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[CBS Pursuing Stand-Alone Strategy Despite Mulling Tie-Up with Viacom]

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Philadelphia

Donald Trump's stances on immigration, trade and even the musical "Hamilton" have drawn scads of attention. But there's another issue that's flying under the radar, which could affect how the vast majority of us get news, information and our entertainment.

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The issue concerns the rules governing the internet. Last year, the Federal Communications Commission put in place new rules to protect an open internet and to prevent it from becoming something like a latter day pay TV network. Now those rules are in jeopardy, which could give Comcast and AT&T control over what you can access and view online.

The president-elect has spoken out against the commission's Open Internet rules. The Republican Congress has already tried to undermine them. And the men Trump has named to his transition team to oversee the FCC have repeatedly written and argued against the rules. "Expect the Trump-FCC, Congress

Inquirer **Editorial: Pa.'s next attorney general must avoid politics and run office without fear or favor**	and/or Courts to overturn the FCC's Open Internet Order one way or another, because it has nonexistent Republican support," enthused Scott Cleland, president of Precursor, in an email newsletter. Precursor is a consultancy that essentially serves as a mouthpiece for the big telecommunications companies, including AT&T, Comcast and Verizon. But this is where you come in. Because this is not the first time that the internet's open nature has been under threat. And the last time it was in such danger, everyday citizens made a huge difference in safeguarding it. That fact alone offers some hope. Although the debate over the open internet rules is intensely partisan in Washington, D.C., outside the capital, those rules have broad support, said Matt Wood, policy director at Free Press, a consumer advocacy group that pushed for their passage. "It's not really a Republicans versus Democrats thing in much of the country," said Wood. "I'm not trying to minimize the difficulty of the task, but we think we have enough popular support to push back." The FCC's rules represent an attempt to formalize the principle of net neutrality, the idea that network providers should treat all data the same. The rules forbid internet service providers from blocking or slowing access to particular sites or services or speeding up access to other preferred ones. The rules were written out of concern that as more and more types of data were transferred over the internet, broadband providers would have incentives to restrict or control their users' access. Internet-based calling services like Ooma and magicJack represent a direct threat to broadband providers' phone businesses. Netflix and now Sling TV are rivals to Comcast and AT&T's pay TV services. The rules put in place last year were actually the FCC's third stab at trying to guarantee net neutrality. A federal appeals court had struck down the previous two efforts. It was in the wake of that second ruling, which was handed down in January 2014, that things looked most dire for the open internet. But everyday citizens like you and me stepped into the breach, submitting some four million comments to the FCC, the most ever for any issue before the commission. Those comments were overwhelmingly in support of the FCC reinstating the open internet rules — including the ban on fast lanes. To ensure those rules would survive another court challenge, the public also urged the commission to do something its new chairman resisted — place internet providers under a different regulatory scheme, one that would give the commission clear authority to guarantee net neutrality. Thanks to that public support, the FCC changed course and put in place the strong open internet rules people demanded. Thanks to the regulatory change, those rules were upheld by the same appeals court that shot down the previous efforts. Now, the incoming Trump administration looks set to change course. The president-elect hasn't said much himself about net neutrality lately. However, he did decry the strong open internet rules the FCC later put in place in a tweet in late 2014, calling them a "top down power grab" by the Obama administration. And if you believe the Washington truism that "personnel is policy," Trump's recent staff announcements give a pretty good indication of his current thinking about the rules. On Monday, he named Jeff Eisenach and Mark Jamison to head up his transition team in charge of the FCC. Eisenach is a scholar for the American Enterprise Institute, an anti-regulation conservative think tank, who has also, as detailed by the New York Times, quietly and simultaneously served as a paid consultant for Verizon and a cell phone industry trade association. Jamison has served as a visiting fellow at AEI and heads the Public Utilities Research Center at the University of Florida's business school. Both men have written extensively in opposition to the FCC's net neutrality rules and FCC regulations in general. Eisenach, in testimony at a Senate hearing, said that "net neutrality regulation cannot be justified on grounds of enhancing consumer welfare or protecting the public interest." Meanwhile, Jamison has asserted — without any actual proof — that the new open

internet rules are “backfiring,” and has called for giving broadband providers free rein to create fast lanes.

It’s pretty clear from their appointments that the Trump administration’s vision of the internet is one in which broadband providers would be given lots of leeway to control or shape what you can access, view or interact with online. We the people have shown that we have an entirely different vision. It’s time, again, to make sure the folks in Washington know that. – ***San Jose Mercury News***

Subscription video-on-demand (SVOD) leader Netflix is spending billions on its original content strategy, and is currently ripping through its free cash at a clip that has some analysts concerned.

The company has burned more than $1 billion in cash for the first nine months of 2016 alone. To date the streaming giant clocked 87 million video streaming customers in the third quarter, and it is on track to exceed $8 billion in revenue for 2016. But Rishi Kaul, an analyst with Ovum, noted that if one breaks down Netflix’s business at a per-subscriber scale, one can see that its cash burn is getting worse, not better, as it grows in scale.

Free cash flow is defined as operating cash flow minus capex; and in 2011 Netflix generated $0.81 and $0.67 per customer per month of net profit and free cash flow, respectively. By contrast, in the first nine months of 2016, monthly net profit per customer has declined to $0.16, while free cash flow has declined to negative $1.33.

The issue is that Netflix is planning on spending $5 billion on original content in 2016, and that figure is set to increase to $6 billion in 2017. “It is not that its revenue per user has declined – one would expect that as it builds scale,” Kaul said. “It is not even that its profitability has declined over the years to the point where it is barely profitable. The business doesn’t seem to be able to sustain content spend on such a grand scale ... Netflix now borrows just to fund its operations, with the latest debt injection – of $1 billion – coming just in October 2016.”

Accordingly, there is a big gap between the company’s small net profit and large negative free cash flow, which Kaul chalks up to Netflix expensing its streaming content assets (ie capitalised costs it incurs to license or produce content) in an “aggressive” way. To wit, it recognises too small a proportion of these expenses right now, and pushes more of them into the future, thus flattering its current earnings.

“Examples of its aggressive accounting include long streaming content expensing periods,” Kaul said. “Streaming content assets are amortised (ie expensed) over periods of up to five years, which we think is too long a period. By comparison, Netflix expenses DVD rental assets – still visual content, just in different packaging – over one year (new releases) and three years (back catalogue). By stretching amortisation periods, Netflix reduces current expenses by pushing more of the capitalised content costs to the future, as a result flattering current earnings.”

Also, Netflix discloses that most streaming content assets are expensed on a straight-line basis, which means expenses are evenly spread over the amortisation period, which could be up to five years. By comparison, all of Netflix’s DVD rental assets are amortised on an accelerated basis, with higher expenses in the early periods and lower expenses in later periods. “We think accelerated expensing more accurately matches viewing patterns, since new shows are most popular in the initial months after release,” Kaul said. “Again, this policy has the effect of flattering current earnings by pushing more of the costs to the future.”

To fix the issue, Netflix will need to raise prices, reduce its content spending, license some of its original content to third parties, or use a combination. But that could cut into customer growth and threaten its valuation: currently, the company is valued at over $52

billion, about 325 times its annual earnings. By comparison, the overall US stock market is presently valued at approximately 25 times the listed companies' earnings.

So, the question remains as to the company's long-term viability, according to Kaul. "The challenge with these approaches is that they would almost certainly hurt the 20%-plus subscriber growth that its investors have come to expect in order to justify its stratospheric valuation," Kaul said. "So, Netflix has little choice but to continue to squeeze whatever subscriber growth is left out of the 'big bang' global expansion it launched in early 2016, continue to aggressively spend on original content to support this expansion, and hope that investors continue to both fund its cash burn and ignore aggressive content accounting. But for how long?" – ***Rapid TV News***

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