



John Stankey
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AT&T
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Via Electronic Mail: john.stankey@att.com

July 20, 2015

Re: AT&T U-verse/Starz

Dear John,

I am very concerned and disappointed with the progress of our contract renegotiations to date. On the eve of completing AT&T's acquisition of DIRECTV - which will make your company the largest pay-TV provider in the U.S. - your team appears set on exercising the extraordinary market power AT&T is on the verge of amassing.

AT&T's unreasonable negotiating position will result in no new deal, forcing us to remove our services from AT&T's U-verse platform, thereby undermining the critical goal of promoting content diversity and minority voices in programming on TV. Starz is the only independent premium pay content programmer in the U.S., and the only premium programmer targeting minority and under-served audiences. This is a far cry from the spirit of partnership we have shared over the past ten years, particularly in light of the growth we have both experienced during that time. We are looking for an equitable arrangement to enable us both to move forward in a new deal.

Because of AT&T's stance in these negotiations, we are very concerned about your merger with DIRECTV, which will combine your enormous telecommunications business and your capacity as the second largest Internet service provider, with DIRECTV, the second largest multi-channel distributor. We haven't complained to any agency about this transaction until now. But we remain concerned that, without suitable protections from the FCC, your unreasonable conduct in the current negotiations will become even more anticompetitive when our current deal with DIRECTV expires next summer and we will be in negotiations with an even more powerful AT&T/DIRECTV combined entity.

Starz has made significant investments to address traditionally underserved viewing constituencies such as the African-American community. STARZ IN BLACK focuses on black cinema and urban entertainment, carrying a mix of first-run hits, classic and Pan-African films, and original productions. ENCORE BLACK features movies and off-network television series for the African-American audience. ENCORE ESPANOL focuses on imported and domestic Spanish-language feature films. In addition, our show, POWER, currently in mid-season, with 6.3 million multiplatform viewers, is consistently ranked in the top three shows among African Americans across all television, not just premium services. POWER is

also the only drama series on premium TV with an African-American lead. Finally, SURVIVOR'S REMORSE, our second season comedy from executive producer LeBron James, is the only show on premium television featuring African-Americans in every lead role.

In fact, only a few months ago, you cited AT&T's carriage of these specific STARZ and ENCORE services and programs when you faced issues from the African-American community as a demonstration of AT&T's commitment to that community. We see AT&T's unwillingness to now pay a fair price for this programming as inconsistent with those representations, and as a reflection of its unwillingness to serve these communities. We think others will as well.

This is exactly the sort of concern the FCC, as it reviews the merger and considers remedial measures, should be thinking about – that AT&T will become more of a bully after the merger than DIRECTV ever was, limiting access to less-heard voices in the community. The merger will combine two companies with less than stellar records on minority programming and give that combined firm even more power to limit the ability of minority communities to access programming that they care about.^[1]

Contrary to misleading statements made by AT&T, this is not about cost. As a premium service, we applaud AT&T's desire to drive down basic programming costs. Forcing customers to buy through basic service -- as the price for basic service continues to increase -- in order to obtain premium programming is challenging in today's environment. However, Starz is not the enemy in the fight to lower costs. Over the past three and a half years, given U-verse's growth in STARZ subscribers, the license fee AT&T pays for each STARZ subscriber has decreased 15%. Over the same period, U-verse has increased the price of U-300 (the package containing STARZ) by 13%, providing healthy margin growth for AT&T.

For AT&T to force further decreases on Starz in this new contract is simply unfair and unreasonable. AT&T has driven down its cost for STARZ while raising prices to consumers. AT&T's demand of a reduction in cost is untenable. As a public company and a truly independent programmer, without ties to a broadcast network or basic programming services, we rely entirely on fair treatment from our distributors - prices reflective of the value we provide.

According to Nielsen, our suite of STARZ/ENCORE networks are the most watched group of channels on the linear U-verse platform. Additionally, according to Rentrak, STARZ ON DEMAND ranks #1 on U-verse for overall play time among more than 170 services, and the total collection of our on demand offering accounts for 20% of U-verse's total on demand playtime.

Let's work together to find a reasonable and equitable solution, and preserve minority voices in TV programming. We have done so in the past and I am hopeful we can do so now.

Sincerely,



Chris Albrecht
CEO
Starz

[1] For example, it was just about a week ago that FCC staff reviewing the transaction had a telephone conversation with representatives of ZGS Communications, the owner of Class A Spanish language stations in markets across the country and the largest independent affiliate of Telemundo network, complaining that DIRECTV has “systematically denied the Hispanic community access to its local stations,” and has “continuously misled potential and existing subscribers by advertising that it carries all local stations, when in fact it does not.” See letter from Ronald Gordon, CEO of ZGS to the FCC Commissioners, attached to *ex parte* letter dated July 16, 2015, available at <http://apps.fcc.gov/ecfs/document/view?id=60001115809>.

Cc:

Randall Stephenson, Chairman and Chief Executive Officer, AT&T
Gregory B. Maffei, Chairman, Starz

Honorable Thomas Wheeler, Chairman
Honorable Mignon Clyburn, Commissioner
Honorable Jessica Rosenworcel, Commissioner
Honorable Ajit Pai, Commissioner
Honorable Michael O’Rielly, Commissioner

Jonathan Sallet, FCC General Counsel
Ruth Milkman, FCC Chief of Staff
Maria Kirby, Media Advisor to the Chairman
William Blake, Chief of the Media Bureau
Alison Kutler, Acting Chief of the Consumer and Governmental Affairs Bureau
Mark Stone, Deputy Chief of the Consumer and Governmental Affairs Bureau
Thomas Reed, Director, Office of Communications Business Opportunities
Chanelle Hardy, Chief of Staff for Commissioner Clyburn
Valery Galasso, Media Advisor to Commissioner Rosenworcel
Matthew Berry, Chief of Staff for Commissioner Pai
Erin McGrath, Media Advisor to Commissioner O’Rielly