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AT&T CEO: DirecTV Deal Moving Along

AT&T's acquisition of **DirecTV** is moving forward—at least in various states and overseas, execs said during the telco's 2Q earnings call Wed. States including AZ, LA, and Hawaii have completed their review of the deal without restrictions, CFO *John Stephens* said. The **FCC** hasn't created a docket for the deal. In addition, Brazil's regulators already OKed the transaction with the satellite provider, which serves 18mln subs across Latin America, without proposing merger conditions. "We are more confident than ever" in completing the transaction, Stephens said. During 2Q, a seasonally weak quarter, U-verse sub growth seemed to have slowed. The telco added 190K net new video subs, down 18.5% from last year's again of 233K. And according to *Craig Moffett* with **MoffettNathanson**, that was 10.8 below consensus. AT&T logged a total of 5.9mln U-verse TV subs by the end of 2Q. U-verse broadband net additions of 488K were 16.4 below consensus and nearly 24% below last year's net adds, bringing the total sub count to 11.5mln (flat YOY). That said, ARPU was a bright spot, increasing more than 6% YOY. More than 60% of U-verse broadband subs have a plan offering speeds of 12 Mbps or higher and a majority of AT&T's video customers subscribe to bundled services, chmn/CEO *Randall Stephenson* said. In addition, about 2/3 of U-verse TV subs take 3 or 4 services from the telco. ARPU for U-verse triple-play subs continued to be more than $170 a month. The acquisition of DirecTV is expected to continue to drive bundling, which will in turn boost the overall revenue, Stephenson said. At the end of the quarter, U-verse TV penetration was more than 21% and U-verse broadband penetration was more than 20%. The triple-play service now represents 62% of wireline consumer revenue, up from 51% in the year-ago quarter. Total U-verse HSI subs now represent some 70% of all wireline broadband subs, up significantly from 55% a year ago. Wireline results "weren't so great," Moffett said, calling unit growth metrics "marginally light" and financial metrics "more significantly so." Total wireline revenue of $14.6bln was 0.7% below consensus and 0.9% below the year-ago level, he said: "Every year, AT&T promises that margins have bottomed and are destined to rebound. And every year, we voice our skepticism." Revenue from business customers was down 2.9% YOY to $8.7bln. The company blamed weak business formation and a still recovering economy. However, "it is hard to escape the conclusion that the cable operators are eating the telcos' lunch in the all-important SMB segment," Moffett said. Nearly all major cable MSOs have expanded commercial services, focusing primarily on small and mid-sized companies. Overall, AT&T posted a 1.6%

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increase in consolidated revenue to $32.6bln, and an 8% drop in operating income to $5.6bln.

<u>What You Get Should Be What You See</u>: The **FCC** Enforcement Bureau sent out a warning Wed, reminding ISPs that they must disclose accurate information about the speeds, network management and other details of their service offerings under the Open Internet Transparency Rule, which has been in effect since 2011. "Consumers deserve to get the broadband service they pay for. After today, no broadband provider can claim they didn't know we were watching to see that they disclose accurate information about the services they provide," FCC chmn *Tom Wheeler* said in a statement. "The FCC's transparency rule requires that consumers get the information they need to make informed choices about the broadband services they purchase. We expect providers to be fully transparent about the details of their services, and we will hold them accountable if they fall down on this obligation to consumers." A spokesperson said this was reminder to ISPs and consumers of the law following various complaints over the past year.

<u>Retrans Rumbling</u>: WBOC, a CBS affil in Salisbury, MD, owned by **Draper Holdings**, is sounding the alarm that **DirecTV** subs may lose the station as well as FOX21 Delmarva (airs on its digital channel) if a new deal isn't reached by midnight July 31. The broadcaster estimated that about 29K DirecTV customers could be impacted by a blackout. DirecTV's statement: "By law, DIRECTV must obtain WBOC's owner Draper Holdings' permission to enable customers to still see WBOC in Salisbury, but Draper is threatening to withhold permission unless DIRECTV commits people to pay nearly 7 times more to receive the same shows others keep getting off-air and online for free."

<u>Service Electric Selects Arris</u>: **Service Electric** selected **Arris**' new SE NEXT Entertainment Platform, consisting of the Arris Whole Home Solution with an available MS4000 Media Streamer. Service Electric operates in PA and NJ.

<u>In the Courts</u>: **Aereo** is no longer running, and **FilmOn** could be in trouble. A US District Court judge said she's likely to hold the streaming video company in contempt of court for continuing to operate after the US Supreme Court ruled Aereo's service infringed on copyright, report *MediaPost*. The pub said FilmOn kept streaming broadcasters' signals almost 2 weeks after the SCOTUS ruling.

<u>Sportsman Carriage</u>: **NCTC** renewed it carriage pact with **Sportsman Channel**, with the new agreement including robust VOD, TVE and HD. Any of NCTC's members can opt in to the deal and carry the outdoor lifestyle net.

<u>TLC Brand Campaign</u>: **TLC** launched a multimillion dollar brand campaign, featuring the net's 1st tagline in more than 5 years: "Everyone needs a little TLC." Look for on-air spots and print buys in *People* and *US Weekly*. "'Everyone needs a little TLC' speaks to our mission of bringing viewers the content and experiences that resonate with their lives, and give them a chance to satisfy their fascination with the unknown and understand the larger world around them," TLC gm *Nancy Daniels* said in the announcement.

<u>Advertising Patent</u>: **FourthWall** was awarded a patent that allows cable ops or other distributors of interactive TV commercials to rapidly and reliably deploy new interactive ad units which eliminates the need for testing each individual interactive spot. FourthWall is a provider of platform technology for **Cisco**, **Motorola**, **Pace** and **tru2way** set-top boxes.

<u>Programming</u>: **Ovation** ordered more eps of documentary music series, "Song by Song." The newest season is set to premiere in Oct with the 1st ep telling the stories behind *Sheryl Crow*'s "Strong Enough," "If It Makes You Happy" and "My Favorite Mistake." Later eps will feature *Blondie* and *Lindsey Stirling*, among others. -- **TV One** will premiere on Aug 30 original movie "Girlfriends' Getaway," directed by former **Tyler Perry Studios** evp, *Roger Bobb*. In the film, 4 old friends take a last-minute trip to Trinidad where they come to terms with turning points in their lives.

<u>People</u>: **NBCU** formed a new research and strategy team that will take a cross-platform approach to providing clients more access to data-focused analysis across the company's portfolio of broadcast and cable channels. *Kate Larkin* was promoted to lead the group as evp, ad sales research and strategy. She reports to *Trish Frohman*, evp, advertising sales strategy and ops. -- *Drew Brown* joined **AMC** from **Warner Horizon Television** as svp, production. -- **Rovi** tapped *Omar Javaid* as svp of the newly created Discovery business group, reporting to *John Burke*, evp/COO. Most recently Javaid was vp and gm of commercial mobility at **Hewlett-Packard**.

<u>Editor's Note</u>: Because of technical difficulties, we are unable to include the Cablefax stock chart in today's issue. Our apologies.

Think about that for a minute...

Indecent Neutrality

Commentary by Steve Effros

Who could forget the infamous "wardrobe malfunction" at the Super Bowl half-time show ten years ago. Justin Timberlake coined the phrase along with Janet Jackson, whose "inadvertent" 4/10th second exposure, later dubbed "nipplegate" led to organized outrage, handwringing and regulatory overkill.

One-half million dollar fines (later rescinded) were meted out after well over a million "complaints" flooded the FCC about the extremely brief exposure of Janet Jackson's right breast, complete with nipple shield. Of course very few folks actually perceived the less-than-a-second exposure on live TV (over 140 Million people worldwide were tuned in) precisely because it was so brief. But, as they say, things went "viral." It was one of the first major video incidents of the modern video age, and The Guinness Book of World Records listed it as the "Most Searched News Item" and the "Most Searched in Internet History" in its 2007 edition.

Some credit the incident for "making" YouTube and DVRs since a whole lot of folks who missed it live made sure to catch the replay... over, and over again! But what's of interest here is that a clearly organized campaign based on that 4/10th second incident resulted in the FCC getting inundated with emails and letters alleging that the entire nation and, indeed, the entire world of television viewers were outraged by what happened and demanding that the FCC initiate far stricter indecency rules and enforcement. The government, these folks insisted, had to get deeply involved in regulating the content we see or, clearly, Sodom and Gomorrah would be the ultimate outcome, brought about by a television near you.

Naturally, those who are rightly concerned about the government getting involved in censorship and regulatory overkill decried the notion that simply because a rare incident was used as a trigger to organize well over a million petitions to the FCC, that should be sufficient justification for government action. They noted that even though there were close to a million and a half filings, that really was a very small percentage of the affected universe of viewers. They also noted that the entire campaign to file complaints with the FCC was clearly organized and facilitated by those who had their own agenda for getting the government to act. In other words, it was a lobbying campaign and it shouldn't unduly influence the FCC, which should be very reticent to get the government excessively involved in areas that for the most part were working very well.

Flash-cut to today. The same folks who argued that the government should stay out of regulating in areas that in the main are working just fine without government intrusion are now demanding that the government institute some of the most comprehensive regulatory structures to enforce "net neutrality," a term that has yet to even be defined! Those same folks have organized "write-in" campaigns, just like the "decency in media" folks did ten years ago. But now "going viral" is a whole lot easier, and filing comments is too! So once again the FCC is getting inundated. The objective, it would appear, is to at least reach the same number of filings that the "nip-slip" did. But from my point of view the logic of the FCC taking those "numbers" seriously is just as flawed now as it was then.

The Commission's rulemaking on net neutrality has to establish real, demonstrable, major "market failure" before the FCC has any true rationale to extend its mandate. I don't think there is one, regardless of the manufactured noise for indecent neutrality.

Steve

T:202-630-2099
steve@effros.com

(Steve Effros was President of CATA for 23 years and is now an advisor and consultant to the cable industry)