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What the Industry Reads First

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Charlie Ergen's War: To Increase Broadband Relevance of DISH, EchoStar

EchoStar agreed Mon to acquire all the outstanding equity of **Hughes Comm** for approx \$2bln including debt, a deal that continues *Charlie Ergen's* recent spending spree seemingly meant to engender additional service options for EchoStar and **DISH** (he serves as chmn of both companies). As Hughes' satellite system supports HSI, EchoStar pres/CEO *Michael Dugan* said the deal "will create a powerful leader in video and data transport." In 3Q, Hughes scored approx \$191mln (+9.4%) in North American broadband rev and said it was the only national provider of satellite-based HSI service to receive funding (\$58.7mln) under The American Recovery and Reinvestment Act. The deal importantly gives DISH, albeit indirectly, access to a national broadband service that it could tie with video, and comes at a time when *President Obama* and the **FCC**—through its National Broadband Plan and NOPR to revamp the USF and ICC—look to spur broadband expansion and adoption. Within the NOPR, the Commission says "satellites are ideally suited to serve [broadband to] housing units that are the most expensive to reach via terrestrial technologies... a judicious use of support for satellite service could reduce costs associated with building out networks." It also proposes that recipients of broadband deployment funding be permitted to subcontract with satellite broadband providers to fulfill their service obligations. DISH's own broadband options received potential legs up recently through an agreement to purchase hybrid satellite and terrestrial comm firm **DBSD North America** and an investment in **TerraStar**—moves that would give the DBS op 40MHz of continuous spectrum to potentially use for a wireless broadband network. And spectrum, of course, is viewed by the FCC as a very valuable and important asset. Earlier this month, **Wells Fargo Securities'** *Marci Ryvicker* surmised what DISH will ultimately do with the spectrum, while also noting that DISH owns 6MHz of 700MHz spectrum with a carrying value of \$721mln and assigned stipulations calling for buildout of 35% of that spectrum by '13 and 70% by '19. The most probable use for the acquired spectrum, believes Ryvicker, is a wholesale lease model that could see DISH generate approx \$460mln in annual rev. Added **BTIG's** *Walter Piecyk*: "Ergen's aggregate spectrum position could provide an interesting bargaining chip with several different wireless operators given the expected rise in wireless data." EchoStar shares gained 3.2% Mon on the acquisition news while Hughes shares took a 3.7% hit. The results ran counter to the typical investor response to acquisitions, perhaps because of the relative



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bargain Ergen received. EchoStar agreed to pay \$60.70 per Hughes share, a price below Hughes' Fri closing price of \$61.78. The deal is expected to close later this year. Ergen's DBSD bid and TerraStar investment were made while the companies were amid bankruptcy proceedings. **[For more info on Ergen, DISH and EchoStar, see pg 4].**

At the Portals: AT&T and the NCTA wrote a joint letter to FCC chmn *Julius Genachowski* asking that the Commission to "swiftly, clearly and publicly affirm" that its net neutrality rules do not apply to Internet peering and other Internet backbone services. Level 3's insistence that its dispute with Comcast over the terms of the parties' agreement for backbone services is covered by the rules has spawned similar claims from other companies, wrote the pair, and the FCC's continued silence on the issue "could send a troubling signal to the financial markets and the international community regarding the United States government's intentions to exercise control over Internet infrastructure, not withstanding the clear boundaries established by the Net Neutrality Order." -- **Mediacom** and **Suddenlink** want the FCC's forthcoming Notice of Proposed Rulemaking regarding retrans to solicit comment on whether certain practices such as entering into retrans agreements that are inconsistent with the requirement that retrans consent apply to the entirety of the signal should be deemed per se violations of the duty to negotiate in good faith. The pair also suggests that to the extent a station is allowed to bargain away its retrans consent rights for local or out-of-market carriage of its signal, the recipient of those rights should be subject to an obligation to negotiate in good faith with MVPDs.

Showtime: For **Time Warner Cable**, it'll soon be show time with the Los Angeles Lakers. Beginning with the '12-'13 season and lasting 20 years, TWC scored the rights to distribute all locally-available Lakers games (pre-, post- and regular season), and will launch 2 RSNs in HD to feature the contests. 1 will be the nation's 1st Spanish-language RSN, and both nets will be available to MVPDs in the Lakers territory of Southern CA, NV and HI. Custom elements will include new online and VOD multi-platform content featuring the team.

In the Courts: The U.S. Appeals Court in D.C. got an earful Mon as it heard arguments over **Cablevision's** challenge of the FCC's decision to set up a process that could lead to case-by-case elimination of the terrestrial exemption under the program access rules. The case hinges on whether the FCC has authority to close what many term the terrestrial "loop-hole" under a complaint process it approved last month in a 4-1 vote (*Cfax*, Jan 21). Cablevision says no. **Verizon** and **AT&T** have advocated closing the exemption, arguing in part that they can't get **MSG** in HD. Said Cablevision following Mon's oral arguments: "We continue to believe that the program access rules are not in the best interests of fair competition and consumers. With three to five video providers in many markets and explosive growth in programming services, today the program access rules do nothing more than stifle innovation and product differentiation. The nation's largest phone and satellite companies should be expected to compete based on their products and not on a regulatory bailout."

Advertising: Beginning as soon as June, **Comcast Spotlight** will sell local ads on the **AT&T U-verse** TV service in more than 20 markets where the MSO and telco both provide video service. Spots on up to 50 ad-supported nets will be included in cities such as Atlanta, Chicago, Houston and San Francisco. -- **This Technology** bowed its free, open source **SpotLink** interconnect software, which connects **SCTE 130**-compliant dynamic ad insertion systems to broadband ad servers using the **IAB's** Video Advertising Serving Template standard. SpotLink enables dynamic ad insertion across VOD, IPTV, broadband video and network DVRs.

In the States: **LightSquared** announced the successful post-launch testing and acceptance of the SkyTerra 1 satellite and Space-Based Network from **Boeing Space and Intelligence Systems**, paving the way for LightSquared to provide wireless mobile services through an integrated terrestrial and satellite network.

Technology: **Envivio** intro'd the 3rd generation of its 4Caster C4 live encoder/transcoder for mobile TV, Internet TV and IPTV services, nearly doubling the processing power to support twice the HD channel density. The tech is already in live trials at 4 major ops in the US, Europe and Asia.

Ratings: **E!** scored it highest-rated (2.11 HH rating) and most-watched (2.9mln total viewers) "Live from the Red Carpet: Grammys" ever Sun night, helped by historical ratings highs among 18-34s (1.74) and women 18-34 (2.45). -- **TeleFutura's** kicked off its Mexican National Team coverage by averaging 2.6mln viewers for the Bosnia match, now the net's most-watched telecast so far this TV season and the 2nd most-watched season-to-date on Spanish-language TV behind **Univision's** Mexico-Venezuela match on Oct 12.

BUSINESS & FINANCE

Programming: After launching on **DirectTV** Sun evening, **3net** announced additional programming slated for its debut month, including original "Puppy Bowl VII" (Feb 24) and world 3DTV premier "Bugs! A Rainforest Adventure" (Feb 23). -- **IFC** greenlit a 2nd season of original comedy "Portlandia." -- First Lady *Michelle Obama* will make a taped appearance to present the "Let's Move US Healthier Schools Challenge Award" during **Cartoon Net's** "Hall of Game Awards" (Feb 25).

On the Circuit: The **CTAM Educational Foundation** is accepting Diversity Fellowship apps through Mar 10 to attend The Cable Executive Management at Harvard Business School, Jun 5-10. Email *Ilana Lampell* at ilana@ctam.com for info.

People: **Charter** said evp, op and mktg *Ted Schremp* resigned for personal reasons. No word on a replacement. -- Private investor *Lorrie Norrington* joined **DirectTV's** board. -- **MGM** upped *John Bryan* to pres, domestic TV distribution.

Business/Finance: **Motorola Mobility Holdings** bought for an undisclosed amount **Three Laws Mobility**, which makes mobile enterprise security and device mgmt software for the Android operating system. -- Proxy advisory firm **Institutional Shareholder Services** issued a recommendation for **Mediacom** shareholders to approve founder *Rocco Commisso's* \$8.75/share privatization bid at the MSO's Mar 4 special meeting.

CableFAX Daily Stockwatch

Company	01/14 Close	1-Day Ch	Company	01/14 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	43.43	(0.06)	BIGBAND:	2.76	0.04
DISH:	23.14	(0.26)	BLNDER TONGUE:	2.30	(0.02)
DISNEY:	43.24	(0.17)	BROADCOM:	42.93	(0.7)
GE:	21.50	0.17	CISCO:	18.81	0.11
NEWS CORP:	18.08	(0.25)	CLEARWIRE:	5.87	(0.02)
MSOS					
CABLEVISION:	37.72	0.03	CONCURRENT:	5.68	0.13
CHARTER:	47.35	0.35	CONVERGYS:	14.25	0.01
COMCAST:	23.87	(0.13)	CSG SYSTEMS:	20.13	(0.04)
COMCAST SPCL:	22.45	(0.15)	ECHOSTAR:	30.84	0.96
GCI:	12.62	0.28	GOOGLE:	628.15	3.65
KNOWLOGY:	15.57	0.24	HARMONIC:	9.97	0.19
LIBERTY CAPITAL:	74.15	0.74	INTEL:	21.57	(0.19)
LIBERTY GLOBAL:	42.07	(0.26)	JDSU:	27.89	(0.27)
LIBERTY INT:	16.97	0.31	LEVEL 3:	1.26	0.01
MEDIACOM:	8.79	UNCH	MICROSOFT:	27.23	(0.02)
SHAW COMM:	22.02	0.18	RENTRAK:	26.93	0.19
TIME WARNER CABLE:	70.24	(0.87)	SEACHANGE:	9.37	(0.03)
VIRGIN MEDIA:	27.38	(0.04)	SONY:	35.00	0.10
WASH POST:	432.08	2.68	SPRINT NEXTEL:	4.55	(0.05)
PROGRAMMING					
CROWN:	2.31	0.04	THOMAS & BETTS:	56.83	0.75
DISCOVERY:	43.43	(0.32)	TIVO:	10.78	0.01
GRUPO TELEVISA:	24.23	(0.11)	TOLLGRADE:	9.90	0.03
HSN:	29.78	(0.17)	UNIVERSAL ELEC:	26.42	(0.14)
INTERACTIVE CORP:	31.63	0.03	VONAGE:	3.81	0.14
LIBERTY:	43.07	0.04	YAHOO:	16.89	0.04
LIBERTY STARZ:	71.70	0.93	TELCOS		
LIONSGATE:	6.19	(0.08)	AT&T:	28.46	(0.01)
LODGENET:	3.25	(0.15)	QWEST:	7.42	0.00
NEW FRONTIER:	2.10	(0.01)	VERIZON:	35.90	(0.49)
OUTDOOR:	8.15	(0.3)	MARKET INDICES		
PLAYBOY:	6.14	UNCH	DOW:	12268.19	5.07
SCRIPPS INT:	52.45	0.67	NASDAQ:	2817.18	7.74
TIME WARNER:	36.25	(0.29)	S&P 500:	1332.32	3.17
VALUEVISION:	7.01	0.05			
VIACOM:	51.67	0.13			
WWE:	12.20	0.11			
TECHNOLOGY					
ADVANTAGE:	2.80	0.10			
ALCATEL LUCENT:	4.61	(0.08)			
AMDOCS:	29.79	0.45			
AMPHENOL:	58.12	(0.4)			
AOL:	21.83	0.61			
APPLE:	359.18	2.33			
ARRIS GROUP:	13.74	0.03			
AVID TECH:	22.31	0.09			

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EYE ON INNOVATION

Charlie Checkers

The intent of *Charlie Ergen's* recent maneuverings at **DISH** and **EchoStar** appears clear: to jump over the competition and gain position A in the provisioning of satellite/terrestrial video, data and voice services. Trouble is, no one is sure what Ergen plans to do with the spectrum assets to which he could gain access through deals with **DBSD** and **TerreStar**, or how he might integrate and use **Hughes'** established satellite services including HSI, video conferencing and VoIP. Plus, some potential snags lie in wait.

Wells Fargo Securities' *Marci Ryvicker* became a DISH bull even before the DBSD deal was announced, emerging from **CES** believing the DBS op is uniquely positioned, owing partly to its relationship with EchoStar, to capitalize handsomely on its **TV Everywhere** options including **Slingbox**, **Remote Access** and **DISHOnline**. Around the same time, EchoStar picked up some tech assets from **Move Networks** offering advanced solutions for large scale streaming of Web video. So when the DBSD news arose, Ryvicker said "we do think this announcement confirms that Charlie Ergen is thinking well ahead of his peers with regard to evolution in the video space."

Ergen's spectrum machinations even led past speculation of an **AT&T** purchase of DISH to resurface. Indeed, **BTIG's** *Walter Piecyk* believes DISH's spectrum position through DBSD and TerreStar would be attractive to telcos including AT&T, **Verizon**, **metroPCS** and **T-Mobile**, and said Ergen could seek contributions to it in exchange for an equity stake and a wholesale relationship.

However, "we don't think even Charlie knows what he will do with the spectrum," said Piecyk.

The logical path would be to seek a waiver from the **FCC** to offer terrestrial-only services that would lead to myriad sale and partner agreements, said Piecyk, but DISH could also use the spectrum to build out a wireless net-

work. The latter option appears less likely now following EchoStar's proposed Hughes acquisition, which could give DISH access to a national broadband service.

The FCC waiver would mean DISH wouldn't be required to offer satellite-based services with the spectrum and therefore to source more expensive dual mode handsets. But to receive it, DISH may be required to give up some of the spectrum. And that leads to another hurdle, namely that the spectrum may not become Ergen's to cede at all. According to *Bloomberg*, the judge overseeing DBSD's bankruptcy recently ruled the company must consider offers higher than the 1 tendered by DISH.

EchoStar's bid for Hughes seems a little easier to parse, at least on the surface. DISH and **DirectTV** have searched for their own answer to cable MSOs' broadband services for years, the better to offer bundled packages that often improve churn rates. The pair has worked with telcos to feature shared video/data packages, but through its close relationship with EchoStar, DISH could conceivably offer its own triple-play package using Hughes assets. Still, satellite broadband can't yet match the speeds offered by cable's plant, and a deal that so strengthens the hand of an individual player like EchoStar is bound to face a cacophony of competitive resistance.

Given all the unknowns at play with DISH and EchoStar, no one knows for sure how Ergen's aggressive and perhaps extremely shrewd moves will turn out. If Dec rolls around and DISH and EchoStar have respective control of the DBSD spectrum and Hughes, though, the companies will no doubt be in better positions than they are now. Options are good, and options in an ever-changing comm world are invaluable. Particularly for DISH, which has shed subs for 2 consecutive quarters and continues to be viewed as the also-ran DBS player, behind DirecTV.

The near-term question becomes: how much do investors and competitors want to bet on, or against, Charlie Ergen?
- *Chad Heiges*



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