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Pittsburgh Tribune-

In a memo to employees after announcing that Verizon Communications would buy his company for \$4.4 billion, AOL's chief executive offered a rhapsodic hymn on a single subject: mobile.

The future of nearly all media, and consequently the future of nearly all advertising, Tim Armstrong said, is about our phones. "If there is one key to our journey to building the largest digital media platform in the world, it is mobile," he wrote in explaining why AOL, a company known for its news and entertainment sites and its dial-up subscribers, was

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merging with a cellphone carrier. Armstrong ended his memo, which was otherwise puffed with jargon indecipherable to many outside the world of advertising and media, with a clear message that could double as the catchphrase of his entire industry: "Let's mobilize."

His words — and the deal with Verizon that he helped engineer — are just the latest corporate reaction to a staggering shift in the way people across the globe get their news and entertainment. Over the last couple of years, we have collectively decided to reach the Internet by our smartphones more than we ever did by our computers. And like a

horde of aggrieved vultures that has just seen its carrion spirited away to some other part of the savanna, the tech and media business is equally panicked and excited about the vast possibilities for making money from the shift.

At the moment, except for Google and Facebook — which together control more than 55 percent of the \$42.6 billion worldwide mobile ad market, according to eMarketer — few companies have managed to navigate the transition from desktop computers to phones. The shift has shaken up just about everything for everyone. That includes Internet portals such as AOL and Yahoo; carriers such as Verizon and Dallas-based AT&T; and eCommerce ventures such as Amazon.

Some industries — music and newspapers among them — were just figuring out the switch to the Web from physical media such as CDs and print. But the switch from the Web to our phones is happening even faster than the transition away from physical

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media, and in many ways it is more profound. As Benedict Evans, an analyst at the venture capital firm Andreessen Horowitz, is fond of pointing out in a presentation he calls “mobile is eating the world,” the smartphone industry is now shipping nearly three times as many devices as the personal computer industry did at its peak. Smartphones have led to more consumption of media than we had ever thought possible; we spend just about half the time we’re not sleeping glued to some kind of screen.

Phones bring novel technical and user-interface challenges, some of which account for Verizon’s interest in AOL: How do you display an interesting ad on a tiny screen? On an interface fragmented by apps, how do you figure out who users are — and how to serve them with the best ads — as they switch from games to mobile Web browsers to social platforms such as Facebook, Twitter and Snapchat?

The rise of smartphones may also bring about something deeper — what could be an existential question for the advertising industry, the business that funds most of modern media. “The question I came to when I started working on ads is, ‘Are ads even relevant now? Do they even make sense on mobile?’” Andrew Bosworth, who heads Facebook’s advertising engineering division, said in a recent interview.

After all, phones give us perfect information about everything wherever we are, so why would we ever fall for ads, he wondered? “I step off a train in New York City now, I do not want for an ability to find anything. I have information about everything,” Bosworth said. “So if all information is indexable and searchable, then what purpose does an ad serve?” In that world, Bosworth said, advertising is valuable only if it provides direct meaning to customers — if, when you pull out your phone in New York City and check Facebook, the phone knows that you’re looking for food and presents you with an ad for a restaurant that cuts through the clutter of all your potential choices, instead giving you a recommendation that is tailored specifically for you.

In other words, in a world in which we all carry phones and can get accurate information at any time, ads have less leeway to cajole us into doing something we might otherwise not have done. “It’s expensive to get an ad in front of the right person,” Bosworth said. “If someone spends money to get an ad in front of you that’s not right for you, they’re punished for it.” Instead, ads now consult vast databases of personal information, and they rely on sophisticated pricing mechanisms, merely to suggest one option out of many thousands that may appeal to us.

People in the ad-tech industry said Verizon’s immediate goal in buying AOL may be to marry its data about customers to AOL’s capacity to serve ads to increase this sort of relevancy. “I think AOL was a little on their back foot on mobile,” said Ari Paparo, chief executive of an ad technology company called Beeswax. He added that the most successful companies with mobile ads tended to be those that knew a lot about their customers — that explains why Google and Facebook, which have close to perfect insight into what we do online, are such powerhouses.

With Verizon, AOL may be getting a similar trove of data. Through its cellular network and its various broadband offerings, Verizon can help AOL figure out lots of details about a user who lands in an app whose ads are powered by AOL’s ad services. Is the person male or female? How wealthy is she, and what are her broad interests? “When you put these two sides together, it could potentially help them serve you better ads, and serve you ads in different places,” said Eric Franchi, co-founder of Undertone, an ad technology company.

Yet Verizon’s bet on AOL is hardly guaranteed to play out in the way the companies intend. This is both because of the general difficulties associated with any merger and because the industry AOL is going after is in a state of constant flux. Nobody really knows what will work in the larger business of funding media through ads on these new devices we’re carrying around. “If you’re a media company and you see that more than 50 percent of all mobile ads are going to Facebook and Google, you need to really

recheck your assumptions about how you're going to compete," Paparo said. "To that extent, I think this is an effort to be competitive — to have some ability to just compete."
— *Dallas Morning News*

By rights Verizon's purchase of AOL, a mere \$4.4 billion deal, should be a page nine story.

We in the media, though, can't forget the important company AOL was in the 1990s, introducing millions of Americans to the Internet via its dial-up business. We can't forget AOL's role in the epochal merger that popped the Internet bubble and still prompts, unbidden, bitter recriminations from all involved. We mean, of course, the AOL- Time Warner merger whose legacy is still irately contested. Was AOL's wunderkind Steve Case an arrogant jerk who dissed Time Warner as old tech even as he failed to chart a successful transition to let AOL recreate in broadband its dial-up dominance? Or did he perform a rare and admirable service to his shareholders by trading their overvalued stock at the top of the bubble for Time Warner's less sexy but more solid assets?

What this history has to do with the AOL that Verizon bought is not much, yet we can't help anthropomorphizing the lives of corporations. In only one way does an organic legacy suggest itself. It dates further back than even the Time Warner merger, to Mr. Case's fateful but necessary decision to open up AOL's "walled garden" of proprietary content and allow his dial-up users to pass through to the wild, untamed, then-emerging world of the Internet. AOL thus became arguably the first company to experience a dread that today animates the entire telecom sector, including Verizon: the fear of being reduced to a dumb pipe—a supplier of mere commodity plumbing to Internet users while all the money is made by websites and app designers and Netflix and Apple.

Verizon is not buying AOL for its legacy dialup business or its middlebrow content operations. It wants AOL's ad- and video-delivery platform to advance, as the Journal reports, "the telecom giant's growth ambitions in mobile video and advertising." Why on earth does Verizon have such ambitions? Verizon is primarily a supplier of telecommunications services, mostly its No. 1 wireless business, plus its FiOS fixed-line business and a legacy landline business that it has steadily jettisoned.

Verizon is only the fifth biggest pay TV provider, with its FiOS TV package, which like all such TV businesses is increasingly a low-margin or even profitless sweetener for its connectivity business. Verizon has a big enough job spending billions on spectrum and cell towers to meet the insatiable demand of its wireless customers, yet Verizon is rushing toward video content and the advertising business for the same reason AT&T is buying DirecTV's obsolescing satellite TV business, for the same reason that Comcast pursued its foiled merger with Time Warner Cable.

Google's Milo Medin might have been speaking for the whole industry when he recently admitted that customers were uninterested in Google's vaunted "gigabit" fiber unless it came with a traditional TV package, which Google must supply as a loss-leader. Though you hear the opposite from know-nothings in Washington, broadband is a competitive market and becoming more so as fixed and wireless converge. The question raised by Verizon-AOL is whether players count too much on loss-leading video sweeteners to give them a leg up. Are they overestimating video's ability to save them from becoming low-margin dumb pipes?

We admit to doubts, suspecting the real opportunity lies elsewhere, though, ironically, operators handicapped themselves by buying into net neut orthodoxy. Their dumb pipe is actually a smart pipe: They should be getting paid by Google, Netflix, Amazon, Apple, etc. to ensure clean, crisp connections to end-users while economizing on bandwidth. Unfortunately this opportunity will be a hard sell, politically and commercially, as long as operators insist on competing with the new ecosystem of video bundlers. Take Verizon. It bought Intel's nascent online TV business. It talks about

creating a TV broadcast channel over its mobile broadband network. This sounds mighty ambitious given a video marketplace already growing crowded with deep-pocketed players like Apple, Facebook, Google and Netflix, not to mention every cable and satellite operator that might seek to emulate Dish in offering its own bundle over the Web.

But if Verizon's ambitions sound crazy to some of us, they also show how utterly absurd Tom Wheeler, the head of the Federal Communications Commission, has become. Like a man stuck in 2005, he claimed at last week's cable conference that the industry's "challenge is to resist the temptation to use your predominant position in broadband to protect your traditional cable business."

Thanks for the heads-up, but no business needs to be told that it shouldn't throw away a money-making opportunity in order to preserve a money-losing one. Mr. Wheeler has the world upside-down. Broadband operators increasingly cling to TV to fight for broadband customers in an increasingly competitive broadband market. Mr. Wheelers should be welcoming this evolution rather than trying to regulate it as a 1930s monopoly.
– *Wall Street Journal*

The cable company Cablevision is planning to drop out of the bidding process for The Daily News in New York, according to a person familiar with the deal who was not authorized to disclose details of the negotiations and spoke on the condition of anonymity. Final bids for the tabloid are due next week, according to another person familiar with the deal who spoke on the condition of anonymity because the process is not public. The News was put up for sale by its current owner, Mortimer B. Zuckerman, earlier this year.

Bidders include John A. Catsimatidis, the billionaire owner of the Gristedes grocery chain. Reuters, which first reported the news about Cablevision on Tuesday, said that other potential bidders included Jimmy Finkelstein, the owner of the Washington newspaper The Hill. Spokesmen for Cablevision and The News declined to comment on Tuesday. The News is said to lose millions of dollars a year. Its circulation, once in the millions, fell to 427,452 on weekdays and 558,057 on Sundays for the six months ending last September, according to the Alliance for Audited Media. – *New York Times*

AT&T Inc's \$49-billion bid for DirecTV is unlikely to be blocked by U.S. authorities, the Wall Street Journal reported, citing people familiar with the matter. The Justice Department and Federal Communications Commission have nearly finished their reviews, the Wall Street Journal reported. AT&T, the second-largest U.S. wireless provider, in May last year offered to buy DirecTV, the biggest satellite TV provider, to create the largest U.S. pay TV company. Regulators may still decide to impose conditions on the deal, but do not appear to have serious concerns, the Journal reported.

FCC staff might recommend approving the deal with certain conditions that should be acceptable to AT&T, sources told the paper. One of the possible conditions AT&T could agree to involves about how the company deals with streaming video, the Journal added. AT&T and DirecTV were not immediately available for comment.

The deal highlights AT&T's pressing need for fresh avenues of growth beyond the maturing U.S. cellular business, which has become increasingly competitive. DirecTV's shares were up 1.3 percent on Tuesday afternoon, while AT&T's were up marginally after the report. – *Reuters*



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