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What the Industry Reads First

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Skinny TV: ESPN Sues Verizon; CBS Joins Bundle

ESPN's lawsuit against Verizon over its Custom TV bundle, which makes ESPN available in a \$10/month add-on Sports package, shouldn't be a surprise. When the bundle was launched last Sun, programmers including Fox and Disney quickly rejected the telco's view that it can pursue a custom TV bundle yet still comply with the programming agreements. The lawsuit, filed Mon in the NY Supreme Court, aims to stop Verizon from "unfairly depriving" it of "the benefits of its bargain," a court filing said. "ESPN is at the forefront of embracing innovative ways to deliver high-quality content and value to consumers on multiple platforms, but that must be done in compliance with our agreements. We simply ask that Verizon abide by the terms of our contracts," ESPN said in a statement. Last week, Verizon's CFO said during its earnings presentation that the telco believes it can offer these packages under existing contracts. "Consumers have spoken loud and clear that they want choice, and the industry should be focused on giving consumers what they want. We are well within our rights under our agreements to offer customers these choices," Verizon said Mon after the news of ESPN's lawsuit. While Fox Networks has also raised concerns about the Custom TV bundles, the programmer has said it will address the issue directly and privately with Verizon. Meanwhile, Verizon scored another programmer for the service as CBS Sports Network joined the bundle's Sports Channel Pack starting May 1. "We are pleased to make CBS Sports Network a part of the new FiOS Custom TV lineup," said Ray Hopkins, pres of television networks distribution, in a statement. "We are confident that our expanding lineup of premier live programming will be a favorite among Verizon's sports fans and that this new option will help continue grow our distribution." Among the backers of the Custom TV bundle, which includes local TV channels, is ACA. "Verizon deserves credit for putting this programming cost issue in the national spotlight by offering a small-sized service that programmers say their contracts do not permit. Responses by the large programmers to the Verizon's Custom TV plan only underscore what everyone already knew—programming contracts prohibit cable operators from giving their customers more of the choice that they want," pres/CEO Matt Polka said in a statement. The core of the dispute is around 3 common guidelines found in affiliate fee contracts: the requirement that major channels like the aforementioned ESPN, TBS and Fox News be on the most widely carried tier; threshold limits for major channels which effectively dictates these channels be on at least 80-90% of packages, and channel positioning requirements that stipulate certain networks must exist next to each

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other on the dial, **MoffettNathanson** analysts wrote in a research note. “The resolution of this legal challenge will be an important precedent as to how distributors can augment their channel bundles given prior contracted affiliate agreements,” they wrote. For Verizon, it’s uncertain what it will gain from battling with its largest content providers, given the telco’s plan to launch its own OTT service later this year, the analysts noted. “Perhaps the battle with Disney et al. is a strategy to gain the political advantage in DC and set the stage for regulatory review over carriage agreements.”

FCC Hearing: House Commerce’s communications subcmte will take another crack at improving the **FCC** process. The panel plans to bring chmn *Tom Wheeler* and GOP commish *Michael O’Rielly* in Thurs for a hearing entitled “FCC Reauthorization: Improving Commission Transparency.” Members will also review 3 GOP draft bills aimed at providing the public better access to decision-making information and final rules at the agency. A draft bill by subcmte vice chmn *Bob Latta* (R-OH) requires the FCC to publish a list of items that are placed on delegated authority. A draft bill offered by *Adam Kinzinger* (R-IL) demands the agency publish the draft of a rulemaking, order, report or any other action when it’s circulated to the commissioners for a vote. A draft bill by *Renne Ellmers* (R-NC) requires the FCC to publish new rules on the same day that they are adopted. The Commission’s decision-making process, especially in its recent net neutrality proceeding, was widely criticized by Republican lawmakers.

NAB Says No Blanket Waiver: **NAB** voiced its objections at the **FCC** to giving small cable operators a blanket waiver from the requirement to carry HD broadcast signals. **ACA, NCTA and WTA – Advocates for Rural Broadband** support the Commission’s tentative conclusion to extend the HD carriage exemption another 3 years to small operators (those with 2500 or fewer subs that are not affiliated with a cable op serving more than 10% of all MVPD subs and those with an activated channel capacity of 552 MHz or less). “No commenter has explained how a blanket exemption permitting small cable systems to downconvert HD signals of local commercial television stations to standard definition digital or analog—particularly if some of those cable systems carry 1 or more nonbroadcast signals in HD—is consistent with” the law, **NAB** told the Commission in reply comments this week. **ACA** has said the waiver is needed to protect subs of small cable systems from the costs and service disruptions that may result from requiring HD signals when the current exemption expires in June.

Daytime Emmys: Food Network scored the lone cable Daytime Emmy win at Sun night’s awards, which were broadcast live on Pop. Food’s “Barefoot Contessa: Back to Basics” won in the outstanding culinary program category. **CBS** had the most wins (7), followed by syndication (5) and **ABC** (4). Pop said nearly 900K viewers tuned in Sun night, with the live premiere its most-watched live event in 8 years.

Programming: HRTV will offer in-depth coverage of Sat’s Kentucky Derby, beginning Tues with on-site coverage from Churchill Downs. A highlight of the week’s coverage is “The Works” (Wed, 6pm ET), a 90-min overview and analysis of the latest workouts for the entire Derby field. -- **History** will debut competition series “Forged in Fire” this summer. Hosted by former Army Ranger and former Air Force para-rescue specialist *Wil Willis*, the series will feature bladesmiths recreating most iconic edged weapons.

OmniFront: Revolt is calling its target audience of young influencers “authenticators,” CEO *Keith Clinkscales* said at its second annual “OmniFront” in NYC Fri. “All of our messaging is unified by one thing... and that is authenticity. That is the lens [through which] we see the world at Revolt.” He’s predicting the net will be in more than 50mln homes by year-end, adding to current distribution with **Comcast, Time Warner Cable** and **FIOS**, as well as distributed on 150mln devices. Revolt is also teaming up with *Snoop Dogg* to bring his **YouTube** show GGN to the linear network and will work with rapper *Wiz Khalifa* on a docu-series following his life called “Day Today.” The net has partnered with **Microsoft** to launch its new app on Xbox One; the platform Capture, which turns media companies’ social media users into creators of real-time event coverage; and virtual reality company **Jaunt**, which brings front-row music experiences to fans through VR content. The network also highlighted its “Code of Content” study, which, through analyzing more than 4,000 surveys of 15-29 year olds, focused on how they’re better content marketers than marketers themselves and how brands can add value across screens. Revolt chmn *Sean Combs* made an appearance and a performance from *Vic Mensa* capped off the evening.

Lustgarten Walk: More than 1500 people turned out Sun for **The Lustgarten Foundation’s** 5th annual NYC Pancreatic Cancer Research Walk. The fundraising event raised nearly \$425K, a new record. The Walk has raised more than \$1.8mln for pancreatic cancer research. The Lustgarten Foundation, supported by **Cablevision**, is named for former Cablevision

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vice chmn *Marc Lustgarten*, who died from pancreatic cancer in '99.

Thinking of Nepal: Time Warner

Cable said that all calls to Nepal by its residential and business customers will be free through May 25. The offer is retroactive to Sat, when a devastating earthquake hit the nation, claiming more than 3K lives. TWC's Home Phone National plan also provides free, unlimited calling to neighboring countries China and India, which also were impacted by the earthquake.

FCC Workshop: The Wireline Bureau and the Consumer & Governmental Affairs Bureaus

are slated to hold a public workshop on Tues to explore the **FCC's** role in protecting the privacy of consumers using broadband services. The agency's Title II net neutrality order took steps to apply core statutory protections to broadband Internet access service, including Section 222 of the Communications Act. Among other protections, the section imposes a duty on every telecom provider to protect the confidentiality of its customers' information and imposes restrictions on carriers' ability to use or permit access to customers' individually identifiable customer proprietary network information (CPNI) without their approval.

People: **NBCU** announced a new ad sales regional office in Atlanta, tapping former **Turner** exec **Keller Withers** as vp, portfolio ad sales. Withers reports to portfolio ad sales svp **Mark Marshall**.

Cablefax Daily Stockwatch

Company	04/27 Close	1-Day Ch	Company	04/27 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	90.17	0.32	COMMSCOPE:	26.58	(0.01)
DISH:	69.68	(0.23)	CONCURRENT:	5.95	(0.09)
ENTRAVISION:	6.75	(0.05)	CONVERGYS:	22.85	(0.29)
GRAY TELEVISION:	13.91	0.15	CSG SYSTEMS:	29.64	(0.18)
MEDIA GENERAL:	16.64	(0.23)	ECHOSTAR:	50.98	(0.49)
NEXSTAR:	59.59	0.76	GOOGLE:	555.37	(9.69)
SINCLAIR:	31.27	(0.13)	HARMONIC:	7.31	(0.14)
MSOS					
CABLEVISION:	20.45	0.30	INTEL:	32.50	0.42
CHARTER:	182.96	(2.79)	INTERACTIVE CORP:	71.35	(0.79)
COMCAST:	58.88	(0.76)	JDSU:	13.27	(0.09)
COMCAST SPCL:	58.57	(0.62)	LEVEL 3:	54.12	(0.55)
GCI:	16.35	(0.49)	MICROSOFT:	48.03	0.16
GRAHAM HOLDING:	1057.00	(11.39)	NETFLIX:	566.08	7.68
LIBERTY BROADBAND:	53.38	0.05	NIELSEN:	45.52	(0.43)
LIBERTY GLOBAL:	52.29	(0.56)	RENTRAK:	47.83	(2.35)
SHAW COMM:	22.91	0.19	SEACHANGE:	6.89	0.01
SHENTEL:	35.37	(0.45)	SONY:	31.19	(0.15)
SHENTEL:	35.37	(0.45)	SPRINT NEXTEL:	5.26	(0.01)
TIME WARNER CABLE:	156.37	1.11	TIVO:	11.29	(0.02)
PROGRAMMING					
21ST CENTURY FOX:	34.51	(0.14)	UNIVERSAL ELEC:	56.21	(0.94)
AMC NETWORKS:	75.76	(0.99)	VONAGE:	4.75	(0.15)
CBS:	61.70	(1.02)	YAHOO:	44.36	(0.16)
CROWN:	3.87	(0.13)	TELCOS		
DISCOVERY:	32.24	(0.47)	AT&T:	34.09	0.08
DISNEY:	110.16	0.63	CENTURYLINK:	36.29	(0.12)
GRUPO TELEVISIA:	36.51	(0.19)	TDS:	26.80	(0.41)
HSN:	64.91	(0.4)	VERIZON:	50.08	0.05
LIONSGATE:	31.85	(0.58)	MARKET INDICES		
MSG:	81.18	(0.55)	DOW:	18037.97	(42.17)
SCRIPPS INT:	69.09	(0.82)	NASDAQ:	5060.25	(31.84)
STARZ:	38.18	0.02	S&P 500:	2108.92	(8.77)
TIME WARNER:	84.76	(0.6)			
VIACOM:	69.94	(1.06)			
WWE:	14.34	(0.14)			
TECHNOLOGY					
ADVANTAGE:	2.42	0.03			
AMDOCS:	55.34	0.04			
AMPHENOL:	56.22	0.05			
AOL:	40.26	(0.53)			
APPLE:	132.65	2.37			
ARRIS GROUP:	34.98	(0.78)			
AVID TECH:	16.11	(0.04)			
BLNDER TONGUE:	0.75	(0.02)			
BROADCOM:	44.51	0.04			
CISCO:	28.89	0.07			

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SPECIAL REPORT

Small/Mid-sized Ops Tackle Competition with Switched IP Video

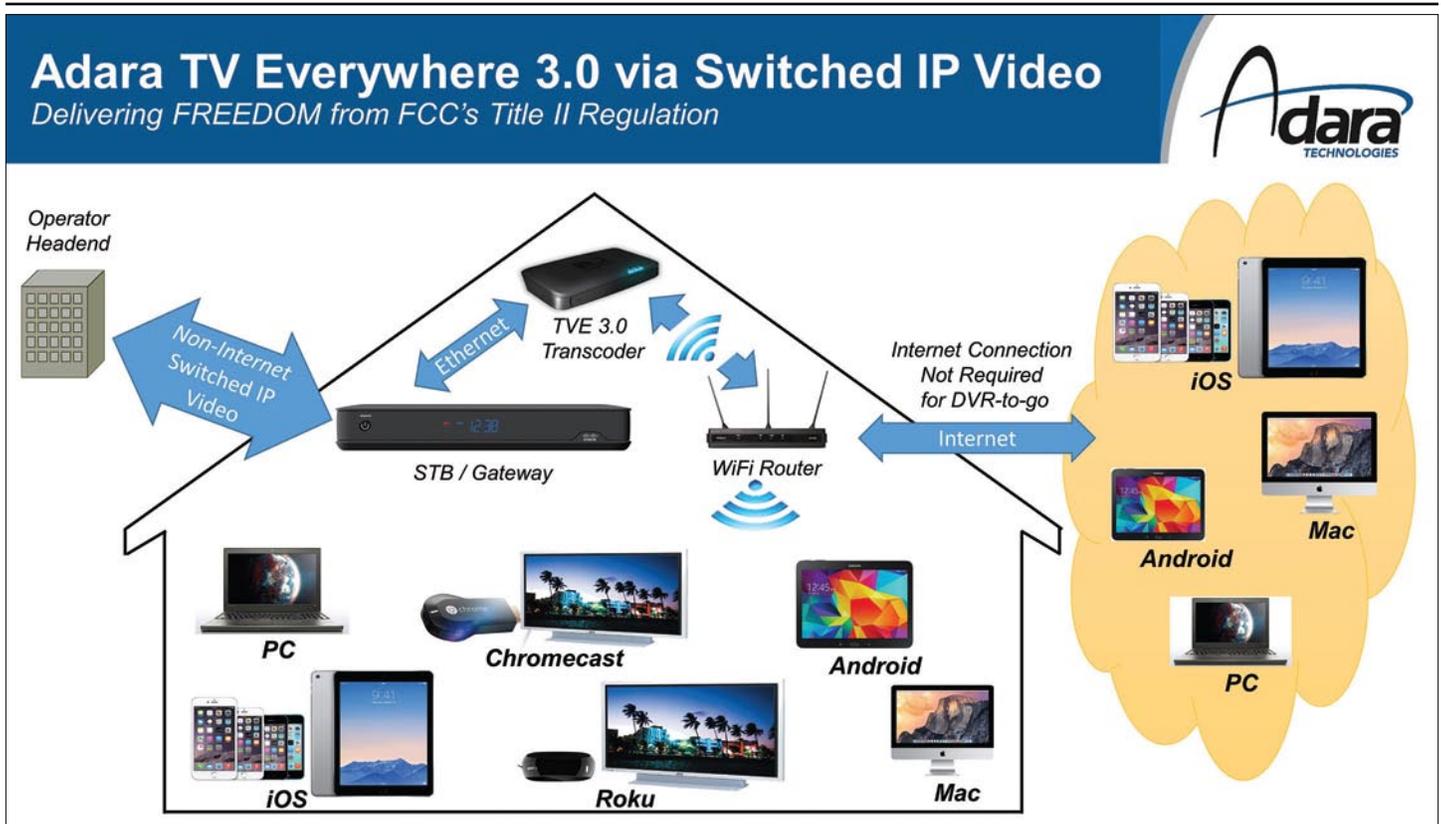
As small and mid-sized pay-TV operators try to stay competitive, offering advanced video and broadband services comparable to Tier 1 players isn't easy. "It has been challenging to figure out how to deliver the experience our subscribers want without breaking the bank," said *Tom Allen*, vp/COO of triple-play service provider **Cass Cable TV**, which has approx 16K subs in Central IL. "We at Cass were looking for a way to provide more High Definition channels to our customers. We did not, however, really want to provide a set top box to every subscriber." So instead of going the traditional route, the company has implemented switched IP video (SIPV) technology from video tech firm **Adara** to offer advanced TV services featuring initially 200 SD and 150 HD channels over the same network infrastructure Cass uses to deliver its traditional video, broadband voice services.

Both the CAPEX and OPEX for the SIPV upgrade was less than 1/10 the cost of a DTA approach, according to Cass. "We can provide virtually unlimited High Definition channels to those subscribers that want them... Many more features are also available with our new **Cisco** boxes. For those customers that are happy with

the products that we deliver via our Motorola boxes we did not have to switch out equipment. Also, for that demographic that did not want a box at all, we can still deliver a strong expanded basic package," said Allen. In addition, "our future investments will be spaced out as we win new customers and upgrade our current ones to a vastly superior video experience."

Indeed, IP video in general has become a hot topic throughout the industry, with several vendors vying for market share. Among the companies, **TiVo** went a different route and has developed an embedded switched digital video system that doesn't require a separate tuning adapter. The embedded SDV technology now supports devices deployed by TiVo's MSO customers. Among pay-TV providers, **Time Warner Cable** and **Cablevision** have rolled out SDV in communities around the country. Similarly, SDV delivers a subset of channels in a multicast switched tier and that are transmitted only when a subscriber requests them.

With SIPV, content remains in IP format in the network headend or hub, and only the content that a subscriber requests is automatically sent as a multicast session into the access network. The technology creates the potential to provide more choices, including niche programming, and more HD or 4K/8K content without with need for significant capital



investment or infrastructure upgrades, Adara CEO *Joseph Nucara* said. With increasing content and formats, operators large and small lack available bandwidth to broadcast all video content to all corners of the network, he said, with most ops using 80% of their bandwidth to handle video services that contribute less than 30% of total gross margin. “That formula is upside down,” Nucara said, arguing that SIPV flips it upside right, allowing all video in all formats to be delivered using 20% of the bandwidth.

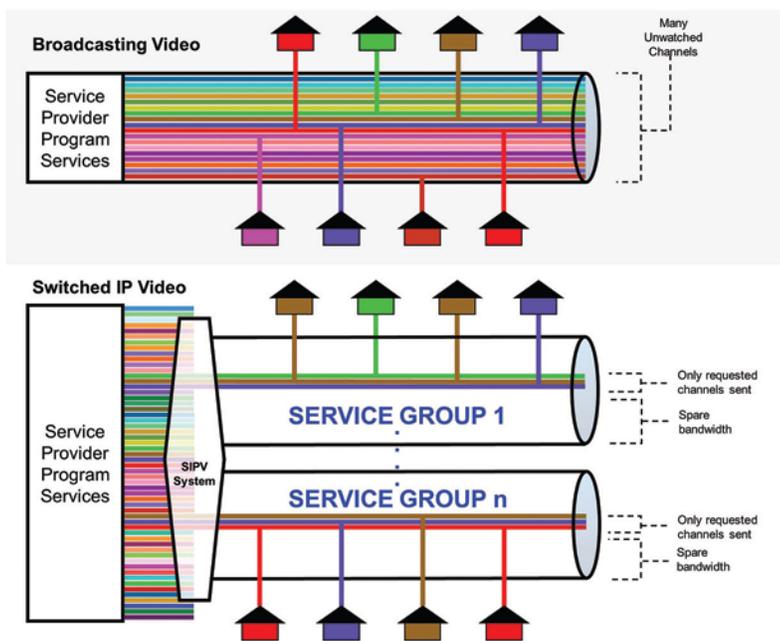
How Does it Work: SIPV divides the video network up at the head-end into smaller service groups and makes an individual IP multicast program available to everyone within the group’s access network only when requested by at least one customer in that service group. Because it is an IP multicast session, it is unlike unicast streaming in that any other subscriber within the same service group can tune to the same channel without requiring any additional sessions or consuming any additional bandwidth. Unlike traditional switched digital video in which only less-viewed, long-tail multicast programs are “switched,” SIPV “switches” the entire channel line-up with the help of automated service group utilization monitoring that ensures there’s always more edge-QAM capacity for the peak demand within each service group. The result is “infinite channel line-up capacity,” especially as ops seek to offer more HD and even 4K content, Nucara said. In addition, SIPV could free up

80% of the RF spectrum for the expansion of more lucrative, higher gross margin DOCSIS Internet services to double-Gig and beyond.

SIPV and Net Neutrality: Interestingly, SIPV could also help small operators, which generally oppose the FCC’s Title II net neutrality order, better cope with the regulatory environment. **ACA** is among the list of cable and telco trade groups suing the agency over the order. The group, representing 800 small and mid-sized ISPs, has asked the regulators not to impose the rules on its members because they lack “the negotiating power to extract compensation from Internet edge providers,” according to the group’s filing with the FCC. Leading up to the FCC’s vote, ACA has also been urging the agency to use its forbearance authority to shield smaller service providers from Title II regulations. While litigation might be a way out for the smaller operators, Nucara argues that SIPV delivers services in a way that ensures that content is not subject to regulation or further regulation down the road. With SIPV, content is formatted in IP at the head-end and delivered to the end-user using QAM technology. In other words, the way service is delivered through SIPV allows “freedom from those regulations,” he said. “Operators can now deliver every content choice to every screen inside and outside the home under their own branding, all while leveraging the non-Internet SIPV pipe.”

Switched IP Video: Infinite HD/4K

Delivering FREEDOM from FCC’s Title II Regulation



Bandwidth	# Service Groups	Multicast/ Unicast	Channel Line-up
Finite	One	Multicast	Finite
Finite	Many	Multicast	INFINITE