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San Jose Mercury News
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Sacramento Bee
Editorial: The fight for net neutrality isn't just for consumers. It's a fight for California.

Sunbury Daily Item
Rep. Fred Keller (R-Union) talks state budget plan, agenda

Philadelphia Daily News
A deeper dive into Pennsylvania's latest political poll

Philadelphia Inquirer
Editorial: How can gerrymandering get worse? Lawmakers find a way.

A wave of expected major-media mergers would transform AT&T Inc. and Comcast Corp. into the two most indebted companies in the world, a standing that carries uncharted risks for investors in the firms' bonds. If both deals are finalized—AT&T has bought Time Warner Inc. and Comcast hopes to purchase 21st Century Fox Inc.—the companies will carry a combined $350 billion of bonds and loans, according to data from Dealogic and Moody's Investors Service.

The purchases are meant to provide additional income to help the acquirers to weather turmoil sweeping their industries. But if the mergers falter, the record debt loads will give AT&T and Comcast little margin for error, fund managers and credit ratings analysts say. "It's a very big number," said Mike Collins, a bond fund manager at PGIM Fixed Income, which manages $329 billion of corporate debt investments. "It has fixed-income investors a little nervous and rightfully so."

The debt-fueled buyouts by AT&T and Comcast are extreme examples of a decadelong surge in corporate borrowing that is stoking investor anxieties about what will happen as the economy slows and global interest rates rise. The ratio of debt to corporate earnings, commonly called leverage, has also risen, giving companies less financial cushion to absorb market shocks. Global corporate debt excluding financial institutions now stands at $11 trillion, and the median leverage for such companies rated investment-grade has jumped 30% since the eve of the financial crisis in 2007, according to Moody's research. Most companies issue new loans and bonds to repay debt, and investors are concerned about how companies will refinance their record-breaking debt loads when capital markets experience their next significant downturn.

Officials at AT&T and Comcast say the refinancing risk from their post-deal debt would be minimal because they plan to quickly repay much of the debt with cash generated from the combined businesses. AT&T, for example, is expected to produce $8 billion to $10 billion of free cash flow that could be applied to debt reduction, analysts say. It is also common for telecom companies to carry high debt because they invest heavily in their networks and their customers provide them with reliable revenue.

AT&T's and Comcast's other motives for borrowing are fairly typical. Both companies are grappling with slowing growth and increased competition caused by technological change, and they rely heavily on stock dividends and repurchases to satisfy shareholders. Comcast's offer for Fox at $35 per share puts it in a bidding war with Walt Disney Co., which is bidding $29.54 per share to buy Fox.

Many corporations facing similar headwinds responded by raising debt in recent years, an easy choice given low borrowing rates created by ultraloose central bank policies across the globe. Still, the scale of debt AT&T and Comcast would carry if both purchases succeed is unprecedented, and debt investors are scrambling to analyze the consequences. "We are getting a lot of calls," says Allyn Arden a telecom and cable analyst at S&P Global Ratings. S&P and Moody's cut their ratings on AT&T bonds Friday to a level two notches above the junk-debt category.

The cut, and an anticipated downgrade of Comcast, are expected to lower the average ratings of most investment-grade corporate bond portfolios because AT&T and Comcast are such large components of the benchmark indexes tracked by investment firms. Should AT&T complete its acquisition of Time Warner, it would comprise at least 1.93% of the widely followed Bloomberg Barclays U.S. IG corporate bond index compared with about 1.59% currently. A combination of Comcast and Fox would make up at least 1.38% of the index, up from Comcast's current 1.04% quotient.

If the two companies repay debt used for the acquisitions as planned, they could quickly return to their pre-deal credit ratings. Conversely, if the forecast benefits of the mergers don't materialize or if technological disruptions shrink revenues, ratings firms could make further downgrades. AT&T will have about $181 billion of debt because of the Time Warner purchase but other liabilities, including operating leases and postretirement obligations, amount to about $50 billion, Mr. Arden says. As a result, S&P estimates the company's post-deal leverage at about 3.5 times earnings before interest, taxes, depreciation and amortization, or Ebitda. That is slightly below the 3.75 times leverage that S&P views as typical for comparable telecommunications companies rated triple-B-minus, the lowest investment grade rating.

AT&T calculates its leverage at 2.9 times Ebitda, but doesn't include leases or postretirement obligations in the figure. The telecommunications firm forecasts returning to 2.5 times within four years, a person familiar with the company said. Should additional rating cuts put the company on the edge of junk-debt category, fund managers who are prohibited from holding debt rated below investment grade might start to sell its bonds pre-emptively. "The risk is that everyone wants to get out of the debt at the same time," Mr. Collins said. "That's when it gets ugly." When oil prices plummeted in 2015, for example, the debt of some energy pipeline companies with low investment-grade credit ratings fell 15% in a matter of months.

Gene Tannuzzo, portfolio manager of a $4.3 billion debt fund for Columbia Threadneedle Investments, has halved his exposure to bonds of telecommunications and media companies over the past year because of their rising debt and headwinds facing the industries. He has sold out of Comcast bonds entirely but would consider purchasing debt backing the Fox purchase if it paid a high enough yield, he said. – ***Wall Street Journal***

On the second day of hearings over AT&T Inc.'s bid to buy Time Warner Inc., lead defense lawyer Daniel Petrocelli rebutted a Justice Department attorney who mentioned his long experience litigating corporate competition issues. Unlike his opponent, "who's tried many, many antitrust cases, and I admire him, I've tried a total of zero," Mr. Petrocelli said. "But I've been around the block a couple of times." U.S. District Judge Richard Leon, who would decide the case's outcome, joked he would make a judicial note of it.

The exchange foreshadowed a hallmark of the companies' ultimately successful defense, which relied on simplicity and aggressive cross examination. That strategy helped sow doubts about the Justice Department's allegation, that the combination of AT&T's distribution network and Time Warner's popular channels would lead to higher pay-TV prices. Judge Leon on Tuesday rejected the government's claims, **allowing the companies to close** a roughly $81 billion transaction after nearly two years of waiting.

The judge wrote in a harshly worded 172-page opinion that the plaintiffs had failed to meet their burden of proof. Mr. Petrocelli is a trial attorney better known for representing celebrities. His high-profile corporate assignment came on the heels of another politically fraught matter: He represented President Donald Trump in a **class-action fraud lawsuit** against Trump University that ended up settling, but not before Mr. Trump accused the judge of being biased because of his Latino heritage.

Mr. Petrocelli was backed in the AT&T case by a horde of antitrust experts and other specialists. But he handled most testimony, often attacking the government's witnesses to strip away their credibility. "You don't know without looking at the document, correct?" Mr. Petrocelli once asked University of California, Berkeley Professor Carl Shapiro, the government's chief economic witness, referring to data that figured into his report on leverage in pay-TV negotiations.

Mr. Shapiro looked annoyed and commended Mr. Petrocelli for his "flair" in picking out a detail from a long report. "You've got me on that one," he said. "I didn't get you," Mr. Petrocelli responded. "You got you." Mr. Shapiro didn't reply to a request for comment.

The Justice Department won some evidentiary skirmishes, getting often-embarrassing internal AT&T documents admitted into the record. But AT&T lawyers often spent more time attacking opposing witnesses than they did defending against the documents' content. When Mr. Petrocelli did sweat the details, it was often to demand some piece of corroborating evidence from a government witness, then assailing that expert or executive for not producing it.

Company attorneys also fought to keep public the testimony from rivals of AT&T and its DirecTV satellite unit. Lawyers for cable and satellite providers such as Charter Communications Inc., Comcast Corp. , Cox Communications Inc. and Dish Network bristled at discussing sensitive negotiations in public. But defense lawyers wanted them to be watched, according to a member of Mr. Petrocelli's team, figuring they would be less likely to warn that AT&T could kill their business if their own investors were privy to the testimony.

The gambit worked. Mr. Petrocelli attacked executives from Cox and Dish on the witness stand, and Comcast, itself an owner of NBCUniversal's media assets, didn't give the government much compelling testimony. Judge Leon on Tuesday said their testimony was of "limited probative value." "AT&T did practically everything right, and the Justice Department did everything wrong," said Nicholas Economides, a professor of economics at New York University's Stern School of Business who watched part of the trial. Mr. Economides said he viewed the odds of the case as even when it started, but said those odds changed as the trial wore on. He said the government presented a complicated theory "and its exposition was relatively poor."

Justice Department lawyers often took issue with the way the companies defended their case and accused their lawyers in a post-trial brief of making "a mockery of the judicial system." Makan Delrahim, the department's antitrust chief, said in an interview after a public appearance in New York on Wednesday that he didn't know whether the agency would appeal the decision. "Do I agree with it? No, but if I was faced with the same facts and case and economics would I bring it again? Yes," he said. "I don't think our case or evidence or theories were flawed," Mr. Delrahim said. – ***Wall Street Journal***

Conventional wisdom has it that the wave of media deal making could renew Shari Redstone's zeal for merging CBS and Viacom. A more likely outcome is that CBS is sold to someone else, putting a merciful end to one of the great corporate soap operas of the decade.

Ms. Redstone's National Amusements, the parent company of CBS and Viacom, seems to have given up on the idea of merging the companies **after months of bickering**. In a recent court filing, the company insisted that it no longer supported a deal. The filing goes on to say that Ms. Redstone has never had any intention of blocking another buyer from speaking with CBS. The wave of media deals—AT&T 's legal victory to take over Time Warner and the scrum between Disney and Comcast over Fox's assets—could made another deal happen quickly.

CBS is open to being wooed, according to people familiar with the matter. The recent drama with Viacom wasn't about having a problem with doing a deal—just with doing that deal. The language in the public filing will make it very hard for Ms. Redstone to ignore a suitor now, should one come along. Indeed, a sale may have been Ms. Redstone's ultimate plan all along. Even if she had succeeded in merging CBS and Viacom, the combined company would lack the scale to compete with the big hitters. Their combined market value only comes to around $32 billion—far below Disney, Comcast and Fox.

But given **all of the bad blood between the companies**, she may be wise to sell them separately and take a good price for CBS while she can get one. The risk is Ms. Redstone is left trying to sell Viacom on its own, but that may be offset by a high price for CBS. Viacom shares rose 5.3% this week while CBS shares were up nearly 9.7%. Verizon has reportedly already expressed interest in CBS. Charter may be sniffing around, too. Then there is the question of what the loser in the battle for Fox will do. Whoever doesn't win those assets, be it Disney or Comcast, will be looking for a consolation prize. They could do worse than CBS. With the No. 1 TV network, two streaming platforms, and a large library of content, it isn't going to sit on the market for long. – ***Wall Street Journal***

Susan Wild has won a spot in the "Red-to-Blue" program, qualifying her for extra support from the Democratic Congressional Campaign Committee in her race against Republican Marty Nothstein to represent the Lehigh Valley in Congress. Wild, an attorney, is the second in Pennsylvania to be named to the list this year and among about 50 across the country, according to the DCCC. More names are expected to be added to the list as Democrats seek to flip 23 seats to regain control of the House. Pennsylvania's 7th District is attractive because there is no incumbent running. Considered to be a swing district, the newly drawn district gives Democrats a slight advantage. It includes Lehigh, Northampton and southern Monroe counties.

The last Democrat from the Lehigh Valley to get into the program was John Callahan in 2010 when he unsuccessfully challenged Congressman Charlie Dent, who retired from Congress in May. “Susan has spent more than 30 years working for the betterment of her community and is dedicated to fighting for working families to get a fair shot at a good education, a good paying job, and affordable health care,” DCCC Chairman Ben Ray Luján said in a statement. “Inspired to run for office to make the world a better place for future generations Pennsylvanians, Susan has hit the ground running and built up strong grassroots support that will help her to win in November and bring Lehigh Valley values to Congress”

Earlier this month, Nothstein entered the second phase of GOP’s **“Young Guns” program, which recognizes GOP candidates with the strong organization needed to wage competitive campaigns.** Nothstein is a Lehigh County commissioner and Olympic gold medalist. – ***Allentown Morning Call***