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What the Industry Reads First

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AT&T-DirectTV: Order to Approve with Conditions Circulated at FCC

It's official. Almost. An order recommending that the \$49bn **AT&T-DirectTV** transaction be approved with conditions has circulated to the **FCC** commissioners, chmn *Tom Wheeler* said in a late Tues pm statement. The proposed order includes several conditions that will "directly benefit consumers by bringing more competition to the broadband marketplace." Specifically, the conditions will enable 12.5mln customers to access fiber-based broadband services, according to Wheeler. That's about 10 times the size of the telco's current fiber-to-the-premise deployment and will triple the number of metro areas it has announced plans to serve. It will also increase the nation's residential fiber build by more than 40%. When it comes to net neutrality practices, the conditions will build on the Open Internet Order already in effect, covering 2 merger-specific issues. A bigger AT&T will be prohibited from excluding affiliated video services and content from data caps on its fixed broadband connections. And for greater transparency, the FCC will require AT&T to submit all completed interconnection agreements, along with regular reports on network performance. "Importantly, we will require an independent officer to help ensure compliance with these and other proposed conditions. These strong measures will protect consumers, expand high-speed broadband availability, and increase competition," Wheeler said. The final approval, likely a 5-0 vote, might come later this week or early next week, **New Street Research** analysts wrote in a research note Tues. AT&T can close the deal as soon as the order is approved by a vote, they said. An approval should be a "modest positive catalyst" for the **Charter-Time Warner Cable** merger and will provide context for where the negotiation over conditions will begin, they said. Speculation about the approval have intensified in the past few weeks, and many believed the telco's commitment to offer a low-cost Internet service—addressing a key concern of Democrat commish *Mignon Clyburn*—has solved the last piece of the puzzle.

Hulu Headed to NCTC?: Member operators at this week's Independent Show in Boston may soon have another ingredient to try as they search for the perfect recipe to keep customers. According to **Hulu** distribution & strategic partnerships dir *James Galley*, **NCTC** is "close" to signing a master agreement that would

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let member companies integrate Hulu into their offerings with a revenue sharing model. Galley suggested Hulu could be ready in the coming weeks. The Hulu deal would put NCTC members in the company of other providers, including **Cablevision**, **Suddenlink**, **WOW!** and **Midcontinent**. Some NCTC members, including **Atlantic Broadband**, already have deals in place with both Hulu and **Netflix**. But for smaller operators, the co-op deal helps them establish their first integrated OTT offering. Atlantic Broadband pres/CRO *David Isenberg* said the MSO made the decision about 18 months ago to help customers find whatever they want quickly and easily. Rather than hurt video, the move has helped Atlantic “reduce video downgrade rates and increase the number of Internet-only customers adding video services,” he said. What’s more, Atlantic hasn’t seen a significant change in VOD usage since enabling OTT access through its platform, he said. “The empirical data we’ve seen suggests and shows it’s additive,” Isenberg said. Making easy access to OTT part of the video subscription is key, according to **CTAM** pres/CEO *John Lansing*. “Let’s make the home box the centerpiece for in-home entertainment,” he said. “We have to position the video product back to millennials in a way they come to the table expecting it.” That mindset is what has music streaming service **Pandora** striking deals with Verizon, **Comcast** and other MVPDs. “We increasingly see the living room TV and set-top box that power it more than ever the entertainment hub for the home,” said Pandora business dev dir *Allison White*. “We’re seeing listening upward of 3 hours a day. We see our service thriving in the video-centric world.” Hulu’s Galley was quick to note that 4 out of 5 Hulu subscribers also take pay TV. The flip side is 4 out of 5 pay TV subs do not subscribe to Hulu. “We want to pay a bounty” for those customers, he said, in reference to Hulu’s MVPD revenue sharing arrangement. Atlantic Broadband still has “a number” of OTT services with which it wants to partner, according to Isenberg. **Sony** Vue and similar virtual MVPDs aren’t of much interest, but he said “we’d be very open to something like [**DISH**’s] **Sling TV** on the platform.” Before the session ended, the panelists gave their thoughts on what **Apple** TV may or may not offer by year-end. Lansing said that it could bring one of the missing pieces to the party—a really smart recommendation engine. The overall feeling was that Apple could improve the customer experience for everyone. “A rising tide lifts all boats,” White said.

Moffett in Boston: A day before he’s scheduled to testify before the House Communications subcmte, analyst *Craig Moffett* hit The Independent Show in Boston. What’s he plan to tell Congress? “Economics actually matter,” he said during Tues’ presentation. “Some of this stuff people will try to be cast as a morality play. But if the economics of video keep getting worse and worse... 100% of the burden [falls on broadband pricing]. That means broadband prices have to rise, and broadband buildout suffers.” That sentiment was captured earlier this year in an **ACA** study that showed small carriers risk not being able to invest in broadband because of increasing programming costs. Moffett’s presentation hammered home the points he has made in research notes—primarily that cord-cutting is growing and regulatory uncertainty is threatening usage-based pricing. While cord-cutting got everyone’s attention in 1Q, he said “arguably, the real acceleration started in 4Q because of the growth in net adds of household formation [that didn’t result in new customers].” He predicts further acceleration of cord-cutting in 2Q, calling **Verizon**’s 2Q results “terrible.” Other Moffett-isms to chew on: Everything the **FCC** has done in recent years to curtail programing costs has favored OTT video providers. He also suggested that Verizon’s multicast service OnCue aimed at millennials may be more disruptive than **Sling TV**, **Sony** Vue and possibly even **Apple** TV.

Verizon 2Q: The good news is **Verizon**’s Custom TV service, which makes **ESPN** available in a \$10/month add-on Sports package, saw strong demand since it launched in April. CFO *Fran Shammo* said the service “continues to exceed expectations” with 1/3 of the 26K net new FiOS subs in 2Q opting for it. However, initial Custom TV customers subscribed to fewer channels than Verizon expected. “It will put pressure on the top line, but will improve our profitability from a programming standpoint... Our customers are only paying for they want to view, and we’re only paying our content providers for what our customers want to view,” Shammo said during the company’s 2Q earnings call. The exec noted that initial Custom TV signups are more than Verizon expected though ads about Custom TV were blocked out from many content providers. **ESPN**

is suing the telco over the service at the New York Supreme Court, claiming the bundle is a violation of their contracts. Without commenting on the lawsuit, Shammo said Verizon is within its “contractual rights” to offer Custom TV. Despite the lawsuit, **Disney/ESPN** continue to be “great partners,” Shammo said, noting ESPN’s participation in Verizon’s coming mobile OTT video services, which is expected to launch in late summer. Shammo reiterated the service will use LTE multicast technology. The telco already lined up video content from partners including **NFL, AOL** and **Vice**. “We have a very good lineup: news clips, sports and events,” Shammo said. The not-so-good news? The telco added 26K net new FiOS subs in the period, down from 100K in the year-ago quarter. That pushes the total number of FiOS video subs to 5.76mln. Verizon blamed the slow growth on competition in key markets. In the wake of their cancelled merger, both **Comcast** and **Time Warner Cable** came back into the market pretty competitively, Shammo said. The telco also signed up 72K FiOS Internet customers vs 139K a year ago. It has a total of 6.82mln FiOS Internet subs by the end of 2Q, with a 41.1% penetration, up from 40.1% a year ago. At the end of Q2, 64% of FiOS Internet subs took FiOS Quantum, which offers speeds up to 500 Mbps. The 75-Mbps speed tier saw the highest rate of growth, with 23% of FiOS customers subscribe. The telco launched a 100 Mbps tier this week in NYC, Long Island, and Northern NJ. Overall FiOS revenues grew 10% YOY, to \$3.43bln. Net income was \$4.23bln, up from last year’s \$4.21bln.

Retrans Pact: **DISH** reached a multi-year retrans agreement with **Dispatch Broadcast Group** for carriage of **WTHR-TV (NBC)** in Indianapolis, ID, and **WBNS-TV (CBS)** in Columbus, OH. The states went dark on DISH last month after the 2 failed to negotiate a new contract following the expiration of their previous agreement.

Joint Sales Agreement: House legislation introduced Tues could restrain the **FCC**’s decision on joint sales agreements (JSAs). The bill, introduced by *John Shimkus* (R-IL), seeks to grandfather any JSAs reached before the FCC decision, which makes JSAs attributable as ownership interests. *Renee Ellmers* (R-NC), *Billy Long* (R-MO), *Dutch Ruppersberger* (D-MD), *Kurt Schrader* (D-OR), *Paul Tonko* (D-NY) and *Greg Walden* (R-OR) are original cosponsors. “The FCC says their controversial rule is intended to prevent media monopolies, but the commission has failed to complete a required review of media ownership rules in more than six years,” Shimkus said in a statement. **NAB**, of course, was pleased. “This bipartisan legislation will allow local broadcasters to remain competitive and continue to provide enhanced local news, weather and community interest programming, especially in small and midsize markets,” said the group’s pres/CEO *Gordon Smith*.

FCC Oversight: **FCC** chmn *Tom Wheeler* and Republican commish *Ajit Pai* are scheduled to testify at the House Communications subcmte FCC oversight hearing on July 28.

Carriage Deal: **AT&T** reached a carriage agreement with **Revolt**, which will make the music net available to AT&T U-verse subs later this month. Meanwhile, the telco continues to negotiate a new contract with **Starz**.

Turner’s New Creative Team: **Turner** and **TBS**’ new development and production team includes *Joey Chavez* as svp of original programming for **TNT**, *Thom Hinkle* as svp of original programming for **TBS**, *Robin Pelleck* as vp of digital content for **TNT** & **TBS** original programming, and *Meredith Zamsky* as vp of production for **TNT**. The move is the latest executive change under **TBS/TNT** new pres and chief creative officer of **Turner Entertainment** *Kevin Reilly*. He announced in Feb that he’s splitting **TBS** and **TNT**’s original programming team into 2 separate units.

Turner/Vubiquity Deal: **Vubiquity** scored a long-term partnership with **Turner** to capture and process the net’s C3 and D4 VOD content and distribute it to the on-demand market. The companies co-developed a system that automates, tags and identifies content for C3 capture in high resolution. Starting Sept, Vubiquity will acquire live broadcast feeds directly from Turner capturing C3 shows based on the linear schedule. Through live-to-VOD processing, Vubiquity aims to offer expanded services such as Catchup TV, where all shows are recorded for 1 or more channels.

NFL Upgrades Game Pass: **NFL** gave its Game Pass service a facelift, offering apps for more devices including Apple TV, Xbox One and Xbox 360, according to information on the NFL website. It’s the 1st time that the NFL has provided access to full games on **Apple TV**. Currently, the NFL Now channel on Apple TV features news, historic videos and game highlights.

Larry Satkowiak Retiring: **Cable Center** pres/CEO *Larry Satkowiak* will retire at year’s end, after working at the organization for 12 years, the company announced Tues. Satkowiak took over the pres and CEO role

BUSINESS & FINANCE

from Bill Bresnan in 2005. The Cable Center will conduct a search for a new CEO, but the time frame is unknown at this time.

Cisco/Midcontinent: Midcontinent has deployed Cisco's next-generation converged cable access platform (CCAP) across its entire footprint. The move is expected to increase network capacity with DOCSIS 3.1 broadband. Midcontinent has started its gigabit broadband initiative. It plans to make gigabit speeds available to 600K homes and 55K business by 2017.

Programming: HGTV and DIY added 5 new series to their rosters featuring home renovation and house flipping. The 3 HGTV shows are "Five Day Flip," "Vintage Flip," and "Nashville Flipped." The DIY new series are "Amish Dream Homes" and "American Rehab: Utah."-- **FYI** booked the new primetime, hybrid talk series "Kocktails with Khloe" from **Pilgrim Studios**. *Khloe Kardashian* will host and executive produce the studio-based 8 1-hour ep series, slated to debut in late 2015.

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Company	07/21 Close	1-Day Ch	Company	07/21 Close	1-Day Ch
BROADCASTERS/DBS/MMDS			COMMSCOPE:26.29.....0.09		
DIRECTV:.....	92.54.....	(0.62)	CONCURRENT:.....	6.38.....	0.04
DISH:.....	65.74.....	(0.65)	CONVERGYS:.....	25.32.....	(0.28)
ENTRAVISION:.....	7.97.....	0.05	CSG SYSTEMS:.....	31.19.....	(0.23)
GRAY TELEVISION:.....	17.60.....	(0.25)	ECHOSTAR:.....	47.09.....	(0.46)
MEDIA GENERAL:.....	16.67.....	(0.14)	GOOGLE:.....	662.30.....	(0.72)
NEXSTAR:.....	58.51.....	(0.24)	HARMONIC:.....	6.71.....	(0.01)
SINCLAIR:.....	28.96.....	(0.5)	INTEL:.....	28.72.....	(0.38)
TEGNA:.....	30.05.....	(2.14)	INTERACTIVE CORP:.....	83.17.....	(0.92)
MSOS			JDSU:.....	11.30.....	0.33
CABLE ONE:.....	399.99.....	6.43	LEVEL 3:.....	53.10.....	(1.06)
CABLEVISION:.....	26.73.....	0.17	MICROSOFT:.....	47.28.....	0.36
CHARTER:.....	185.27.....	(2.24)	NETFLIX:.....	112.51.....	1.96
COMCAST:.....	64.27.....	(0.05)	NIELSEN:.....	45.33.....	(0.3)
COMCAST SPCL:.....	63.95.....	(0.02)	RENTRAK:.....	69.42.....	(0.67)
GCI:.....	18.02.....	(0.05)	SEACHANGE:.....	7.46.....	UNCH
LIBERTY BROADBAND:.....	54.54.....	(0.41)	SONY:.....	28.45.....	0.34
LIBERTY GLOBAL:.....	53.01.....	0.43	SPRINT NEXTEL:.....	3.77.....	(0.04)
SHAW COMM:.....	20.97.....	0.02	TIVO:.....	10.10.....	(0.08)
SHENTEL:.....	33.62.....	(0.86)	UNIVERSAL ELEC:.....	50.18.....	0.23
SHENTEL:.....	33.62.....	(0.86)	VONAGE:.....	5.14.....	0.13
TIME WARNER CABLE:.....	188.53.....	(2.35)	YAHOO:.....	39.73.....	0.19
PROGRAMMING			TELCOS		
21ST CENTURY FOX:.....	33.51.....	(0.33)	AT&T:.....	34.57.....	(0.33)
AMC NETWORKS:.....	83.76.....	(1.88)	CENTURYLINK:.....	29.72.....	(0.78)
CBS:.....	54.10.....	0.01	TDS:.....	28.40.....	(0.3)
CROWN:.....	4.62.....	(0.12)	VERIZON:.....	46.97.....	(1.13)
DISCOVERY:.....	31.82.....	(0.82)	MARKET INDICES		
DISNEY:.....	119.31.....	(0.27)	DOW:.....	17919.29.....	(181.12)
GRUPO TELEVISA:.....	35.47.....	(0.02)	NASDAQ:.....	5208.12.....	(10.74)
HSN:.....	72.06.....	(0.48)	S&P 500:.....	2119.21.....	(9.07)
LIONSGATE:.....	37.29.....	(0.6)			
MSG:.....	81.36.....	(0.93)			
SCRIPPS INT:.....	63.33.....	(0.96)			
STARZ:.....	45.30.....	(0.87)			
TIME WARNER:.....	88.75.....	(0.62)			
VIACOM:.....	59.98.....	(0.33)			
WWE:.....	17.23.....	0.34			
TECHNOLOGY					
ADVANTAGE:.....	2.30.....	0.05			
AMDOCS:.....	56.35.....	(0.35)			
AMPHENOL:.....	54.09.....	(0.26)			
APPLE:.....	130.75.....	(1.32)			
ARRIS GROUP:.....	30.32.....	0.07			
AVID TECH:.....	13.01.....	(0.15)			
BLNDER TONGUE:.....	0.85.....	(0.07)			
BROADCOM:.....	52.79.....	(0.43)			
CISCO:.....	27.84.....	(0.19)			

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