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Philadelphia Inquirer
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Politico
Comcast to square off with DOJ on merger

The simmering struggle over the familiar bundle of cable-television channels broke into open warfare Tuesday as owners of some of the most popular channels accused Verizon Communications Inc. of violating contracts in its bid to offer slimmer, cheaper packages of pay TV.

On Tuesday, NBCUniversal and Fox joined ESPN in saying Verizon's offering violates the agreements under which they supply the company with NFL football, Major League Baseball games and hit shows like Bravo's "Real Housewives" franchise. The dispute creates a cloud of uncertainty over Verizon's new packages, which launched Sunday and start at $55 a month. The plans let subscribers sign up for a smaller package of channels from broadcasters like ABC and Fox and then add packs of specialized programming like sports or children's TV.

Verizon Chief Financial Officer Fran Shammo said in an interview that the company believes it can offer the programs under its existing contracts and isn't going to back down. "We have launched the product, we are not retracting it, and we believe we are in our legal rights to launch it," he said. Verizon is the country's largest wireless carrier. But it also serves 5.7 million pay-TV subscribers, ranking it sixth among the top providers in that industry.

The disputes put it at odds with major programmers at a time when the pay-TV industry and content companies are experimenting with a variety of new approaches as viewers

migrate to the Internet. Those moves are being prompted in part by the growth of online alternatives like Netflix Inc. and Hulu as well as moves by channels like HBO to launch their own streaming services. In a sign of their rising clout, Verizon drops to eighth-largest pay-TV provider from sixth if Netflix and Hulu are included, according to the National Cable and Telecommunications Association, an industry group.

Americans have long sought the ability to ditch hundreds of unwatched channels and pick and choose among those they want. But the industry has moved slowly for fear of upsetting long-lucrative arrangements, and the companies that own the networks have tried to protect their value with detailed contracts specifying how they can be sold. Some programmers counter that a typical family will have many different programming preferences which is why the bundle works, and that by the time one gets all the channels they want from Verizon, the price difference would be negligible from current rates.

Walt Disney Co.'s ESPN objected last week to Verizon's new offering, saying it would separate the sports channel from Verizon's core lineup. While Verizon and other pay-TV distributors have the ability to create low-price offerings without ESPN, whether it can then package ESPN in an offering with other sports channels to be sold separately is a point of contention. In a statement, ESPN said, "Verizon's new contemplated bundles describe packages that would not be authorized by our existing agreements. Among other issues, our contracts clearly provide that neither ESPN nor ESPN2 may be distributed in a separate sports package."

Comcast Corp. unit NBCUniversal, which owns many regional sports networks as well as the entertainment channels Bravo and USA, said Tuesday that the Verizon offering falls outside the terms of its contract with Verizon. Also objecting was 21st Century Fox, a large sports programmer and the parent of entertainment channels FX and FXX. "We reject Verizon's view that it can pursue the new packaging scheme it announced yet still comply with our agreements," a spokesman said. Until mid-2013, 21st Century Fox was part of the same company as News Corp, owner of The Wall Street Journal.
"This is a change" to the old model, Mr. Shammo said, "and people don't like change."

The details of the dispute are lost on many consumers. Dave Schmarder, a 65-year-old retired electronics salesman in Beaver Dams, N.Y., has programmed his cable box to skip over all the channels he doesn't watch. The Time Warner Cable Inc.subscriber said he only watches a few channels, including news and public television. His area doesn't get Verizon's FiOS service, but he said he would be interested in subscribing to a service that offers smaller packages of channels. "I've been paying for ESPN for 30 years and never watch it," he said. "It all adds up. They are forcing everyone to pay for this."

Verizon is playing to those sentiments in its marketing. The effort includes a website that says, "Pay for what you want and not for what you don't" and an ad that uses animation to mock the traditional bundle. The commercial ends with the slogan, "Cable just gives you channels, FiOS gives you choice." FiOS's cheapest plan includes a package of basic programming and two "channel packs" of specialized programming. Each additional package, which can consist of about 10 to 17 channels, will cost $10 a month. Customers will be able to switch to a different channel pack after having one for 30 days. "It is a product consumers want, and it is all about consumer choice," Verizon said Tuesday.

The company has pointed to Nielsen data showing the average number of channels Americans receive has increased 46%, to 189, over the five years ending in 2013, while Americans still watch only about 17. Satellite broadcaster Dish Network Corp.has introduced a streaming service called Sling TV that lets consumers mix and match tiers of channels on top of a $20-a-month core package. Apple Inc.is planning a TV service offering a "skinny" bundle of channels in the fall, people familiar with the situation have said. Meanwhile, operators have been slimming down their offerings to cater to cost-conscious customers. Comcast, for instance, offers a skinny bundle of TV channels with HBO and fast broadband. Separately, Verizon is working on an "over the top" service that will be delivered primarily to mobile devices. – ***Wall Street Journal;*** **more from** ***Los Angeles***

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Nielsen Top 25 Cable Program Ratings for Week Ending April 19

Pittsburgh Post-Gazette
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Gov. Tom Wolf visits with the state's township leaders, but House Speaker Mike Turzai seems to connect

Pittsburgh Tribune-Review
Experts say Pennsylvania Attorney General Kane dug her own hole

Philadelphia Inquirer
Sestak far behind Toomey in campaign funds raised

Times **and** ***Associated Press***

Like its customers, AT&T Inc. 's shareholders know how it feels to be put on hold. Heading into first-quarter results on Wednesday, the share price is essentially unchanged versus three years ago. Earnings per share are seen dropping to 62 cents from 70 cents in the year-ago period. Even going back to June 2007—when the first iPhone launched exclusively with AT&T and attracted millions of new subscribers—it is hard to see much value having been created. The share price has lost 3% a year on average in that nearly eight-year span.

The saving grace has been AT&T's dividend; its stock currently yields 5.7%. But even including those payouts, AT&T's annualized return for shareholders has trailed the total return of the S&P 500 by four percentage points over that period. That performance could come under further pressure as the company spends heavily. AT&T is in the process of significant change this year with the planned addition of DirecTV —although this eventually should boost free-cash flow—and a push into Mexico's wireless market. But it is the U.S. wireless business, responsible for 58% of revenue last year, that will continue to matter most. On the bright side, by this year the bulk of spending for system upgrades and wireless spectrum should be done.

The industry's shift away from phone subsidies also should have taken some pressure off: New wireless contracts come at a lower upfront cost with no visible hit to revenue. Unfortunately, this has coincided with a ruinous price war led by smaller rivals T-Mobile US Inc. and Sprint Corp. That forced AT&T to compete aggressively. Although AT&T's churn, or customer turnover, for its most valuable postpaid customers was at its lowest ever in 2014, profitability suffered. And greater customer price-sensitivity from dropping subsidies may keep weighing on service prices and cash flow.

The strains are showing. Stock buybacks, a significant boost to per-share earnings growth, fell to zero in 2014's fourth quarter. Between 2012 and last year's third quarter, AT&T had spent $27.4 billion on buybacks, reducing its net share count by over 12%. Without that, its per-share earnings would be about 14% lower, all else being equal. Furious customer growth, network upgrades and smartphone adoption were supposed to enrich shareholders by now. As AT&T's ads used to say, maybe it's time to rethink possible. – ***Wall Street Journal***

At the 2013 Allen & Co. conference in Sun Valley, Idaho, executives from Walt Disney Co. , 21st Century Fox and Comcast Corp. met to discuss the future of Hulu, the online video service the media companies co-own that was up for sale. Comcast's role in the company was restricted due to its agreement with the Justice Department. Its stake in Hulu came through its purchase of NBCUniversal, and as part of that deal the cable company had agreed to stay out of Hulu's management and be a silent partner. Yet Comcast's assurances at the Sun Valley meeting played a significant role in how its co-owners evaluated the sale process, people familiar with the other owners' thinking said. Comcast told its partners it would help make Hulu the nationwide streaming video platform for the cable TV industry, which would boost the site's growth and make it a stronger rival to Netflix.

That influenced Disney and Fox's decision to call off the sale when the conference was ending, people familiar with those companies' thinking said. Among the top bidders for Hulu were Comcast rivals DirecTV and AT&T Inc. The episode at Sun Valley raises questions about how involved Comcast was in the owners' decision to take Hulu off the block. And it is a prime example of how the conditions the government laid down for the NBCUniversal merger may have, in practice, played out in messy form in the real world. They are tricky to abide by and just as difficult to enforce.

Those lessons could loom large for Comcast and the Justice Department as both sides sit

down Wednesday for another round of merger conditions talks—this time related to the cable company's proposed $45.2 billion purchase of Time Warner Cable Inc. Broadly, regulators are worried about the clout the deal would give Comcast in the broadband Internet and pay television marketplaces. Comcast, at times, has felt hamstrung by some of the conditions it agreed to in the NBCUniversal transaction, people familiar with the company's thinking say. Hulu's aborted sale process, meanwhile, is among the issues that have captured the interest of the Justice Department in recent weeks, according to people familiar with the matter. To be sure, a sale of Hulu was no certainty during the 2013 auction, regardless of the Sun Valley meeting. Comcast spokeswoman Sena Fitzmaurice said in a statement that "Comcast has no role in making, evaluating or reconsidering any management decisions at Hulu. Pursuant to the NBCUniversal Consent Decree, Comcast is essentially a passive investor in Hulu. All strategic decisions at Hulu are made by the other partners and not by Comcast."

As part of that decree—a government document spelling out merger conditions—the Justice Department ordered Comcast "relinquish any veto right or other right to influence, control, or participate in the governance or management of Hulu" as long as the cable company owns a piece of the service. In that deal, Comcast also agreed not to discriminate against online video distributors or retaliate against other networks, cable programmers or studios for licensing content to Comcast's competitors. There has been confusion in the industry over the conditions—for example, whether Comcast must make NBCUniversal channels available to emerging online TV distributors if rival channels are on board.

It isn't clear whether Comcast will be able to offer concessions that will ease regulators' concerns about the Time Warner Cable deal. If it perceives that the conditions required for approval are too onerous, Comcast is prepared to walk away from the transaction, which has no breakup fee, people familiar with the company's thinking say. NBCU programming is available through Hulu. But Comcast, as the nation's largest cable operator, was in position to help the service sign up more paying subscribers. Comcast told its co-owners it would support Hulu's efforts by marketing the service to its customers and integrating it into Comcast's systems, the people familiar with the discussions said.

In the end, Comcast and Hulu never did consummate such a partnership. Months of discussions were bogged down as Comcast indicated it would want any viewer accessing Hulu to be redirected through Comcast's own video players and platforms—a way to make sure Comcast has a window into customer data and ensure viewers saw its user interface, the people said. Hulu pushed back on that approach. Eventually, Fox and Disney came to the conclusion that Comcast was more focused on rolling out its own video platforms—including its "X1" Internet-connected set top box and Xfinity streaming apps—than supporting Hulu, people familiar with the owners' thinking say. Hulu still doesn't have an app available on Comcast's X1 box. 21st Century Fox and The Wall Street Journal were part of the same company until mid-2013. – ***Wall Street Journal;*** **more from *Philadelphia Inquirer* and *New York Times***

A veteran press secretary familiar with Capitol politics is set to take on the job in Attorney General Kathleen Kane's office. Chuck Ardo, former spokesman for ex-Gov. Ed Rendell and ex-Harrisburg Mayor Linda Thompson, would become Kane's seventh spokesman in two years.

"They'll have to get used to me," Ardo said. "I'm not that easy to manage." Kane's office would not confirm his hiring. Ardo's salary is not known. He plans to sign a six-month contract. Kane's most recent communications director, Aaron Sadler, quit in February. He and other spokespeople who resigned or stepped aside since Kane took office in 2013 are among 14 top aides to leave as her legal problems mount.

Ardo said he has been semi-retired for about three years. "I've been a total failure at growing grass," he said. Ardo had been critical of Kane but said when he met with her

about the job, "I left there thinking I may have jumped the gun in my judgment." – ***Pittsburgh Tribune-Review***