed an unacceptable risk to competition and innovation, including to the ability of online video providers to reach and serve consumers," Federal Communications Commission Chairman Tom Wheeler said in a written statement.

The Justice Department said that Comcast dropped its bid because of regulators' concerns that the Philadelphia-based cable giant would become an "unavoidable gatekeeper" for Internet services.

One of the concerns consumer advocates and competitors had with the Comcast deal was that it could undermine the streaming video industry that is reshaping TV. Comcast could, for example, require onerous payments from new online-only video providers for connecting to its network. Dish, the satellite TV company behind the new Web video service Sling TV, and Netflix opposed the deal.

"It goes to show you how important broadband is," said Amy Yong, a Macquarie analyst.

Regulators have taken other steps that signal how important they consider Internet access. The Federal Communications Commission in February released new "Net Neutrality" rules meant to keep broadband providers from charging

Internet companies for "fast lane" access or favoring some content. The broadband industry has sued to stop the rules.

"We have to live with it, and respect that, and move on," Comcast chairman and CEO Brian Roberts said in an interview on CNBC, referring to the government's opposition to the deal. "We always structured this deal in a way that would enable us to walk away."

Comcast doesn't owe Time Warner Cable a breakup fee because the deal didn't work out.

With the deal between Comcast Corp. and Time Warner Cable Inc. called off, a transaction with Charter Communications Inc. aimed at smoothing the way for regulatory approval also falls apart.

Even with the Comcast and Time Warner Cable deal being nixed, cable companies are likely to keep combining as costs rise for the shows, sports and movies they pipe to subscribers and video customers decrease.

Many analysts expect that Charter Communications could resurrect its own effort to acquire Time Warner Cable.

A combined Charter and Time Warner Cable would have 15 million video customers and 16.5 million Internet customers. That's still smaller than Comcast alone, which has 22.4 million video subscribers and 22 million Internet customers.

And the \$48.5 billion combination of DirecTV and AT&T is still expected to go through.

Shares of Time Warner Cable Inc. rose \$2.74 to \$151.50 in morning trading while Comcast shares slipped 8 cents to \$59.18.

- Local effects
- 

The collapse of the Comcast-Time Warner deal also means the collapse of two impending deals for Charter Communications. Its merger with Bright House now is moot, as is a separate company it agreed to form with Comcast shareholders as co-owner that would serve Comcast customers in the Twin Cities area.

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<http://www.startribune.com/politics/national/301200101.html>

## **Comcast-TWC Is Dead. What's Next?**

**Charter Mulls Bid; TWC CEO 'Gung Ho' About Opportunities** 4/27/2015 8:00 AM Eastern

**By: Mike Farrell**

After more than a year of anticipation, the long-awaited consolidation frenzy expected to envelop the cable market may have to wait yet again.

With Comcast's decision to abandon its \$67 billion purchase of Time Warner Cable, all eyes are now focused on Charter Communications, the Stamford, Conn.-based cable operator that started this whole thing nearly two years ago when it initiated a full-bore pursuit of the second largest cable operator in the country.

Most analysts expect Charter to make another run at TWC — company CEO Tom Rutledge has said that he would pursue Time Warner Cable in the event the Comcast deal was not approved — but when and for how much is largely undetermined.

Instead of such a merger accelerating more deal volume, it could have the opposite effect in the industry. Other smaller operators that have been waiting on the sidelines for the Comcast-TWC deal to clear now may have to wait even longer, as Charter mulls its offer for TWC.

In a research note, Needham & Co. analyst Laura Martin said she expected Charter to make a bid for TWC within the next three months. Late Friday, sources confirmed reports that Charter had already started early stage talks with TWC.

Telsey Advisory Group media analyst Tom Eagan said he believes there will still be deals, but that they will be smaller than previously anticipated.

### ***TWC EYEING BRIGHT HOUSE?***

The first one he expects to see daylight is a Time Warner Cable purchase of Bright House Networks. Bright House had agreed to be bought by Charter for \$10.4 billion last month, but only on the condition that the Comcast-TWC deal was consummated. TWC already has a relationship with Bright House — TWC has the

right of first offer to any bid for Bright House, which also has access to TWC's programming discounts — and buying it could be a defensive move against a potential Charter bid.

"That's why they have to move quickly," Eagan said of a possible Bright House deal.

Time Warner Cable says it's ready to take on the challenge as an independent company, and is leaving the deal speculation to others. In an interview, chairman and CEO Rob Marcus said New York-based Time Warner Cable was not blindsided by the decision to cancel the merger.

"From the day we announced the merger, we continued to execute our operating plan, initially with the intent to deliver a great company to Comcast, but also for the possibility it wouldn't go through the regulatory process," Marcus said. "Because we planned accordingly, we come out of this thing very well-positioned for the future."

The decision to scuttle the deal came down quickly. Reports first surfaced on April 17 that the Department of Justice was leaning toward opposing the merger and, a week later, the termination was announced. At the same time, the Federal Communications Commission was ready to move the merger before an administrative law judge, a signal that it did not believe the deal was in the public interest.

### ***TOO BIG IN BROADBAND***

With roughly 60% of the broadband market (speeds of 25 Mbps or higher), a combined Comcast-TWC would just be too big. "We thought we could get the deal approved, we thought we could make a good case," Comcast chairman and CEO Brian Roberts said in an interview with CNBC. "I think our team did. But in the end, we have to move on."

But unlike past megadeals that were squashed because of video subscriber dominance, broadband and online video influence is the new lay of the land.

“Today, an online video market is emerging that offers new business models and greater consumer choice,” FCC chairman Tom Wheeler said in a statement. “The proposed merger would have posed an unacceptable risk to competition and innovation, including to the ability of online video providers to reach and serve consumers.”

Whether the FCC’s current stance will have any bearing on future Comcast deals — is the company too big to do anything? — remains to be seen, but Eagan believes Comcast could turn its sites to wireless assets or beef up its programming holdings by acquiring content production companies.

“I think the issue here was broadband,” Eagan said. Meanwhile, at Charter, Rutledge said that in the wake of the termination, the MSO’s business prospects to create new customers remain unchanged. “We will continue to drive growth through innovation in our current footprint and we will continue to evaluate investment opportunities that arise through scale,” Rutledge said in a statement.

And Time Warner Cable is prepared to move forward on its own. It unveiled its three-year turnaround plan in January 2014 — with targets of adding 500,000 broadband customers in 18 months and doubling business services revenue to \$5 billion by 2018 — and it has already shown some strong results. Fourth-quarter revenue was up 3.8%, cash flow grew 5.6%, and the operator lost about 38,000 basic video customers for its best fourth-quarter subscriber showing in seven years.

“We are, without a doubt, stronger than we’ve been in many years,” Marcus said. “The business services operation has been hot for many years, it really has been a huge driver of growth for us — I continue to be confident in our ability to hit that \$5 billion annual revenue bogey that we’ve talked about. Most significantly, we’ve seen a marked improvement in the health of our residential business. 2013 was admittedly a tough year for us, but during that year we were investing in foundational elements of the business that we knew would put us in good stead down the road. In 2014, those seeds started to bear fruit.”

Marcus added that with first-quarter results scheduled to be released on April 30, he couldn’t be too specific on, but, “Suffice it to say we’ve got good operating

momentum,” Marcus said. “We are much stronger than we were as we sat here a year ago.”

Eagan agreed.

“The fundamentals have been dramatically better than they were a year and a half ago,” Eagan said. “And they kept the capex spending. Everyone thought, ‘Why spend the money?’ But he was right to spend the money. Now their plant is better positioned than it was before.”

Eagan said he believes Marcus wants the opportunity to prove he can take Time Warner Cable to the next level. “It was a rough start when he became CEO after Glenn,” Eagan said, referring to TWC’s late chairman and CEO Glenn Britt. “I think he wants to prove himself, and he’s had a year to reflect on that.”

Marcus didn’t rule out Time Warner Cable being involved in M&A, but stressed that the company remains focused on the business at hand.

“We’ve talked a lot about the potential value of scale, but those benefits in a vacuum don’t necessarily carry the day,” Marcus said. “What I’ve talked about repeatedly is our duty is to maximize shareholder value. From our perspective that could be either as an acquirer, it could be as a seller. We’re focused on the things we can control, which is running our business.”

For employees who had been readying themselves for a transition after the deal was completed — several have retired or moved to other companies, with others referring to the past 14 months as “senior year” — Marcus said the focus always has been on running the business.

“I don’t want to trivialize the challenge that has been presented on the people front, but our team has risen to the occasion,” Marcus said. “They have performed more than admirably, beyond our wildest expectations.”

Marcus added that prior to the February 2014 announcement of the Comcast deal, Time Warner Cable had revamped its management team, adding cable veteran Dinni Jain as chief operating officer, former AOL chief financial officer

Artie Minson as CFO and former Cox Business executive Phil Meeks to head up its business services unit.

“On one level, all of these guys, and frankly our entire senior management team, have been champing at the bit to show what we could do if we were left to our own devices,” Marcus said. “In a sense there is a lot of excitement about the opportunity before us.” Marcus said personally, he is as pumped as he has ever been

“Who wouldn’t be gung ho about being CEO of TWC?” Marcus said. “As I sit here today, I’m as gung ho as I’ve ever been.”

- See more at: <http://www.multichannel.com/news/cable-operators/comcast-twc-dead-what-s-next/390103#sthash.jXw3FFp5.dpuf>.

Multichannel  
News

## Great Expectations

Viewpoint: Wheeler Defies Conventional Wisdom [4/27/2015 8:00 AM Eastern](#)

By: **Mark Robichaux**

The most striking thing about the implosion of the Comcast-Time Warner Cable deal wasn't how shockingly fast it seemed to unravel, or the stiff upper lip of Comcast CEO Brian Roberts on CNBC Friday morning when he said, "Time to move on."

It was just how wrong the conventional wisdom was on the deal and the man largely responsible for its demise, Federal Communications Commission chairman Tom Wheeler.

Most inside and outside the Beltway had largely expected the deal to get done, partly because of a host of conditions similar to the ones that passed muster for Comcast's NBCUniversal acquisition.

And why not? Wheeler, the former cable and wireless lobbyist, was welcomed with open arms by the cable faithful when he arrived in 2013. Even when he gave the industry a stern welcome in his first appearance at the annual cable show, he was considered a friendly force.

To consumers outside the industry, his past as a lobbyist for the very companies he was now regulating was considered a joke, quite literally, as when John Oliver on HBO's *Last Week Tonight* famously compared him to a dingo working as a babysitter in the debate over net neutrality.

What a difference a few months makes. Wheeler is now seen as one of the toughest regulators around.

A history buff, Wheeler has said the Internet is as essential as electricity, and that the government must play a role in safeguarding consumers' rights and preventing discrimination of competitors by giant ISPs.

With President Obama standing firmly behind him, Wheeler came down hard on what he said was the side of consumers — and decidedly against industry — when in February the FCC passed new rules regulating Internet service under Title II. Wheeler labeled the ISPs gatekeepers and considered them would-be monopolists. And while he was at it, he pre-empted state laws limiting muni broadband, tabbing them as the handiwork of ISPs trying to block competition, his newfound mantra.



And in a defining moment last week, the FCC's deal-vetting team helped kill the Comcast-Time Warner Cable deal, a move Wheeler said was "in the best interests of consumers."

In the end, Wheeler has defied the expectations of his allies and critics alike. In politics, nothing is as it appears.

- See more at: <http://www.multichannel.com/news/policy/great-expectations/390086#sthash.BMBVILf.dpuf>

Multichannel News

## TALKBACK

www.multichannel.com

### Comcast-TWC Deal Fail Is a Fail for Competition

(Re: "Comcast Walks Away From TWC," April 24): "OK, as any econ undergrad can tell you, there's a difference between protecting competition and protecting a competitor.

"Comcast and TWC do not compete in any line of business in any market. So who are we really protecting? The competitors: the big telephone companies, with DSL offerings inferior to cable in many markets, and even competitors with all-fiber products, like Google and Verizon FiOS.

"Meanwhile, cable has provided the only landline competition to the phone companies ever, and the telcos have very little competition — virtually none from cable — for enterprise services.

"Protecting broadband competition? What a joke. Even [FCC] chairman [Tom] Wheeler's only example in his statement was about video, not broadband."

"Moose"

### Show Me the Data On Integrated Bundles

(Re: "AT&T Pitches Trio of DirecTV Deal Benefits," April 24): "So AT&T claims 'its' studies show consumers prefer an integrated bundle? I wonder how slanted/biased the questions in the study were for AT&T to get the results they wanted. And have they shared any actual numbers from the study in terms of what percentage of people prefer an integrated AT&T/DirecTV bundle? Or are they just saying consumers prefer it with no data to back up the claim?"

"SEJ326"

VOICES

ON THE MONEY MIKE FARRELL

CHARTER TALKING TO TIME WARNER CABLE April 24

The press didn't let the sweat dry off Comcast chairman and CEO Brian Roberts's brow before they were breathlessly reporting that none other than Charter Communications was readying a bid for Time Warner Cable, shortly after he announced that he was terminating its \$67 billion merger with TWC.



Like Gomer Pyle used to say: Surprise, surprise.

Anybody who has followed the Charter-Comcast-TWC saga at all over the past 14 months has expected Charter to make another run at TWC after being trumped by Roberts and Comcast in February 2014. In fact, the real news here would be if Charter wasn't considering a bid.

On several occasions, Charter CEO Tom Rutledge and Liberty Media chairman John Malone (who owns 26% of Charter stock) have said publicly and in no uncertain terms — no beating around the bush here — that Charter would make a bid for Time Warner Cable if the Comcast deal did not get approved. In November, at Liberty Media's annual Investor Day meeting in New York, Malone answered with an enthusiastic "Hell, yes" when asked by an analyst whether he would encourage Charter to make another bid for TWC should the Comcast deal fall through.

It has never been a question of if they would make a bid, but when and for how much.

For more of this blog, visit [multichannel.com](http://multichannel.com)/April27.

SAY WHAT?

"Today, we move on. Of course, we would have liked to bring our great products to new cities, but we structured this deal so that if the government didn't agree, we could walk away!"

Brian Roberts, chairman and CEO of Comcast, April 24, in a statement announcing the termination of the company's planned mega-merger with Time Warner Cable (see page 2).



JOHN STALEY

To read these stories, visit [multichannel.com/April27](http://multichannel.com/April27).

## Numbers

# 79%

The share of companies that have adopted wearable technology in the enterprise and say it is or will be strategic to future success. Smartwatches are the most commonly deployed wearables, with 62% of enterprises using, piloting or planning to use them in the next two years, according to a report released two days before the Apple Watch was expected to ship.

**SOURCE:** Salesforce, "Putting Wearables to Work: Insights on Wearable Technology in Business" report, April 22

## Top Mega-Merger Fails: A History

The Comcast-Time Warner Cable deal withdrawal will take its place alongside other mega-meltdowns in the communications space.

Back when the AT&T-T-Mobile deal cratered in 2011, Thomson Reuters compiled a list of the largest withdrawn merger proposals, and Comcast already claimed two of the spots. At \$45 billion (equity value), the TWC deal withdrawal would put it at number five on the list.

Here are the top failed deals in the communications space over the past quarter century, according to that list, with the addition of the latest undone deal.

— John Eggerton

YEAR	COMPANIES	\$ AMOUNT (IN BILLIONS)
1999	Sprint-MCI	\$125.48
2004	Disney-Comcast	\$66.5
1999	MediaOne-Comcast	\$58.6
1999	US West-Global Crossing	\$51.1
2015	Comcast-TWC	\$45
2009	Yahoo-Microsoft	\$41
2011	T-Mobile-AT&T	\$39
1993	TCI-Bell Atlantic	\$29.4
2001	Hughes-EchoStar	\$26.4

## Franken's view hurt Comcast's big deal

Article by: [LEE SCHAFER](#) , Star Tribune

Updated: April 30, 2015 - 5:29 PM

**Comcast abandoned its transaction last week in the face of opposition by federal antitrust lawyers concerned about one company's control of nearly 57 percent of the high-speed Internet market.**

The collapse of Comcast's deal to acquire Time Warner Cable for \$45.2 billion in stock could turn out to be one of the big wins in the career of Sen. [Al Franken](#) of Minnesota, one he called "gratifying."

But it's not like he was quarterback of the winning team. More like the head cheerleader.

Comcast abandoned its transaction last week in the face of opposition by federal antitrust lawyers, who were the real decisionmakers on this deal. They were concerned about what would happen to customers if one company controlled nearly 57 percent of the high-speed Internet market.

And there was Franken, cheering them on.

Calling him a cheerleader, by the way, is not to diminish the role he played. U.S. senators really do influence these decisions, as Comcast obviously realized, given the \$21.6 million it spent on lobbying Congress from the time the deal was announced through the end of March.

What Comcast was after was statements of congressional support. Obtained by whatever means, including campaign contributions, the thumbs up of elected officials helps create the impression that the proposed deal really must be in the best interest of consumers.

That makes it far easier for the regulators to let a deal proceed.

It didn't work that way here. Comcast ended up with very few supporters of this deal. And at the outset early last year it had one very outspoken critic in Sen. Franken.

"The environment allowed the [regulatory] staff just to focus on the merits," said John Bergmayer, senior staff attorney for the advocacy group Public Knowledge,

an opponent of the deal. “They didn’t have to worry about the politics, because the politics wasn’t pushing the discussion in any direction.”

Franken eventually was joined by other senators in opposing the merger, but he said he was against it from the time he first heard of it.

His first reaction was simply “too big,” he said. He knew of Comcast’s size and roughly the size of Time Warner, and he could not imagine how bringing the two companies together could be sold as good for consumers.

Franken worked in media before he ran for office, and he remains very interested in how entertainment gets distributed. When this deal was announced, he was already a Comcast critic, having been an outspoken opponent of an earlier Comcast deal, the 2011 acquisition of a controlling interest in NBCUniversal.

This had been a different kind of deal than the proposed Time Warner Cable acquisition, as Comcast, a distributor of television channels, would own a producer of them. But it was still a case of a big company that could use its power in the market in a way that sure didn’t benefit consumers.

If television channels only made money by attracting consumers’ eyeballs and Comcast controlled access to the eyeballs, Franken wanted to know what was to keep Comcast from favoring its own channels over those produced by others.

As far as he’s concerned, Comcast agreed to play fair and then simply didn’t. In one well-known example, the media company Bloomberg brought a successful complaint because of where Comcast put Bloomberg TV on its lineup of channels.

Comcast had agreed to put channels that were like each other all in the same neighborhood, so subscribers should have found Bloomberg TV right next to Comcast’s own business news channel, CNBC. Comcast instead stuck Bloomberg TV in “the boondocks,” the senator said.

“If they have this kind of power that they can exert over the market, they are going to use it,” Franken said. “They have never shown an unwillingness to use their power. Ultimately that was going to mean higher prices and less choice and, if possible, even worse service.”

What’s really interesting about this case is how much changed in the industry just since the time the deal was announced early last year. At the start, the debate

was over cable TV. It ended as a debate about who controlled high-speed Internet access.

Comcast is certainly aware of how many cable TV subscribers have ditched its service in favor of other ways to receive the shows they wanted to watch. It was clear from the outset that Comcast wanted to get bigger in part to make it easier to invest in the kind of services that would fend off emerging threats. It wasn't talking about other cable TV companies but AT&T, Google, Amazon.com and Netflix.

Given the fast pace of change, it'll be interesting to see how Franken's opposition to this deal looks in five or 10 years. It's certainly possible that the government's treatment of Comcast in 2015 is going to end up looking a little like what happened to Blockbuster.

Blockbuster was once the largest of the video rental chains. Blockbuster abandoned its bid for a big competitor named Hollywood Video after it looked clear that a government agency wouldn't approve it, just like what happened in the case of Comcast.

Even by the time the Blockbuster deal was scuttled, however, an upstart named Netflix was already mailing lots of DVDs to customers who had selected them over the Internet. The founders of YouTube had just gotten that company off the ground, and watching video over the Internet was about to become a thing ordinary folks did.

Blockbuster never really figured out how to respond to these competitive threats and is now history. The important thing to note, though, is that the story of Blockbuster, a potential monopolist feared by the government, doesn't come from the distant past. It happened just 10 years ago.

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<http://www.startribune.com/business/301765871.html?page=all&prepage=1&c=y#continue>

Star Tribune

## Comcast says adding thousands of jobs to address customer-service woes

Article by: Associated Press

Updated: May 5, 2015 - 11:32 PM

**The Comcast Center stands in Philadelphia, Pennsylvania, U.S., on Monday, April 21, 2014. Long dogged by a terrible reputation for customer service, Comcast is planning to hire thousands and is rolling out new tools to improve its interactions with customers.**

Photo: **Bradley C. Bower**, Bloomberg

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CHICAGO — Comcast, long dogged by a terrible reputation for customer service, is planning to hire thousands and is rolling out new tools to improve its interactions with customers.

"There are times you just need to transform things and rethink things from the base level. That's what we've done," Neil Smit, president and CEO of Comcast Cable, said at a cable-industry trade show in Chicago. The company has set aside \$300 million for efforts to improve customer service and will add to that, he said.

The Philadelphia company will add 5,500 customer service jobs over the next two to three years. It's also building three new call centers and adding technicians.

Comcast is the country's biggest cable company. Its attempt to buy its next-biggest rival, Time Warner Cable, was recently quashed by regulators because of antitrust concerns.

Asked if Comcast's customer-service issues were a factor in the government's rejection of the \$45 billion deal, Comcast Corp. CEO Brian Roberts said he didn't know, although he didn't think it was decisive.

But he said the company's products "weren't getting some of the excitement they deserved because you're waiting on hold on your phone or we missed an appointment."

Comcast has been rolling out its latest set-top box, the X1. On Tuesday it announced a remote that responds to your voice.



Among the company's new efforts, starting in the third quarter, it will give customers a \$20 automatic credit if their technician is late for an appointment.

It also wants to be more transparent about prices and promotions in its bills and will begin testing new versions in Portland, Oregon, in June.

In addition, it is redesigning its 500 stores and testing a posh new retail location in Chicago that will have cushions for customers to lounge on and products for them to try out. It opens in June.

<http://www.startribune.com/lifestyle/302673801.html>

Star Tribune

## Time Warner Cable: A Solo Act, for Now

Strong Subscriber Growth in Q1 Gives Operator an Upper Hand 5/04/2015 8:00 AM Eastern

By: [Mike Farrell](#)

### TakeAway

**Time Warner Cable, freshly free from its engagement to Comcast, is looking a lot fitter than 14 months ago and is ready to go it alone.**

Can Time Warner Cable make it alone?

Time Warner Cable's case for independence grew stronger after it reported one of its strongest subscriber growth quarters in its history, leading analysts to speculate that the second largest cable operator in the country has the upper hand in any future negotiations with potential suitors, particularly Charter Communications.

TWC reported its first quarter of positive basic-video customer growth in the period ended March 31, the first time that has happened since 2009. In addition, high-speed data customers rose at a pace unmatched since 2007, and the MSO tallied its best ever growth in telephone subscribers and residential customer relationships.

In a nutshell, Time Warner Cable is in a vastly different position than it was 14 months ago, when after being relentlessly pursued by Charter, it struck a deal valued at about \$67 billion (including debt) with Comcast. That deal, which would have put a substantial amount of money in Time Warner Cable executives' pockets — chairman and CEO Rob Marcus was eligible to walk away with a cool \$80 million — was terminated on April 27 after Comcast determined it would not receive regulatory approval for the deal.

Charter, which according to some reports could meet with TWC later this week to talk about deal potential, has said in the past it would make a run for TWC if the Comcast deal fell apart.

## ***PRICER BUY***

Charter had made a \$132.50 per share bid for TWC just prior to Comcast's offer, which topped \$158 per share. But with two solid quarters under its belt — in the fourth quarter, TWC lost 38,000 subscribers, a huge improvement over the prior year — any current offer would have to be at a substantial premium.

MoffettNathanson principal and senior analyst Craig Moffett said the results make a case for TWC to remain independent.

“With no counter-bidder in Comcast to help them negotiate a better deal this time, TWC's best leverage is a legitimate willingness to say ‘no,’ ” Moffett wrote of the company's Q1 results. “And that, in turn, requires a convincing demonstration that they can successfully execute on their own. Today they delivered.”

Time Warner Cable shares were down about 1.5% (\$2.34 per share) to \$155.52 on April 30, while Charter shares fell slightly (\$1.24) to \$187.06. That could signal that investors believe TWC may not seek a deal, but it could also mean they believe the cable giant is in a position to hold out for a higher price.

TWC's shareholder base is decidedly different than it was two years ago — mostly gone are the long-term growth holders, replaced by deal arbitrageurs who got into the stock because of the Comcast deal. Those shareholders may be greatly rewarded if a Charter deal is done; some analysts have speculated that Time Warner Cable's asking price could be in the \$175 to \$185 per share range.

Still, even at higher prices, some analysts see significant upside to a deal for Charter. In a research note, Morgan Stanley media analyst Ben Swinburne justified a \$180 per share bid, 40% financed with debt for Time Warner Cable, adding that the deal would be about 35% accretive to 2018 estimated free cash flow per share and would support a year-end 2015 stock price of \$225 for Charter. Minus a deal, Swinburne, who already has a \$210 price target on Charter, said the stock will maintain its current trajectory. Even Time Warner Cable, Swinburne said, would only dip about 10% without a sale.

And that could strengthen the case for TWC to go it alone. Most analysts expect Charter to consolidate the cable industry anyway. Swinburne estimated that every additional 1 million subscribers Charter adds increases its free cash flow generation by 5%. And other smaller operators, like Suddenlink Communications, Cox and Mediacom, could be potential targets.

### ***CAP EX RISING***

Time Warner Cable executives have already shown that they are serious about the business and aren't afraid to spend the money to get there. Capital expenditures in the first quarter were \$1.1 billion, up 36% from the prior year.

TWC chief financial officer Artie Minson likened the business to a flywheel, adding that while it takes some extra energy to get it going, once it's moving it's hard to stop it.

"You have to spend to get the subscriber machine running," Minson said. "But once it's running like our flywheel is now, you're in a great position to deliver strong sustainable financial growth."

- See more at: <http://www.multichannel.com/time-warner-cable-solo-act-now/390288#sthash.bPQelg1b.dpuf>

Multichannel News

## Tech Talk: Title II Gets Pushback on the Hill

5/04/2015 8:00 AM Eastern

By: [John Eggerton](#)

### TakeAway

**“Tech elders” are joining the ranks of opponents to the FCC’s Title II network neutrality rules.**

WASHINGTON — A group of self-described “tech elders,” including some voice-over-Internet protocol pioneers, were here last week for scheduled Capitol Hill meetings covering several issues, chief among them Title II and how Congress can step in to curb the Federal Communications Commission.

Cable and telco operators have been pushing hard for a legislative fix to a Title II regime they argue is unnecessary to protect Internet openness, and call an innovation killer and broadband buildout chiller. Top senators from both parties continue to meet about that legislative option.

The Tech Elders group — which includes Vonage pioneer Daniel Berninger and online video pioneer Mark Cuban — have been lobbying against the FCC’s Feb. 26 decision to classify Internet access as a common-carrier service and are pushing for a legislative solution.

Cuban was not in Washington last week, however, according to a spokesperson for the group (though the NBA Playoffs run of his Dallas Mavericks did not prevent him from being there — the team lost and is out of the running).

The Tech Elders meetings here came as Senate Commerce Committee leaders from both parties are said to be in discussions about a bipartisan bill to legislate the FCC’s basic bright-line rules against no blocking or degrading or paid prioritization, although Berninger has told the FCC that preventing paid prioritization could threaten his innovation and his livelihood.

He pointed to HD voice services he had been working on, but which were made illegal by the FCC’s pivot to a ban on paid prioritization under a Title II regime. Berninger told the FCC that while he agreed the Internet should be defended

from would-be gatekeepers, the primary gatekeeper risk came from the commission itself and its “command and control” regulation.

“The insertion of fiat regulatory powers will prove fatal to the entrepreneurial energies responsible for building what FCC chairman Wheeler calls ‘the most powerful network in the history of mankind,’ ” Berninger opined in a *Computerworld* op-ed last week.

Frederick Hill, communications director for Commerce Committee chairman Sen. John Thune (R-S.D.), confirmed that Thune and ranking member Bill Nelson (D-Fla.) are in discussions about a bipartisan bill. A bill Thune has already proposed would prevent blocking and degrading and paid prioritization, but would prevent the FCC from reclassifying under Title II. It would also limit the FCC’s ability to use its Section 706 mandate to promote advanced telecommunications as a broad, broadband regulatory authority.

Berninger last week petitioned the FCC to stay its Title II decision until the raft of court challenges — nine at last count — have been resolved.

The “elders” were nominally in town to celebrate the 20th anniversary of the birth of the commercial Internet, but Title II and the transition to an all IP world were top of mind.

While the National Cable & Telecommunications Association and USTelecom, as well as other cable and phone ISP associations are among those suing the FCC over Title II, they are pushing the parallel track of a congressional fix, which they have said they would prefer. NCTA president Michael Powell said in an interview with *Multichannel News* that he thought the legislative track was a way for all sides to get a win (see Q&A).

The rules go into effect in mid-June unless stayed by the FCC or by the court.  
- See more at: <http://www.multichannel.com/tech-talk-title-ii-gets-pushback-hill/390289#sthash.kuN0rht9.dpuf>

Multichannel News

## **Broadband Complex?**

**Stiffer regulations, falling ratings and Comcast-TWC implosion send industry searching for strategies**5/04/2015 8:00 AM Eastern

**By: [Mike Farrell](#)**

It has been a tumultuous 12 months in the cable distribution and content business, with plummeting ratings across the board for cable networks, over-the-top offerings from Sling TV and Sony PlayStation Vue disrupting the distribution model, HBO's standalone HBO Now threatening to usher in a new era of over-the-top delivery of individual networks and — the biggest disruptor of all — Comcast's planned \$67 billion merger with Time Warner Cable being terminated by the parties because of regulatory objections.

Operators are facing what could be the most onerous regulatory period since the 1992 Cable Act with the planned implementation of Title II regulation, which will treat broadband (cable's most profitable and growing business line) as a common-carrier telecommunications service. While the Federal Communications Commission has promised it will forbear Title II's strictest tenets — like pricing regulation of broadband — not everyone is convinced the agency can resist temptation indefinitely.

At the same time, operators are pushing back on rising programming rates, while content providers search for new outlets to distribute their shows. Dish Network was first out of the blocks with its Sling TV over-the-top video service, which offers a core of 21 channels (including ESPN) for \$20 per month, but others and a mobile OTT offering from Verizon Communications are expected later in the year. Verizon's FiOS TV has tweaked a few network noses by offering a "skinny bundle" — Custom TV — that at least three content providers (ESPN, NBCUniversal and Fox) claim violate their carriage agreements. ESPN sued Verizon in New York State Supreme Court on April 27 over the matter, and others are expected to at least consider doing the same.

Through it all, cable stocks, which have enjoyed an unprecedented run over the past few years — up 42% in 2012 and up 50% in 2013 — still outperformed the Standard & Poor's 500 Index in 2014 with a 17% gain.

On the content side, a sluggish advertising market and fears that a bigger Comcast would crush affiliate-fee growth weighed heavily on some stocks, like Discovery Communications and Scripps Networks Interactive, while others like Walt Disney Co. soared as must-have network ESPN inked landmark carriage deals (Sling TV) that could help to change the overall landscape dramatically.

Many investors on both sides of the cable business admit to fear and loathing, and the need for a good (psycho)analyst.

With that in mind, *Multichannel News* senior finance editor Mike Farrell brought three pay TV analysts together for a digital conversation. Telsey Advisory Group media analyst Tom Eagan, Pivotal Research Group CEO and media & communications senior analyst Jeff Wlodarczak and RBC Capital Markets media analyst David Bank took questions about the changing industry climate and what they believe is in store for investors in both distribution and content sectors. An edited transcript follows.

**MCN: Where do you see the stocks going this year? Does the fact there is no Comcast-TWC deal make a difference?**

**Tom Eagan:** M&A, regulation, and company fundamentals have all played a role in the performance of the cable and satellite TV stocks in 2014 through mid-2015. Since news hit that regulators might block the Comcast purchase of Time Warner Cable, TWC is flat, testament to its improved fundamentals. Comcast offered \$158.50 in February 2014, before TWC's turnaround. The market appears to assume that Charter will have to bid even higher now. We agree.

The Charter decline of only 1% over the same period suggests that the market believes that Charter will be successful in its renewed attempt at TWC. We are less confident of that outcome, especially since TWC might be an acquirer itself. Not surprisingly, Comcast is down 2% after wavering back and forth since last week, reflecting the ambiguity of the incremental value that the TWC deal provided Comcast. Going forward, Comcast will trade more on its improving fundamentals than on deal speculation. Looking ahead, we remain cautiously optimistic on the Pay TV industry and are 'Buy-rated' on several stocks despite regulatory and OTT risk.



**Jeff Wlodarczak:** 2014 was actually a decent year for the cable sector as it modestly outperformed the S&P 500 while satellite TV handily outperformed on the backs of the AT&T bid for DirecTV and Dish spectrum investments. Looking forward, each cable stock has a fairly unique investment case, but overall I would say cable's control of the dominant way consumers (and increasingly businesses) access the Internet is the key investment consideration for the sector. Cable should be able to continue to take share and price, and leverage the halo effect of broadband to help stem video sub losses and boost phone additions.

We are quite favorable on Charter (and Time Warner Cable, given we believe Charter will make a play for TWC at around \$170) as we believe they will consolidate the balance of the non-Comcast U.S. cable industry. Comcast is attractively valued at 6.8 times '15 EBITDA (earnings before interest, taxes, depreciation and amortization, a measure of cash flow). They are unlikely to do deals in the U.S. until we get a new administration and will likely focus for now on international deals. I think, longer term, Liberty Global is a logical acquisition candidate for them.

Cablevision has had difficult results over the last couple of years, given how aggressive Verizon has been in their footprint. To make a positive investment case here, I think you have to focus on the asset potentially getting sold. I don't rule out Charter making a play, especially given that they likely control most of the New York City market if the TWC deal goes through. Last but not least I love Liberty Global, the largest European cable player, a high-quality asset, run by best-in-class management that is in the early innings of driving price hikes and attacking the business and wireless opportunities in their footprint.

**MCN: Where do you see the content stocks going for the rest of this year? Does the Comcast-TWC deal have any impact?**

**David Bank:** I think it is a double-edged sword. On the one hand, if they had combined, in time their scale would have been daunting to negotiate against in one sense. On the other hand, there probably would have been a fair amount of regulatory scrutiny around their interactions with the programmers. I think their behavior would not have been that unfriendly. I think they are in a better position

to negotiate tougher now than they were before, in that they just won't be as encumbered by regulatory watchdogs.

A year and a half ago, when this transaction was announced, the presumption was that carriers were getting scale, and that content companies would need to merge in order to match the scale of distributors. I think more recently, it's gone in a different direction. The imperative is for relevance as opposed to scale. There are certain players with lots of networks that dwarf the size of other companies, but are viewed as not as relevant and are potentially droppable.

We might have thought this would have touched off a massive consolidation on the content side. I don't really think that's the result. It took so long for this to get sorted out that, I think, the ecosystem understands itself a little better and scale is not what we thought it was.

**MCN: Do you think the declining ad market is still going to weigh heavily on the content stocks?**

**DB:** I think that the business is not in the dire straits that investor sentiment sometimes seems to indicate. You've actually got a shockingly healthy business environment for both distribution and advertising, especially given all the fragmenting forces in the marketplace. While these segments are still growing, their rate of growth for the foreseeable future will not match what we have seen in the past. And that's the challenge for media investors.

**MCN: What are the biggest issues for distributors going forward — Title II, programming costs, over-the-top or something else?**

**TE:** Title II, programming costs, and OTT are certainly the three main concerns for the sector. I would add integration risk should we see increased consolidation. It's possible that a third of the pay TV subscribers will be undergoing system integration in 2015 and/or 2016. Sometimes it's smooth; sometimes it's not. Remember, don't change the truck signage until the glitches are fixed.

Re: Title II, ISP company dialog with Congress (about pursuing bipartisan legislative solutions) coupled with FCC lawsuits are probably the best routes for now.

Re: Programming costs, continued dialog with Washington might help. I believe the FCC is looking more intently at the bundling issue.

Re: OTT, experimenting with slender bundles and improved screen navigation will help keep the pay TV offer fresh.

**JW:** Government regulation of the cable plant has always, in my opinion, been the biggest risk to the cable story given it could jeopardize the cable golden goose, their best-in-class data plant. Forbearance Title II was incredibly misguided policy from the FCC and, hopefully, the courts or a new administration will throw out these rules. Even though the [FCC chairman Tom Wheeler] says this has nothing to do with price regulation, he has left gaping holes that some FCC in the future could theoretically use to regulate cable data pricing. However, what Title II pundits miss is that we need to get a new administration that is willing to unforbear these rules, and looking at the current presidential candidates it seems unlikely that any are interested in price regulation, so we will need to revisit this potential issue possibly with the 2020 elections. Hopefully at that point this Title II regulation will have disappeared.

Programming costs are like rising jet fuel prices that are a problem for everyone in the distribution industry, although scale does offer somewhat of a cost advantage. I don't see any end in sight to continued rising content costs, given large content players (and local sports rights owners) still have a lot of power and will likely try to offset their declining ratings by continuing to force pricing higher which will of course push an increasing percentage of lower per capita income households to pay TV alternatives.

The good news for cable is they have the data hedge and perhaps, at some point, the programmers buckle and allow much more interesting smaller packages. If I were a cable player I would try to hold the line on programming costs as much as you can but continue to offer the full suite of programming while offering data/OTT bundles aimed at consumers looking to save money.

**MCN: What do you see as the big issues for programmers going forward — measurement, the sluggish ad market, new distribution outlets for content?**

**DB:** You could say yes, period. On the advertising side, there is going to be a push toward the monetization of audience, as opposed to programming and targeting to make TV advertising, in a sense, more Internet-like. I also think there is a danger in moving too far in that direction in that you could marginalize some of your inventory.

One thing a Comcast-TWC merger would have done was standardize technology across a greater part of the footprint for things like ad targeting. I think that's the challenge of the industry, to use targeting and use audience versus simple demo selling. TV advertising is measured and monetized on a C-3 ratings system, and while we think Nielsen probably measures C-3 relatively accurately, we just don't know how relevant the metric is. As time goes on, we're going to time-shift more and more and we're going to platform-shift more and more. That's a pretty big challenge for the advertising market. I think the measurement currency has to catch up with consumer behavior.

**MCN: What do you think about the movement toward skinnier packaging? Is there going to be more pushback, along the lines of what seems to be happening with Verizon's skinny bundles?**

**TE:** I applaud the effort towards slender and skinner packages. Set-top-box data should help the MSO prove which channels the subscribers really care about. Perhaps, it's by geographic market.

We expect Verizon was intentionally pushing Disney into a lawsuit — as we said, shining an unwelcome light on bundling.

**JW:** The large content players have seemed to have had their cake and eaten it too by aggressively jamming through price increases while at the same time putting a material percentage of their content online for free and sold to OTT players such as Netflix. Distributors continue to pay the increases because the

U.S. is competitive enough that they will lose a material number of subscribers if you don't carry certain programming.

Distributors have pushed back where they can at weaker content operators (generally those players that do not own broadcast nets, like Viacom and Discovery). In the end, you may get skinnier packages, but content players are likely going to have to charge a material premium to make up for lost revenue for their channels that are not being carried. Specifically on Verizon, I believe what they are doing is breaking their contract with programmers and I believe it is unlikely you will see other players move in this direction, at least until this is resolved in the courts.

**MCN: David, what's your perspective on skinny bundles from the programming side?**

**DB:** There's no cathartic "everyone is going to cut the cord," and you can't kid yourself and say there isn't some segment of society, there isn't one guy who might say, "Alright, I've got enough, I'll pay less." That is a kind of frustrating place for investors because investors want to either make a very bullish bet or they're willing to make a very bearish bet. Even if the general sentiment is there is over-concern in respect to cord cutting and unbundling, you can't deny that [the] major fully distributed cable networks [combined] over 2014 lost something like 2 million subs. Somebody's lightening the bundle.

I think there is something going on here that's more than just economics. We want to self-program. We want to self-bundle. There is a metaphysical, a psychic savings from that. It's not purely economic. And that's what worries me more than these simple economic analyses.

It almost feels like people in some cases are saying, "I don't even care that I'm not saving money, I just want to put together the package that I want. I'm annoyed at turning that device on and knowing that I'm paying for something I have no interest in having."

**MCN: What's your feeling about OTT?**

**TE:** 2015 and 2016 will be important years for OTT as we see how successful the HBO, CBS, Sling TV and other launches are with viewers. There could be structural limits, however. With programmers putting customer ceilings on their involvement, they might never grow to material sizes. And because they're "frenemies," that structural limit might curb their overall appeal. In other words, for a cable subscriber, dropping pay TV can work if there are enough alternatives. But not if those alternatives can't scale.

**JW:** I am actually more concerned with what content players and distributors might do as they run scared from the OTT boogeyman than OTT itself. Other than Netflix and [HBO Now], I don't think anyone is doing anything interesting in OTT. Reselling fewer channels of linear television than traditional pay TV (at a much higher effective price given new players are likely paying a ~100% premium to traditional players) seems DOA.

This weak outlook is exacerbated by the fact that cable standalone data pricing is only likely to continue to increase. (Today Comcast, as an example, charges a total of \$75 a month for standalone including the modem rental fee). This reduces the supposed cost advantage of OTT.

The last material issue with OTT is the lack of quality of service in the last mile. The FCC seems to have neutered the distributor's ability to generate revenue from paid prioritization, and without paid prioritization distributors have no incentive to ensure OTT quality of service which is a particular issue with live HD sports. Netflix is an OTT success story with a unique commercial-free binge experience, but I view Netflix as more complementary to pay TV, and while for some households that experience is enough I doubt it is going to drive consumers en masse away from pay TV.

**DB:** There is a subset of the market for which it's a terrific solution. But I don't think it's a substitute. The only product that is out in relative mass at this point is Sling TV. That's a really narrow bundle; it's almost like you're buying ESPN.

**MCN:** So, is the bundle loosening? Some people think we may be facing a big showdown soon with a major programmer. Is that what it will take to turn the tide?

**TE:** With some programming available OTT, there is less need for the MSO to carry and pay for it. This will be an important issue for the MSOs to bring up with Washington. A programmer shouldn't be able to keep a cable subscriber from streaming/accessing its content just because the programmer has pulled its signal from the operator

**JW:** I think what will turn the tide one day is the content players charge such a high price for their content and there are enough alternatives that they are finally forced to bite the bullet and create more affordable packages of programming. As mentioned earlier, if a content player does not own a broadcast net, they are at risk of being dropped but I don't see Charter, Time Warner Cable or Comcast making the same moves as Suddenlink [Communications] or Cable One.

Both those players lack scale and, especially in the case of Cable One, likely make no margin on programming, so they are forced to effectively turn themselves into dumb pipes. I would rather have as many hooks into the customers as possible and would continue to pay up for content but would encourage consumers to take data/OTT bundles who are looking to save money.

**DB:** I would go back to [that] most major networks have lost a couple of million subs over the past few years. It's not dramatic cord-cutting; it's just that on the margins, it's going in a different direction. You used to have a couple of hundred basis points of sub growth on top of pricing power to drive affiliate-fee growth, and now you've got pricing power that may or may not be sustainable and subs that aren't growing and probably will modestly decline. There may be some offset from the premium that the new players pay, but we just don't know yet.

- See more at: <http://www.multichannel.com/news/broadband/broadband-complex/390297#sthash.VJaLJps7.dpuf>

Multichannel News

## **Sling TV: Not Just for Cord-Cutters**

**CEO Roger Lynch Talks About Other Consumer Targets, Filling the Broadcast TV Gap**  
5/04/2015 8:00 AM Eastern

**By: Jeff Baumgartner**

FOLLOWING A BRIEF BETA PERIOD, Sling TV's over-the-top pay TV service went nationwide on Feb. 9, streaming out a core service for \$20 per month and a new twist on the bundle taking the form of \$5 add-on packs. It's been tweaking the service ever since, adding new packages, expanding its base live TV lineup, and adding premium services such as Epix and HBO.

There have been some technical hiccups in the early going, though, as the service faced streaming stress tests when consumers flocked to watch the NCAA Men's Basketball Championship and signed up for HBO prior to the season five premiere of *Game of Thrones*.

Next TV editor Jeff Baumgartner recently caught up with Sling TV CEO Roger Lynch to discuss some lessons learned so far and what's on the horizon for the OTT service.

**NTV: Sling TV has been available on a national basis for more than two months. What are some of the big lessons you've learned so far?**

**Roger Lynch:** I'd say the first one is that there's strong demand for our product. We're pretty encouraged by that. The second one is that, because it's an impulse purchase or can be an impulse purchase, especially around big tentpole events, you can get extreme levels of people all joining the service at the same time. And that was expected, but probably a little more concentrated than we expected.

**NTV: What is the typical profile for a Sling TV subscriber? Is it the cord-cutter/cord-never group, or something more?**

**RL:** There are three categories that we had hypothesized we would get, and what we are seeing first is cord-nevers, who tend to be millennials, and the second category is cord-cutters, most of whom have already cut the cord. There's actually been a lot of cord-cutting over the last three or four years, but it's been masked



by overall pay TV numbers because there's been strong household formation in the U.S. There's probably about 4 million people who have cut the cord over the past four to five years. And there are some people who may be cutting the cord now that take our service, but the majority is people who cut the cord two years ago and they really miss ESPN or Food Network or AMC.

The final category is what we call supplementers. These are people who have traditional pay TV and buy our service on top of it, which may seem a little counterintuitive. But it was always our expectation that there would be some people who would do that, maybe for the added utility of having a mobile service or maybe they are taking fewer channels from the pay TV provider or maybe they travel a lot.

**NTV: Are supplementers the smallest group of the three so far?**

**RL:** That would be the smallest group, but it's a meaningful group.

**NTV: How are you marketing this service to consumers and what's been the most effective tactic so far?**

**RL:** We haven't done that much marketing yet. We've gotten a lot of attention from media, on social media and word of mouth. The marketing we have done is mostly digital, social and mobile. Frankly, we've had such encouraging results without having to spend much money.

**NTV: What has the retention rate been once someone registers and signs up for a week of free service? Are they sticking with it?**

**RL:** We've been pleased with the results. We had our expectations to what that would be and we have some experience with these free trials from the [Sling International] service. The conversion — what we call roll-to-pay — from the trials has been very strong for us.

**NTV: Has that rate been better than expected?**

**RL:** I guess I thought initially that as we got so many sign-ups from the press that was being done, that maybe we'd have a lower roll-to-pay than we were expecting, because it could just be people saying, 'I just read about it so I should go try it out.' But we didn't see that. It's been a pretty strong conversion rate.

**NTV: Once customers take the core \$20 per month service, how many are also taking one of Sling TV's add-on packages?**

**RL:** When we first launched the service, we weren't sure how many add-on packs we would have. The sports add-on pack was going to take another month or two to launch, but ESPN was able to get [launched] quicker than expected. We hadn't really promoted the add-on packs as much as we intended to. But even despite that, it's been strong uptake of those add-on packs. Now we have HBO; that's another one that people are signing up for.

**NTV: What have the results been with HBO so far?**

**RL:** I won't talk specifics about it, but I will say that what we saw strong uptake of our existing customers and strong uptake of new customers joining our service to take HBO.

**NTV: Now we have Verizon launching add-on packs and skinnier bundles. What do you think about that? It sounds a little bit like your model.**

**RL:** It does. I'm surprised it's taken the industry this long to realize that this is a more consumer-friendly way to offer content. At a company I used to run over in the U.K. [Video Networks International, an IPTV company] about 12 years ago, we were doing add-on packs. It's a more consumer friendly way to offer content.

**NTV: You're also enticing some customers to stay on for at least three months using device bundles with Roku and Amazon. How has that program performed?**

**RL:** That's not something new for us, because we've been doing it with DishWorld. The reason we started doing that with DishWorld and why we're doing it today is

the same — although streaming devices are very popular, not everyone has one yet. We wanted to make it simple to actually sign up and get the service. Almost everyone has a phone and a laptop and maybe an iPad, so they can start to watch on [those devices], and we'll send you one of those [Roku or Amazon] devices if you prepaid for the three months.

It's a pretty popular offer. It's not the majority of subscribers, but a pretty significant portion take it.

**NTV: Speaking of popularity, broadcast TV remains of interest to consumers. Is there any interest in integrating Sling TV with an over-the-air capability, whether that's by bundling in antennas or running your app on devices such as TiVo's new Roamio OTA device?**

**RL:** Frankly, one of the reasons why we didn't put locals in our package is because we know that increasingly the demographic we're going after, they're getting [channels] over-the-air. They already know how to do that. It's a great combination — getting locals over-the-air with Sling TV.

We also plan, and have announced deals with ABC and Univision, to be able to offer locals in a broadcast tier that people could add on if they choose to, but not require them to.

And for your question about devices, we're going to continue to expand our device footprint. We'll focus on the devices that people want to consume our content on. Some of those could be OTA devices, and some of them will be streaming devices.

**NTV: Prior to launching HBO, Sling TV made some enhancements to deal with spikes in demand by balancing the load on the servers. Can you provide more detail on what was done there?**

**RL:** It's just a conflict of a bunch of new customers signing up all at the same time as existing customers trying to use the service. On servers that authorize customers to be able use the service, we had to balance the load across those servers. Across our content delivery network partners, we also found that we had

to move some of the traffic from one partner to another partner to balance that out better.

**NTV: Sling TV is currently a single-stream service, though HBO subscribers can access multiple streams of HBO content. Is there any interest in offering a multi-stream version of Sling TV and adjust the pricing?**

**RL:** No, nothing at the moment. Our basic package is a single-stream service and our HBO add-on is a three-stream service.

**NTV: You've been adding to and tweaking the offering since it was launched. Is there anything else we should expect to see later this year in terms of new features and packages?**

**RL:** We've been adding new channels and new devices and some new functionality like parental control. Our plan will be to continue to do more of that. You'll see more content, you'll see more devices that we roll out on and more features in the current product itself.

- See more at: <http://www.multichannel.com/sling-tv-not-just-cord-cutters/390301#sthash.PcOG67Fc.dpuf>

Multichannel News

## NCTA's Powell Vows to Fight On

Making Cable's Case Against Title II — Forcefully 5/04/2015 8:00 AM Eastern

By: **John Eggerton**

National Cable & Telecommunications Association president and CEO Michael Powell seemed relaxed — at least for a man two weeks out from a major convention revamp — and looked *Mad Men*-dapper in a sport jacket and open collar. But as soon as he sat down for an interview with *Multichannel News* Washington bureau chief John Eggerton, he sounded more like a man ready to fight than to recline for a nice chat.

Powell, cable's top lobbyist, argued that Federal Communications Commission chairman Tom Wheeler has unjustly regulated the industry by treating cable's broadband Internet product as a common-carrier service under Title II of the Telecommunications Act; and that free enterprise — not the heavy hand of regulation — created the flourishing Internet we have today. He also explained why cable is the gateway to a bright broadband future, rather than the Internet's gatekeeper.

**MCN: Given recent decisions and rhetoric out of the FCC, do you think chairman Tom Wheeler has a vendetta against ISPs? (Editor's note: The interview was conducted before the FCC signaled its rejection of the Comcast-Time Warner Cable merger, about which Powell declined to speak.)**

**Michael Powell:** I don't know if I would go that far. Unfortunately, we hear too much language that seems to adopt the kind of negative, superficial language of advocacy groups. We're not behemoth gatekeepers, villains, which I hear a government agency using to describe an industry that they regulate. I don't have a high degree of respect for having the industry described in those terms.

I do think that there isn't a full and often fair enough recognition that an enormous part of the [broadband] miracle they want to celebrate has been brought to them by private industry in the private markets using private capital, and that that is consistent with the public interest as well.

You know, if the government were building the Internet and trying to deliver on the promise of that platform and wanted to build the infrastructure that allows Google and Facebook and Amazon and Etsy today, at the price of their IPOs, they would be awful far from their goal if it weren't for the actions of private Internet companies who have been delivering on that promise aggressively and forcefully for 15 years. I don't know how much more you can ask of the private sector than what it has delivered over the last decade completely with private capital and without governmental subsidy or support.

I frankly believe they deserve to be described and treated as a partner in the country's broadband ambitions and not somehow an obstacle. Just in the time that this administration has been in office, we have seen dramatic increases in speeds and services, deployment and adoption, in new applications and services deployed by the software community.

It's a curious approach, it seems to me. I don't know if it's a vendetta, but it's certainly not particularly constructive.

**MCN: Is Title II so bad if it is defined as the chairman says it is — which is a way to legally support rules you have pretty much said you support — or is it only a disaster if it's the so-called camel's nose under the tent?**

**MP:** It is a disaster because the Federal Communications Commission is fundamentally, if not violently, rewriting the national policy of the United States without congressional direction.

Congress in 1996 knew what the Internet was when it passed the 1996 Telecom Act. It full well knew it, because it defined it in the statute and it defined two different regulatory approaches. And they intended as a national policy that dynamic, information-oriented services like the Internet would not be regulated under a regime that was developed and reserved for a world in which you had a very straightforward telephone system with a single national company being managed by a federal judge as the result of an antitrust divestiture and needed to be managed to competition in a way that was due to its unique history.

That history is not the history of the Internet. I don't think there is a single member of Congress who ever contemplated or intended that Internet access would be telephone service, which is what the commission has fundamentally concluded.

The disaster is that you have shifted the national policy from one in which engineers, entrepreneurs and everyday people govern the Internet from the bottom up without the intervention of a regulator, to a world in which now lawyers and bureaucrats from the top down will spend countless hours and money and time fighting about every way the Internet evolved. You have already seen in the newspapers companies like Cogent openly talking about going in to file complaints.

What happens now is that every business decision, every new service in a competitive market that your competitor doesn't like, or somebody thinks you are going to get an advantage or you'd rather see it a different way than Cox decided to do it ... now there are all kinds of avenues to bring complaints. You can now — no matter what the chairman says — bring a broadband rate complaint to the FCC, so it is entirely possible that anybody who doesn't like the next price change or price plan that Comcast comes up with for broadband will take that to the Federal Communications Commission, who will have to initiate a proceeding, which will mean we will have to send lawyers in there to file comments.

Every single transit provider or content company could theoretically now bring an interconnection dispute. And you have to ask yourself: Is there really a regulatory problem, or do they just have a business preference and they are just trying to use the government to get it?

Netflix wants a certain outcome that allows it to have zero costs for interconnection. I don't blame them as a business for wanting that. What I blame is the government lending itself to be a vehicle for guaranteeing that.

**MCN: And the process does not work the other way? An ISP can't file a complaint against Netflix?**

**MP:** The commission said, interestingly enough, that all of them are not subject to these things. Their order also exempts all kinds of classes of players that I don't understand technologically.

**MCN: For example?**

**MP:** [Content-delivery networks] are not transit providers. Why? They do the exact same services. This commission has argued those things don't count. Why, analytically, I don't know.

You were talking about a prior chairman earlier. We're going to blink and it's is a different chairman. We're going to blink, and it is a different set of commissioners. The majority of that commission is not going to be here 24 months from now, and yet they will put in place a framework that allows any future leader there to more or less reach any conduct they want.

So, there is just a dishonest description of what this commission has done. It has created a full-out regulatory platform that can be used by anyone who chooses, whether they are faithful to their word that they are not going to regulate rates. That's only by their grace, which I will accept and respect and be grateful for. But it isn't because they haven't created the regime to do it. It is only because they have chosen not to do it.

That is the reality of what we're dealing with. And I think that's going to mean that the Internet — which has really blossomed by innovation without permission, as Silicon Valley likes to talk about it — [now is] going to be innovation by adversarial proceeding.

Because anytime anybody doesn't like an innovation, they are going to come to the government. And I think the tech companies are going to realize they made a big mistake here, because they are engaged in a lot of activities and practices that consumers and activists will also find troubling and now will have a venue, I guarantee you, in which those companies are subject to claims at the FCC as well. And maybe this chairman won't go after them, but somebody will.



**MCN: Let's pivot to municipal broadband. Are operators who support state laws limiting muni broadband just trying to prevent competition, as the chairman has suggested?**

**MP:** I could tell you unequivocally that our view as an association is that we do not seek state legislation to stop municipal broadband projects. We don't think that we should. We think that if the democratically elected people in a given state jurisdiction want to vote to use their resources that way, that should be their decision to make. However, I would equally say it is their decision to make if they don't want to take on those obligations.

The commission seems to be willing to deny the democratic process in one direction and not the other. If the duly elected representatives of state government believe that they don't want to put citizens on the hook for the debt, the bond, the pricing, having to manage a dynamic, expensive network over an infinite amount of time, and decide they don't want their money spent that way, I don't really understand why they should be told they can't.

I think a lot of these municipal broadband projects are well-intended. I think a whole lot of them collapse. I think a whole lot of them stick taxpayers with debt obligations they wouldn't otherwise have. And when there is a vibrant, private alternative, I'm not sure that's the wisest use of public funds.

It is one thing to have a competitor; it's another to have a competitor that gets to play by dramatically different rules than you are expected to play by. And government municipalities often grant to themselves special privileges not available to private companies. So that is not competition.

**MCN: National Association of Broadcasters president and CEO Gordon Smith said in his speech at the NAB Show that stations have to work with policymakers to show their immense value to their communities. What is cable's immense value to theirs?**

**MP:** I think it is two-fold. One, they are builders of the platform that takes you to the world's information. That is enormous value. I don't know if there is any higher value in this world of communications you can deliver to the American

consumer than to provide at a relatively low cost, given the value you derive from it, the ability to access the entire record of human knowledge. The ability to work from home. The ability to entertain yourself. The ability to publish and write. The ability to create. That's what we provide.

If I went to your computer and unplugged the wire in your house and you went to Google, you'd get a big thing saying "no network connection found." Nothing happens unless that happens first.

**MCN: How important is WiFi to the future of your business?**

**MP:** I think WiFi is tremendously important because it allows consumers to export their investment in a fixed broadband network and port it to all the devices that delight them. It is the glue that bridges physical fixed infrastructure to mobile infrastructure. And the way the Internet is evolving, and consumer electronic devices are evolving, that is essential. Because the current generation of tools we all want to carry around with us — phones, iWatches, Android devices, tablets, cameras with WiFi chips, digital recorders — everything wants to get its content out of the Internet and into the Internet, and licensed mobile services are not always enough.

So, I think that if I buy for \$50 an Internet connection from Charter, that connection becomes ever more valuable the more I can port that purchase across more devices.

**MCN: Why is an "aspirational" 25 Megabits-per-second speed target such a problem?**

**MP:** There is nothing wrong with it, aspirationally. There is everything wrong with it if you try to say that is the definition in the market. And I don't really have any problem that the chairman of the FCC is saying, "Oh, I think people should have to have 25." Now, I could debate whether that is the right number. But, it is absolutely not the right number at the competition metric.

## **MCN: Why?**

**MP:** Because you have to look at the market as consumers find it, not as you wish it to be. Virtually everything that most consumers do on a daily basis can be done at speeds dramatically lower than that. Yes, 25 Mbps is nice, but you can watch Netflix movies at 5, which is the most bandwidth-intensive thing that most consumers do.

Even in Netflix's quarterly call they said you could do HD 4K at 15 Mbps. That's still less than the 25 that the chairman is talking about.

So, look, 25 is definitely the sort of cutting edge in terms of functionality. By that I mean that for what consumers are actually doing or want to do out there, I think 25 probably exceeds what is required. But, again, should we aspire to that? The cable industry definitely aspires to that and much more. So, that doesn't bother us.

## **MCN: Do you think the chairman is trying to regulate the market more broadly?**

**MP:** I don't know if I would be prepared to say that. Look, I'll just take the issues one by one because, on other things, I am very supportive. Like we just talked about with WiFi. He got that right.

But they owe the country honest assessments that are accurate and factually based, and I think that they do that most of the time. But when they are not I don't think they should be above being called on it. It's a simple matter. Does 75% of the country really only have one broadband choice? No, not by any layman's definition. But the game being played is, "As I define it, picking a number I picked arbitrarily for this rhetorical purpose." At least tell people that's what you are doing.

## **MCN: Can you make the case for usage-based pricing?**

**MP:** It's fair. It should be the only issue. Look, the reality is that when the Internet first started off, there was kind of one thing to do: surfing. People used their Web

browsers in the same way to get to sort of the same thing. The Internet has gotten much more sophisticated and increased its dynamic range of uses.

So, you know, I have relatives who sit on their Internet connections and Facebook all day long. I don't do that. I know people who watch Netflix movies hours a day. My mother doesn't do that. My mother does email. My mother posts things on low-intensity bandwidth uses. Why should she pay the same thing as a power user? Why should she pay the same as someone who is running a server in their home?

She shouldn't. Usage-based pricing is nothing but price differentiation, which economics strongly sanctions and, in fact, is a hallmark of efficient markets. [Powell is a former top antitrust advisor at the Justice Department]. It is creating differentiated pricing so that you can get what you need and nothing more.

So, I don't understand those who want to go apoplectic. You can go to a giant food store and you can buy brand-name cheese that costs \$3.25, and you can buy the store brand that costs \$1.52, and if you don't like that, you can go to Costco. We differentiate prices in every facet of the U.S. economy.

And by the way, so does every software company in this debate. Go to Amazon and pay \$99 a year and be a Prime member and you get your stuff sent to you within two days for free. Or you can be a different kind of user.

I just think we all have to calm down and stop acting like the communications space is *Alice in Wonderland* and all the rules don't work that work everywhere else.

**MCN: Let's circle back to network neutrality. Is there a way for it to end well?**

**MP:** I think it could very easily end well by Congress taking control.

**MCN: You think this Congress can do that?**

**MP:** I personally believe they can because I think that the most substantive part of the law [a Republican-backed bill that would prevent blocking, degrading or paid

prioritization, but without Title II] has almost universal agreement. The ISP industry is not fighting net-neutrality rules. They will accept them. The Republicans, I think in a remarkable show of concession, are willing to give them to you. I think there is a real opportunity for Democrats and proponents to take a deal while they've got it and create net-neutrality rules that are permanent, that are not subject to litigation. End the litigation fight. Save money, save resources. If I were on the other side, I don't know why you wouldn't take this deal while you can get it.

**MCN: And why should they take the deal?**

**MP:** Because if any part of this order is overturned — it doesn't have to be the whole thing. Let's say the wireless part gets knocked off [for the first time the FCC is applying all the rules to wireless broadband]. Or the interconnection part gets knocked out. There will be no more deals to be had on the Hill.

The Republicans on the Hill will not do a deal if they get this thing beaten in court. And the Obama Administration is not going to be here in 24 months. So, there's a very high likelihood that whatever happens in court gets remanded to a different government. And then what happens? So, I think it could end well for every single person involved for Congress to adopt this as a law.

- See more at: <http://www.multichannel.com/news/broadband/ncta-s-powell-vows-fight/390334#sthash.oOJQUnHN.dpuf>

Multichannel News

## Discovery Hopes to Mine Gold at Comcast

Programmer opposed TWC merger but needs new distribution deal 5/04/2015

8:00 AM Eastern

By: **Mike Farrell**

### TakeAway

**Discovery Communications — a vocal opponent of the ill-fated Comcast-Time Warner Cable deal — is the first big programmer that must renegotiate its carriage deal with Comcast.**

Throughout the regulatory approval process, programmers had expressed their fear of how a combined Comcast-Time Warner Cable, had it been allowed to go through, would have irreversibly harmed the content landscape.

But with the deal officially off the table, those same programmers may be facing a much more terrifying adversary: Comcast by itself.

Without the specter of regulatory approval hanging over it, Comcast could very well flex its considerable carriage muscles, using its cable industry-leading heft to force pricing and other concessions on programmers, according to some analysts. One of the first tests of that theory will be Discovery Communications, whose carriage agreement with the nation's largest cable operator expires June 30.

### ***COMCAST: ALWAYS TOUGH***

Not that Comcast has been a wallflower in carriage negotiations. With more than 22 million subscribers, Comcast enjoys the best pricing among U.S. MSOs and has managed to squeeze out favorable online, TV everywhere and on-demand concessions in practically every carriage negotiation. But with a couple of big M&A deals in the past few years — its 2010 purchase of NBCUniversal and the just-terminated TWC merger — the company has also been careful not to upset regulators. As a result, Comcast never had a major carriage dispute that involved dropping a major channel for any length of time ever, according to company spokesman John Demming.

While Comcast has had smaller disputes with Tennis Channel and Bloomberg TV over carriage and channel placement, the only channel ever to go dark on the cable giant's systems was tiny Estrella TV, a Spanish-language network that pulled its signals in February in Denver, Houston and Salt Lake City, Utah. That could change.

"We are concerned Comcast will have greater freedom to flex the muscles of its leading scale, scale that it has often seemed to hold back from fully utilizing in the past," UBS media analyst Doug Mitchelson said in a research note. "Discovery would have been in a superior negotiating position had the Comcast-TWC merger still been under review at June 30, when the Comcast renewal is up, but the earlier termination of the deal has exposed renewal risk."

Other analysts, such as RBC Capital Markets media analyst David Bank, have said Comcast is expected to be a tougher negotiator in the wake of the TWC termination because it will no longer have to consider pleasing "regulatory watchdogs."

Mitchelson mapped out three possible scenarios: The renewal is made with few or no difficulties; Comcast digs in its heels and battles for flat or decreased affiliate fees; or Comcast drops Discovery's channels altogether, determining that it would save more than it would lose by not carrying the networks. The last scenario is highly unlikely, Mitchelson wrote.

"We do not believe Comcast would drop Discovery's networks permanently after having spent much of the past 10 years putting the hardware and software in place to offer a leading video service (X1 platform)," he noted.

Discovery told *Multichannel News* it was optimistic about reaching an agreement with Comcast. Sources familiar with the company, though, said negotiations haven't officially started yet, with about two months to go on the existing contract.

"We're hopefully we can engage and have a productive negotiations that leads to a fair deal on both sides," Discovery said in a statement. "That's what our hope and expectation is and that is what we're working for."

Discovery was outspokenly opposed to the Comcast-TWC merger. CEO David Zaslav criticized the deal publicly, stating that the combination raised “real issues.”

Comcast accused Discovery of demanding “unwarranted business concessions” in return for endorsing the merger.

Sources familiar with the companies insist those harsh words will not hang over the talks.

Discovery has improved its negotiating position by gaining popularity among viewers. In February, flagship Discovery Channel was the top-rated cable network in primetime for men, with shows like *Gold Rush*, *MythBusters* and *Moonshiners*.

“Does Comcast really want to fight that?” said one cable executive who asked not to be named.

Comcast declined to comment on the negotiations specifically.

A successful Comcast negotiation could be a big boost for Discovery, which has seen its stock decline almost 20% in the past 12 months as ad-market doldrums and carriage concerns have weighed heavily.

Although the programmer derives more than half of its revenue from outside the U.S., Comcast makes up about 22% of its total affiliate-fee revenue.

Discovery has for the most part been a pretty easy programmer to negotiate with. Its affiliate-fee increases have generally been in line with inflation (in the single digits) and recently it has struck deals to provide content for TV everywhere and on-demand.

### ***HOPING FOR FEE INCREASES***

But the programmer had been hoping that as the popularity of its networks in the U.S. increased, its affiliate-fee hikes would also go up.



Discovery's priciest network is Discovery Channel, which charges about 40 cents per subscriber per month, according to SNL Kagan. That puts it 20th of about 180 networks that earn carriage fees, but dwarfed by cost leader ESPN's \$6.10 per subscriber monthly fee.

According to Mitchelson, Discovery's overall price per viewer of about \$37 per month puts it at the lower end of the spectrum — only CBS, at \$11, is cheaper — which may have given it some negotiating leverage in the past.

Discovery managed to negotiate a carriage deal with Time Warner Cable during the regulatory approval process that people familiar with the companies said included a significant step up in affiliate fees.

In January, Discovery moved its popular "Shark Week" programming block from the usual August to July 5-12, which would fall around the time its deal with Comcast expires.

But only time will determine who will ultimately play the role of predator or prey in the coming negotiations.

- See more at: <http://www.multichannel.com/discovery-hopes-mine-gold-comcast/390335#sthash.0yyLEqnG.dpuf>

Multichannel News

# Internet eclipses TV at Comcast

It has become the main portal for entertainment in the United States.

By EMILY STEEL  
New York Times

The Internet is taking over television.

That shift is occurring at Comcast, where the number of people who subscribe to the company's Internet service surpassed its total video subscribers for the first time during the second quarter this year.

Announced in an earnings call Monday, the development signals a major turning point in the technological evolution sweeping across the media business, as the Internet

becomes the gateway for information and entertainment. Comcast, the country's largest cable operator, abandoned its \$45 billion takeover of Time Warner Cable last month after the deal drew regulatory scrutiny regarding concerns that the combined company would have too much control over the Internet. Comcast is already the country's largest broadband provider, with more than 22 million high-speed Internet customers.

Brian Roberts, Comcast's chief executive, said in the call that the company was disappointed about the collapse of the deal but had moved on. He said that Comcast's top priorities now were to advance its existing business and improve its poorly rated customer ser-

vice.

Some analysts expect the company to start pursuing deals to enlarge its international footprint or expand into the wireless business, but Comcast executives did not reveal any new proposals. Roberts said it did not have plans to swap subscribers with other cable operators or increase its U.S. footprint.

"In terms of other things that could come along, I believe we have a very special company and so many different businesses," Roberts said. "We're always open-minded. We've always been, however, I think extremely disciplined and focused on building shareholder value. And right now, we're back to work and there's nothing that I could think of

that we don't have on our plate that I'm excited about."

The comments came as Comcast reported a 10 percent increase in earnings in the first quarter, largely because of growth in its high-speed Internet business.

Total revenue inched up 2.6 percent to \$17.9 billion during the quarter compared with the period last year, the company said.

Net income attributable to Comcast was \$2.1 billion for the quarter, up 10 percent from the period last year. Costs related to the Time Warner Cable deal came to \$99 million during the first quarter. That brings the total costs related to the transaction to \$336 million since the deal was announced in February 2014.

## CenturyLink applies for Coon Rapids cable TV franchise

By [Peter Bodley](#)

May 12, 2015 at 8:10 am

A historic moment was how Michael Bradley, city of Coon Rapids cable television attorney, described CenturyLink's application for a cable television franchise in Coon Rapids.

Bradley was speaking at a Coon Rapids City Council public hearing on the application April 19. This is the first time that the city has received a competitive cable franchise application since the council first granted a franchise in the early 1980s.

Comcast is the current franchise holder and the city negotiated an extension to the existing franchise late last year that runs into 2019.

Besides presentations by CenturyLink representatives Tyler Middleton, vice president of operations in Minnesota, and Patrick Haggerty, Midwest region legislative and regulatory affairs director, and Bradley, no one spoke at the public hearing.

But the city did receive a written response from Comcast, and as part of the process, the hearing was kept open through April 24 to receive written comments.

According to Eric Strouse, manager of the city's CTN cable television studio, there was little written response, apart from a question from a resident on whether the CenturyLink application would provide PEG (public, education, government) channels like Comcast. "It will," Strouse said.

Another resident wrote in an email that they liked the competition that would come with a second cable franchise, he said.

The next step in the process is for city staff, with the assistance of Bradley, to put together a report based on the application and written record that would recommend to the council whether the city should move forward with negotiations on a cable franchise with CenturyLink, he said.

He anticipates that report will be completed by late May or early June, Strouse said.

The council will make the decision on CenturyLink's application, and if the action is to negotiate a franchise with it, then that will come back to the council for action in ordinance form, he said.

"Comcast has had a monopoly over three decades and true competition has been closed to residents," Middleton said. CenturyLink's Prism TV offers high quality programming and over 250 channels in a wireless system, he said.

According to CenturyLink's application submitted by Mary Ferguson LaFave, director of public policy, its Prism TV system will be fully digital, and while the ultimate channel lineup has not been finalized, a copy will be distributed prior to launching service in Coon Rapids and will have a "vast selection of content" similar to other locations in the country where CenturyLink offers cable TV.

A "robust" library of video on demand content will also be provided, LaFave wrote.

The system will be IP (Internet protocol) based so CenturyLink can offer applications available via the television set, such as access for Facebook and Picasa, as well as search and streaming services, she wrote.

CenturyLink plans to use its existing copper lines, both above and below ground, to provide cable service to its Coon Rapids customers, and a set-top box will be needed for each television in the home to receive Prism.

According to Strouse, if a franchise is approved, CenturyLink is proposing to launch its Prism TV service in 30 percent of Coon Rapids homes with expansion customer driven and based on the market.

"As we win customers, we will use that new revenue stream to invest in further deployment and broader availability of Prism throughout the city," LaFave wrote in the application.

CenturyLink is targeting an initial service launch in the second or third quarter of 2015, according to LaFave.

Pricing of Prism's various packages to be offered in Coon Rapids is not included in the application, but CenturyLink will provide it to the city prior to the service launch, although LaFave included in the application a sample of pricing for Prism packages in another market.

Addressing local access channels, LaFave said CenturyLink is willing to make them available in high definition and access to the Coon Rapids channels will not be limited just to Coon Rapids residents, but to Prism subscribers throughout the metro area, while city residents will be able to view access channels from other communities.

The biggest issue facing the city is conflicting federal and state regulations regarding build-out, according to Strouse.

State law requires that build-out of cable franchises must take place in five years, Strouse said.

Minnesota is the only state to have such a law, Bradley told the council.

However, federal regulations through the FCC (Federal Communications Commission) have no build-out requirements, constituting a "barrier to entry," LaFave wrote in the application.

According to Bradley and Strouse, Comcast's position is that CenturyLink should have to follow state law and build out its system in five years, while Century Link maintains that federal law supersedes state law.

The written response by Comcast to CenturyLink's application addresses this issue. According to Emmett V. Coleman, vice president of government affairs, Comcast "welcomes a fair and robust competitive marketplace made up of responsible competitors and we do not oppose the granting of an equitable cable franchise to CenturyLink."

But he writes that state law is clear that "no municipality shall grant an additional franchise for cable service for an area included in an existing franchise on terms and conditions more favorable or less burdensome than those in the existing franchise," and CenturyLink's build-out commitment appears to stand in direct conflict with state law.

And Coleman states that as recently as January this year, the FCC stated that its regulations do not preempt the state's cable act.

But in the CenturyLink application, LaFave writes that two FCC rulings that level playing field and unreasonable mandatory build-out requirements are barriers to competitive entry in the cable market and violate the federal Cable Act and the FCC's order.

The state cable law has barred cable TV competition in Coon Rapids, according to LaFave.

The CenturyLink application states that it would indemnify the city if any lawsuit was filed against on this issue, Bradley said.

"We don't see state law as a road block," Haggerty said. "The FCC preempts state rules."

Council Member Denise Klint was excited to see CenturyLink's application, she said.

"This is a no-brainer," Klint said.

Competition is a good thing, according to Council Member Ron Manning.

CenturyLink has cable franchises in other parts of the country, including LaCrosse, Wisconsin, and Omaha, Nebraska, according to the company website.

It has now entered the Twin Cities marketplace. Late last year CenturyLink filed an application for a cable TV franchise in the city of Minneapolis, its first in Minnesota, and a public hearing was held by the Minneapolis City Council earlier this year, according to Strouse.

It has also filed applications in other Twin Cities communities, Strouse said.

<http://abcnewspapers.com/2015/05/12/centurylink-applies-for-coon-rapids-cable-tv-franchise/>

Anoka Union Herald

## Trade Journal Links

N.Y. Times Editorial Board makes the case for state and local government involvement with broadband: "For most Americans, broadband is quickly becoming a must-have utility like water and electricity. That's why it makes sense for cities and states to get involved." | [N.Y. Times](#)

"Comcast/TWC merger may be blocked by Justice Department; US antitrust lawyers reportedly close to filing lawsuit to block deal." | [Ars Technica](#) / [Bloomberg](#)

Chairman Wheeler discusses the Connect America program & the need to modernize the FCC's support to small rural carriers | [FCC Blog](#)

<http://www.usatoday.com/story/tech/2015/04/17/comcast-time-warner-justice-department-deal-block/25947203/>

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Susan Crawford discusses why Comcast will be hard-pressed to prove the merger benefit the public interest: "Comcast's Plan to Ram Through the Time-Warner Merger; It argues that low-income customers will benefit from 'Internet Essentials.' But regulators aren't buying it." | [Medium](#)

John Eger Op-Ed: "There are obviously many things a city must do reinvent itself. But having a broadband infrastructure is a crucial first step. Why? Because, says CLIC CEO Joanne Hovis, broadband today is as important as waterways, railways and highways were in an earlier era." | [Huffington Post](#)

"How big is the homework gap? A new Pew Research Center analysis finds...some 5 million households with school-age children do not have high-speed internet service at home. Low-income households – and especially black and Hispanic ones – make up a disproportionate share of that 5 million." | [Pew Research Center](#)

Access to broadband from your home is critically important, especially if you work from home. Here's what went wrong for the man in Kitsap County, WA and others. | [POTs and PANs](#)

"Comcast said it will roll out Gigabit Pro, its new residential, fiber-based 2 Gbps service, in California in June" | [Multichannel News](#)

"Devoncroft founder Joe Zaller says that the big shift from baseband video to IT files and IP infrastructure now underway will make other upcoming innovations possible for broadcasters." | [TVNewsCheck](#)

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"Justice Department antitrust enforcers doubt that their concerns about Comcast Corp.'s planned acquisition of Time Warner Cable Inc. could be resolved by promises about how the cable giant would conduct business after the merger" | [WSJ](#)

"With Utah Education and Telehealth Network as its anchor tenant, CenturyLink is building out a terabit network that will reach 1,400-plus schools, and take fiber past more than 100,000 homes and 30,000 businesses." | [Light Reading](#)

"CenturyLink Using Sneaky Fee to Hike DSL Prices...Users note that most of the company's six million DSL customers will be seeing a dollar increase in the form of something CenturyLink calls the "Internet Cost Recovery Fee." | [Broadband Reports](#)

"Comcast Shouldn't Be Able to Stop Verizon from Offering Better TV Plans...Verizon's new "Custom TV" plans are a move in the right direction. It's...good for viewers, good for the provider, good for competition and ultimately good for programmers, as well." | [Public Knowledge](#)

"The great unbundling: cable TV as we know it is dying" | [The Verge](#)

"Backers Say USB-C Is the Cable of the Future" | [N.Y. Times](#)

Fmr. FCC Commissioner Michael Copps on why fighting for net neutrality and against the Comcast-Time Warner merger is one in the same: The proposed merger between Comcast and Time Warner Cable (TWC) is the same fight about gatekeeper control, consolidated media power, and the future of the Internet....It's about control over bringing broadband and the Internet to our homes and businesses." | [Benton Foundation Blog](#)

<http://fortune.com/2015/05/05/comcast-brian-roberts/?xid=timehp-category>

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"Wireless is Not a Substitute for Wireline" | [POTs and PANs](#)

"With Netflix now accounting for around 6% [sic] of all TV viewing in the United States, Wall Street analysts estimate that Netflix was responsible for around 43% of the ratings decline networks witnessed last quarter." | [Broadband Reports](#)

"Comcast's decision to walk away from its \$45 billion deal to acquire Time Warner Cable is good news for consumers. A merger of the nation's two largest cable companies would have created a telecom giant with tremendous power as a gatekeeper to entertainment and the Internet." | [N.Y. Times](#)

On the failed Time Warner / Comcast merger, "[t]here was no explanation of what law this consolidation in the declining cable industry would have violated, but Obama administration officials don't let such details stand in their way." | [Wall Street Journal](#)

Comparing the public interest impact of the Comcast/Time Warner merger with the potential impact on shareholder value. | [Quello Blog](#)



"Wheeler Launches Broadband Privacy Discussion [as] Title II Reclassification Puts Ball in FCC's Court" | [Multichannel News](#)

"The Comcast franchise talks in Philly, explained. There's a lot to digest, so we broke it down. Here's what the Comcast franchise negotiations mean for the future of Philadelphia and why you should care." | [Technical.ly](#)

Remarks of Gigi Sohn, Counselor to Chairman Wheeler, addressing the CTgig project: "We want to see average speeds grow to 50 Megabits per second, 100, and eventually even 1 Gigabit per second. When you achieve those speeds – the speeds you are talking about with the CTgig project – you remove bandwidth as a constraint on innovation." | [FCC Press Release](#)

"[A]s digitally enabled government comes to the fore, we may be risking the emergence of a new kind of digital divide, between the largest, most richly resourced cities and smaller communities with less capability to exploit new technologies." | [Government Technology](#)

Cablecos Going Gaga Over Gigabit: "After a slow start on the gigabit trail, cable operators are now pressing forward rapidly to deploy -- or at least promote -- new gigabit-per-second Internet services." | [Light Reading](#)

"Netflix Urges FCC to Reject AT&T DirecTV Merger" | [Broadband Reports](#)

Comcast's Identity Crisis: "Comcast, the nation's biggest cable firm, said Monday that its subscribers for high-speed Internet have surpassed cable television customers for the first time." | [Washington Post](#)

Susan Crawford Op-Ed: "We Need Better Infrastructure for Better WiFi" ... "Only fiber can handle the tsunami of data uploaded by all the devices and sensors Americans are going to use." | [N.Y. Times](#)

"Cable company consolidation may impact industry's Wi-Fi ambitions" | [FierceTelecom](#)

"Cable TV industry goes from high to low in a year" | [L.A. Times](#)

The FCC is finding themselves "in sales mode as it works to convince television station owners to sell their existing spectrum." | [POTs and PANs](#)

A tribute to Charles Benton from Karen Perry: "A Best Friend Forever" | [Clarion Collaborative](#)

"The FCC's chairman has a killer plan to fight its net neutrality lawsuits" | [Washington Post](#)

"The FCC appears serious about changing the rules of the Universal Service/ Connect America Fund to allow rural carriers to collect funding to support lines that are used only to deliver broadband service, rather than requiring voice to also be part of the offering." | [Telecompetitor](#)

"[T]he California Public Utilities Commission narrowed the privilege gap between pure Internet service providers and traditional telephone and cable companies, at least concerning access to utility poles, conduits and other facilities and right of ways [last week]." | [Tellus Venture Associates](#) (Steve Blum)

FCC Commissioner Clyburn discusses the Lifeline Program; Says the program is stuck in a bygone era and offers reforms to usher the program into the digital era and ensure that we are meeting the statutory directive for universal service. | [Multichannel News](#)

The Lifeline program alone won't solve the "homework gap." "To close this gap we have to find a way to get broadband into many millions more homes. But we also would need to make sure that those homes have working computers that are up to the tasks required by homework." | [POTs and PANS](#)

"AOL: 2.1 million people still subscribe to dial-up Internet" | [TechnoBuffalo](#)

"Comcast Launches Plan to Take on Gig Internet Providers; [Announcing] plans for a 2 gbps fiber network in Chattanooga, Tenn., and other select markets in the U.S. But experts are skeptical about its impact." | [Government Technology](#)

FCC Chairman Tom Wheeler proposal to broaden the US regulatory definition of a pay-TV provider to cover many OTT video providers winds its way through the FCC's public review process. | [Light Reading](#)

Netflix flexes its muscle on mergers: "Netflix's power in Washington is growing as it becomes a bigger threat to traditional television." | [The Hill](#)

"Spotify Plans Entry Into Web-Video Business; Streaming service, seeking partner, has approached companies that make content for YouTube" | [WSJ](#)

FCC Denies Stay of Open Internet Order | [FCC Order](#)