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HBO is cutting the cord, threatening the traditional cable-TV bundle of channels by offering its popular service directly to viewers over the Internet. Time Warner Inc. on Wednesday said HBO would launch the stand-alone, online streaming version of its service next year. It will primarily target the 10 million people in the U.S. who have an Internet connection but no pay-television service, said Richard Plepler, chairman and chief executive of HBO, during a Time Warner investor presentation in New York. "That is a large and growing opportunity that should no longer be left untapped," Mr. Plepler said. "It is time to remove all barriers to those who want HBO."

Consumers have been pushing for HBO to free itself from having its premium service packaged with large bundles of channels, many of which are never watched by subscribers. "This is a seismic event in the future of television," said Jeff Cole, director of the Center for the Digital Future at the University of Southern California's Annenberg School. "Cable is shrinking and broadband is expanding," said Mr. Cole. "This had to happen."

Several pay-TV distribution executives shrugged at the news. So long as the HBO streaming service doesn't undercut the cost of the HBO pay-TV channel offered with cable bundles, operators say they will be fine. Cable and phone companies will be particularly insulated, since they also sell Internet service that would be vital for any HBO streaming customer to have. "I don't view it as overly disruptive," says Tom Larsen, group vice president of legal and public affairs at Mediacom Communications Corp., a small cable operator with nearly 1 million subscribers. "Maybe it leads to a few customers saying, 'The only thing I ever watched on TV was HBO and I don't need my cable subscription at all anymore.' At the same time, they're going to say, 'Gosh, I need a really fast Internet connection.' I think we come out a winner because of it."

HBO has already been offering a broadband-only version of its service in some regions overseas, including Norway. It has been reluctant to pursue that strategy in the U.S., partly out of fear of alienating the traditional distributors that provide the bulk of its almost $5 billion in revenue. But as new platforms such as Netflix, Amazon and Hulu emerge as destinations for consumers tired of rising pay-TV bills, it seemed to be only a matter of time until HBO would follow suit. Mr. Plepler said the strategy will have the potential to produce hundreds of millions of dollars in additional revenue.

Last year, Netflix surpassed HBO in subscribers in the U.S. although HBO is far more profitable. In 2013, HBO generated $1.8 billion in operating profit to Netflix's $228 million. Still, falling behind Netflix, which now has more than 36 million customers in the U.S., was seen as a tipping point in the battle between traditional and new media. HBO had 30.4 million subscribers at the end of the second quarter, according to SNL

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Kagan. Showtime, a rival channel to HBO, said it too is considering launching a so-called over-the-top version of its channel. Showtime is a unit of CBS Corp. Walt Disney Co.'s ESPN also has been aggressively pursuing online programming efforts separate from its current pay-TV offerings. As part of its new deal to carry the National Basketball Association's games, ESPN will stream some games to online subscribers apart from what it offers pay-TV subscribers on its flagship channel. "HBO and ESPN are two important pillars and to the extent that they change consumer behavior, others will follow," said media analyst Tony Wible of Janney Montgomery Scott. "I think there is going to be great pressure on the networks to go over-the-top," he added, referring to channels that stream online.

HBO revealed few details for its service but it is essentially an expansion of its HBO Go streaming video platform, which allows subscribers to view current and older shows on devices other than the television, both inside and outside the home. The average monthly cost for an HBO subscription is about $15, and the fee for the new service isn't expected to be any cheaper than that, according to a person familiar with the matter. Pay-TV executives said HBO isn't a high-margin product for them, and the number of customers opting to take the service has leveled off. HBO has been more important as a retention tool in recent years than as a means to acquire new subscribers, they say.

Operators across the board pointed out that HBO will have to invest significantly in marketing, customer service and billing—all functions that they have always provided for the channel. HBO said it would consider partnering with broadband providers or with new distributors, or go directly to consumers. Speaking to investors, Mr. Plepler hinted that it would likely work with its existing distribution partners and that there won't be concerns that HBO Go will cannibalize existing businesses. "It's their broadband," he said. "They are going to make money with us."

The direct-to-consumer HBO plan was the most significant news out of Time Warner's investor day presentation, which was aimed at easing concerns about the company's future in the wake of the decision to reject an $85-a-share takeover offer from 21st Century Fox this past summer. Time Warner Chief Executive Jeff Bewkes promised investors that the company would "more than double our earnings over the next several years" by investing in content and new distribution outlets—such as international and digital—while cutting costs. At the Turner Broadcasting unit, which generates more than half of Time Warner's operating profit, CEO John Martin pledged to double spending on original programming to $1 billion annually by 2018 at top channels TBS and TNT, which he admitted had been facing ratings "headwinds" in recent years. The Warner Bros. division announced it will cut $200 million of annual overhead and laid out plans for two DC superhero movies a year starting in 2016. – ***Wall Street Journal***; also see ***New York Times***

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Netflix Inc. said its recent price increases contributed to a disappointing number of new users in the third quarter, a harbinger of slowing U.S. growth even as the online video-streaming company prepares to face a new challenge from rival HBO. Shares of the Los Gatos, Calif., company fell 26.4% to $330.00 in recent after-hours trading. Through Wednesday's close, the stock had risen about 22% in 2014.

The streaming TV and DVD-by-mail provider added 980,000 U.S. streaming customers, compared with 1.3 million in the year-ago quarter—missing its forecast that it would add 1.33 million customers. The company forecast that slower domestic growth will continue in the fourth quarter, projecting 1.85 million new customers, compared with the 2.33 million it added in the fourth quarter of last year. "The Netflix myth is they're going to get to 120 million subscribers," said Michael Pachter, an analyst at Wedbush Securities who has long been bearish on the stock. But "if growth is slowing, it looks like it will take them a lot longer to get there."

Netflix reported a profit of $59 million, or 96 cents a share, up from $32 million, or 52 cents

a share, a year earlier. However, Netflix forecast that earnings would drop nearly 44% next quarter, compared with last year's fourth quarter, as losses in its international segment widen due to its aggressive European expansion. In a letter to shareholders, Netflix said "there is no change to our view on the long term attractiveness and U.S. market size of Internet television" of 60 to 90 million households. Netflix Chief Executive Reed Hastings said in an interview that "we're very excited about the growth" of the company, which he said continues to eclipse that of other subscription services such as cable TV.

Netflix cited its higher prices as well as the variables of its internal forecast for the disappointing subscriber numbers. Earlier this year, Netflix implemented a price increase of about $1 more a month—to $8.99—for new customers, its first since 2011. Netflix said the impact of the higher prices "appeared to be offset for about two months by the large positive reception to season two of [its series] 'Orange is the New Black.'" Netflix said it remains happy with the price increase and revenue growth. "For the prior three quarters, we under-forecasted membership growth. This quarter we over-forecasted membership growth," Netflix wrote. In a video interview with analysts, Mr. Hastings said "we expect to miss pretty frequently," noting that the company's guidance is merely an internal forecast.

Though Netflix missed its estimates for subscriber growth in its international segment—adding 2.04 million international subscribers, below its forecast of 2.36 million—the streaming service reported narrower-than-expected losses of $31 million. In September, Netflix launched in six additional European countries, including France and Germany, and had cautioned earlier that the expansion could lead to segment losses as steep as $42 million in the quarter. It ended the quarter with 50.65 million paid subscribers globally. Netflix said in the letter that the international markets it launched before this year—places like Canada, the Netherlands and countries in Latin America—are now collectively profitable.

Netflix's signs of slower U.S. growth came as Time Warner Inc.'s HBO announced that it would begin offering a streaming service directly to U.S. consumers, without requiring a cable subscription, starting next year. "This does ramp up the competition," said Janney Capital Markets analyst Tony Wible. But, he added, "I don't think HBO going direct necessarily changes somebody's decision to subscribe to Netflix." Netflix, too, said it expects people to subscribe to both HBO and Netflix, since the two have different shows. It is "likely we both prosper as consumers move to Internet TV."

Netflix has grown to become the biggest stand-alone subscription programming service in the U.S., with 36.3 million paid members. HBO had 30.4 million at the end of the second quarter, according to SNL Kagan. While it has bigger profits than Netflix, HBO has been growing slower in terms of revenue. That is largely because HBO is a mature business while Netflix is still pursuing a costly global expansion. HBO's operating income for the quarter ended in June was $548 million, while Netflix's in the third quarter was $110 million. Mr. Hastings reiterated in the interview that the company plans to "take all of our profits and put them into international expansion" because "we see it as such a big opportunity."

HBO has so far been helped by the fact that cable TV providers handle billing, marketing and customer-service functions for its pay TV channel. But when the channel goes out stand-alone, it may have to shoulder more of that burden. Netflix's costs are growing as it seeks to become a global service. Netflix's streaming content obligations rose nearly 37% to $8.9 billion, driven by new content deals it entered in the quarter as part of its European expansion.

The company announced a series of wave-making deals in the quarter, including a global licensing deal with Warner Bros. for the Fox series "Gotham." The company also said it would back the sequel to Academy Award-winning "Crouching Tiger, Hidden Dragon" in a deal with Weinstein Co., allowing for Netflix to premiere the martial-arts movie on the same day it is released in select IMAX theaters world-wide. Netflix additionally struck a

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| | deal with comedian Adam Sandler to back four new feature films that will be exclusive to Netflix. – ***Wall Street Journal***; also see ***Bloomberg*** |

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