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More M&A: Arris to Gobble Up Rival Pace for $2.1bln

Consolidation isn't just for distributors. **Arris** is plunking down $2.1bln in cash and stock for **Pace**, giving it a foothold in the satellite space as well as an increased international presence. "We've been looking at ways to grow the company forever. We finished 2 years ago the acquisition of **Motorola Home**. It's time to move on" to something else, Arris chmn/CEO *Bob Stanzione* said in a call with analysts Wed following the after-the-bell announcement. "The timing is perfect. The capital markets are in a very giving state now." While Arris will gain satellite customers such as **DirecTV**, Pace and Arris have overlap in the US cable operator space—notably with **Comcast**, which uses both vendors for its X1 gateways. Stanzione compared it to Arris' 2013 $2.3bln acquisition of Motorola Home, saying that the combined product lines and roadmaps helped accelerate innovation of new products. On the international front, more than 40% of Pace's business is outside the US compared to under 30% for Arris. When it comes to satellite, Arris has no business in the US right now and a small amount internationally. It's an area it has been trying to target strategically for the past 2-3 years, Stanzione said. The deal, which has a $20mln break-up fee attached, also gives Arris **Aurora Networks,** which Pace bought in 2013 for $310mln as a way to enter the access network space. This is a complex transaction that will include regulatory approval in multiple countries, yet Stanzione was clear that Arris "isn't closing the door" on other potential transactions. Just last week, Arris and **Charter** announced their acquisition of **ActiveVideo** for $135mln through a jv. The Pace transaction, which is expected to close in late 2015, will result in New Arris. It will be incorporated in the UK, but the operational and worldwide headquarters will remain in Suwanee, GA. Stanzione will be New Arris chmn/CEO, and the current Arris board of directors will be the new company's board of directors. It's expected to be listed on the NASDAQ as "ARRS." The combined company is estimated to have $8bln in pro forma revenues, with 8500 global employees. Pace shareholders will receive approximately 48.2mln shares of New Arris in aggregate. On a pro forma basis, current Arris shareholders will hold about 76% of New ARRIS and Pace shareholders will hold about 24% of New Arris.

AT&T 1Q: **AT&T** added 440K U-verse broadband subs for a total of 12.6mln in 1Q. Overall, total wireline broadband subs increased by 69K in the quarter. Total U-verse broadband subs now represent nearly 80% of all wire-

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line broadband subs. U-verse video added 50K subs. More than 97% of the telco's video customers subscribe to bundled services. ARPU for U-verse triple-play customers continues to be more than $170. At the end of the quarter, U-verse TV penetration was about 22% and U-verse broadband penetration was about 21%. Meanwhile, revenue from residential customers totaled $5.7bln. U-verse, which includes broadband, TV and VoIP, now represents 69% of wireline consumer revenues, up from 59% in the year-earlier quarter. Revenue was flat from a year ago, at $32.6bln. Net income was $3.2bln versus $3.7bln a year ago.

Public Knowledge: To support the **FCC** as it faces several lawsuits from ISPs and trade groups representing ISPs over its Title II net neutrality order, **Public Knowledge** filed to intervene at the **DC Circuit**. "Now that carriers have decided to litigate instead of moving forward, Public Knowledge is intervening to defend the rules in court. We are particularly pleased to answer **USTA**'s challenge in the D.C. Circuit, given that the FCC scrupulously followed the court's 'roadmap' to real net neutrality through Title II reclassification," said *Jodie Griffin*, senior staff attorney at the nonprofit in a statement.

Cohen Defends Internet Essentials: **Comcast** evp *David Cohen* fired back at critics of the company's Internet Essentials program and its relation to the company's pending TWC merger in a blog post Wed. Among the critics is broadband expert/visiting professor at **Harvard** Law School *Susan Crawford.* In a recent blog post, she called the initiative a "customer acquisition program masquerading as a philanthropic gesture," saying the program does nothing to close the digital divide for other underserved groups. Cohen argued that the program has connected more than 1.8mln low-income families, with the 6-month period from Sept 14 through Feb posting the best numbers in program history, with nearly 90K new enrollments. Responding to claims regarding a low adoption rate, Cohen noted the program has accounted for approximately 1/4 of all of the national broadband adoption growth for low-income families with children from the program's launch through June 2014. "And while it may be easy for critics to do this from the sidelines, we would rather try, in the spirit of President Kennedy, to light a candle than to curse the darkness. The reality is that Internet Essentials has been one of the most successful, if not the most successful, private sector initiatives to close the digital divide ever," Cohen wrote. Crawford complained that the sign-up progress is long and complicated. Comcast has repeatedly implemented enhancements to improve the process, Cohen said in his rebuttal.

Watch that URL: Be careful if you go seeking **NCTA**'s INTX on the Internet. The website is intx15.ncta.com, not intx.com. The latter site will take you to a parody page that at first may seem like it's part of NCTA's messaging. At the top it says, "Going to the Internet & Television Expo in Chicago, May 5-7?". It's what comes after that's the problem: "Let's make the Internet more like cable television… If you care about the cable and telecommunications industries, imagine how much more profitable they will be if freed from the shackles of net neutrality." It goes on to poke fun at cable and its net neutrality stance, with a tiny disclaimer at the bottom identifying the site as a "parody that imagines what those in cable and telecommunications industries may be thinking, given the way they campaign against net neutrality while sometimes saying they are for it." NCTA isn't sure exactly when the current language on intx.com launched. The trade assn had previously contacted the domain owner about purchasing intx.com, but could not come to terms on the price. The site seems to have been a holding spot for more than a decade. A cached version of the site from 2001 says: "I'm a domainer. Personally I have strong affection for good domain names, but am not one of those 'domain squatters.' If my domains that are not being used right now and that can be very useful and sometimes, quite necessary to other people's business, then I would be glad to see my domain names used in the right place."

MLB Ratings: **MLB Network** had its most-watched 2-week regular season period during the first 2 weeks of the 2015 season. It's partially boosted by the net's most-watched Opening Day on April 6, most-watched regular season total day on April 10 and the most watched regular season week ever from April 13-19. The week saw an average total day audience of 149K viewers, driven by an average audience of 359K for the April 19 Padres at Cubs game, the final in the 3-game series debut for Cubs rookie Kris Bryant. In addition, the net's new regular season weekday morning show, "MLB Central" is averaging a +17% higher viewership for the first 2 weeks of the regular season vs the same time period in 2014.

Watchathon Viewership: **Comcast**'s annual viewing event Watchathon (April 6-12) saw viewers catching up on more

BUSINESS & FINANCE

than 56mln hours this year, up 13% from last year. And for the 1st time, Xfinity On Demand surpassed 1mln consecutive Xfinity On Demand streams on both Fri and Sat of the event. While live sports was an initial driver of TVE viewing, Xfinity TV subs watched more than 3mln hours of comedies, dramas and reality TV across platforms during Watchathon Week, up 64% YOY. HBO's "Game of Thrones" was the most-viewed show during Watchathon.

Scripps Upfront: **Travel Channel** OKed 7 new series and 1 new pilot. Three of the new series feature exploration of new locations and cultures around the globe, including "50/50," a spontaneous adventure with a twist, "Five Star Secrets," a behind-the-scenes look at the world's best hotels, and "Rev Runs Around the World," featuring Rev Run and his family's journey around the world. Other new series are docu-series "Boy to Man," and "Majestic America" (wt) which features the country's national parks, "Hello Goodbye," which features travelers' stories at airports, and "Relocated," which follows professionals and their families as they move to new places. Also as part of parent **Scripps Nets**' upfront, **DIY** announced its 16 new series with themes such as building, renovation, and restoration. **HGTV's** 2015 slate features 10 new series, including "Log Cabin Living" and "America's Most Desperate Kitchens."

Cablefax Daily Stockwatch

Company	04/22 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
DIRECTV:	87.24	0.22
DISH:	69.84	0.07
ENTRAVISION:	6.73	0.01
GRAY TELEVISION:	13.73	0.05
MEDIA GENERAL:	16.57	0.12
NEXSTAR:	57.99	0.66
SINCLAIR:	31.39	0.30
MSOS		
CABLEVISION:	18.41	(0.21)
CHARTER:	184.88	(1.93)
COMCAST:	58.76	(0.08)
COMCAST SPCL:	58.35	(0.09)
GCI:	16.34	(0.26)
GRAHAM HOLDING:	1068.93	24.92
LIBERTY BROADBAND:	53.64	(0.95)
LIBERTY GLOBAL:	50.77	(0.24)
SHAW COMM:	22.34	(0.02)
SHENTEL:	35.62	(0.21)
SHENTEL:	35.62	(0.21)
TIME WARNER CABLE:	149.64	(2.36)
PROGRAMMING		
21ST CENTURY FOX:	34.04	0.09
AMC NETWORKS:	75.42	(0.12)
CBS:	61.57	0.09
CROWN:	4.05	0.03
DISCOVERY:	33.53	0.05
DISNEY:	107.94	0.26
GRUPO TELEVISA:	35.24	0.29
HSN:	65.20	(0.02)
LIONSGATE:	31.24	0.10
MSG:	82.23	(0.05)
SCRIPPS INT:	69.88	1.13
STARZ:	37.48	(0.36)
TIME WARNER:	84.46	0.42
VIACOM:	70.60	0.14
WWE:	14.19	0.04
TECHNOLOGY		
ADDVANTAGE:	2.42	0.02
AMDOCS:	55.04	0.37
AMPHENOL:	56.81	(1.35)
AOL:	40.77	0.49
APPLE:	128.62	1.71
ARRIS GROUP:	30.54	0.38
AVID TECH:	16.35	0.29
BLNDER TONGUE:	0.80	0.05
BROADCOM:	46.18	2.20
CISCO:	28.62	(0.07)
COMMSCOPE:	26.60	0.02
CONCURRENT:	6.03	0.04
CONVERGYS:	23.04	0.09
CSG SYSTEMS:	29.98	(0.15)
ECHOSTAR:	50.97	(0.25)
GOOGLE:	539.37	5.39
HARMONIC:	7.44	(0.02)
INTEL:	32.70	0.27
INTERACTIVE CORP:	73.09	1.07
JDSU:	13.36	0.01
LEVEL 3:	54.24	(0.04)
MICROSOFT:	42.98	0.35
NETFLIX:	557.68	(2.76)
NIELSEN:	46.10	0.27
RENTRAK:	50.06	(0.09)
SEACHANGE:	7.23	0.25
SONY:	32.35	1.47
SPRINT NEXTEL:	5.08	0.10
TIVO:	11.08	0.03
UNIVERSAL ELEC:	57.71	0.45
VONAGE:	4.91	(0.05)
YAHOO:	43.98	(0.52)
TELCOS		
AT&T:	32.86	0.20
CENTURYLINK:	36.27	(0.03)
TDS:	27.04	0.53
VERIZON:	49.57	0.40
MARKET INDICES		
DOW:	18038.27	88.68
NASDAQ:	5035.17	21.07
S&P 500:	2107.96	10.67

Think about that for a minute...

Pulling the Curtain

Commentary by Steve Effros

OK, trivia time. Do you remember who Oscar Diggs is? Toto pulls back the curtain in L. Frank Baum's "The Wonderful Wizard of Oz" to reveal that the "wizard" is really Oscar who has been hiding behind a facade to avoid taking full responsibility (and the consequences) of what he has been doing in the land of Oz. Oscar was a good guy, and the things he tried to do were all, in the main, good. But there are lots of cases where the ones hiding behind others tend to do so simply to avoid assuming full responsibility for what they have caused. And that's how we get to this week's "pulling of the curtain."

Think of Verizon as Toto. I know that's a real stretch. It's a darn big Toto. But it has to be to publicly do what it did. Verizon "pulled the curtain" on the entire structure of the cable business. Something many people have known for a very long time, and tried to explain, but until this week the message never got through. Until now, we've repeatedly tried to explain that programmers and program costs, not "big bad cable operator greed," were one of the primary factors in the rising rates consumers had to pay for cable. It never got through. It was still the cable operator who got hung from the local light pole, so to speak. It was the cable operator who got blasted by politicians and "consumer groups." It was the operator, the assumption went, who actually controlled all this, including the bloated packages and ever-increasing costs.

Along comes Verizon and announces that it's going to offer its customers more choice. It's going to offer a "base" package and then affinity tiers; kids, pop entertainment, news, and yes, two "sports" packages. The cheering headlines were immediate. A "cable" provider (after all, that's what FiOS is) was going to break down the package so theoretically consumers could just pay for what they wanted. If you didn't want all that expensive sports you could opt out, or in, on a monthly basis.

Not surprising to those of us in the industry, immediately following the headlines that Verizon basked in came the legal notification from ESPN that if that plan went forward it would violate the contract that ESPN requires cable operators to sign (there's very little negotiation here... there is no choice). Verizon says they don't agree, that they are within the contract terms. It takes a very deep-pocketed Toto to pull this curtain back since you can be sure Disney/ABC is not going to just say "oh shucks" and leave it at that! Reportedly both Fox and NBC have now also informed Verizon that they, too, think their contracts have been violated.

So finally we see, right out in public, who is responsible for the bloated packages. And who is trying to keep them that way. We see who thinks they have successfully used their massive leverage. They not only require additional channels to be incorporated into the "basic" tier package, but also demand more and more money for that programming each contract term, and also claim power to essentially stop the cable operator from providing the more discrete services we have long known our customers wanted.

The major programmers are not Oscar Diggs. More like the Incredible Hulk. If Verizon chooses to fight this fight, it will be great for consumers if they win, and great for us either way since now the "curtain" has finally been irrevocably torn away. It's about time.

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)