

# Consumer Electronics Daily

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## Top News

- Sirius/Pandora Was ‘Worst-Kept Secret of a Courtship,’ Says Meyer of \$3.5 Billion Merger ..... 2
- Tariffs Take Effect on \$200 Billion Worth of Chinese Imports; China Retaliates..... 3

## Voice Control

- Roku OS 9, Due on Roku TVs Early 2019, to Enable Voice Control, Other Features..... 5

## Hi-Res Audio

- MQA Had \$9.3 Million in 2017 Operating Loss, Says IP Licensor in UK Filing ..... 5

## Smartwatches

- Apple Watch Series 4 Has Battery With 4% More Capacity Than Series 3, Says iFixit ..... 5

## Trade

- FCC Warns Low-Cost 2-Way Radios Must Comply With Agency Rules..... 6

## Streaming Media

- Hearst Debuts Anyscreen OTT Ad Platform With TV Station Content ..... 6

## 5G

- MetroPCS Becoming Metro by T-Mobile ..... 7

## Mergers & Acquisitions

- CenturyLink CFO to Join T-Mobile, Lead Sprint Integration ..... 7
- Disney Seen Selling Sky Stake, but Hulu’s Direction Is Hazy in Comcast/Sky Deal ..... 7

## Smartphones

- CCA Device Hub Integrated Into Associated Carrier Group ..... 8

## Privacy

- IHS Markit Seeks TCPA Clarity on Automotive Recall Messages ..... 8

## Consumer Electronics People ..... 8

## Top News

### 'Go Shop' Provision

#### **Sirius/Pandora Was 'Worst-Kept Secret of a Courtship,' Says Meyer of \$3.5 Billion Merger**

SiriusXM's proposal to buy Pandora for \$3.5 billion in an all-stock deal came almost exactly a year after Sirius completed its \$480 million “strategic investment” to buy 19 percent of Pandora’s stock (see [1709220042](#)). Pandora can walk away from the merger agreement if it pays Sirius a \$105 million termination fee but would be obligated for only \$52 million if it cancels the deal to accept a “superior” offer by Nov. 22 under a “go shop” provision that Pandora wanted written into the contract that enables it to talk with alternative suitors, said an SEC [filing](#) Monday.

How Sirius and Pandora can best mesh their “complementary” services together once the transaction closes in early 2019 is something “we’re going to have to just evolve our way into and test our way into,” said Sirius CEO Jim Meyer on a Monday conference call with analysts. “My ultimate thinking on this is, whoever comes into one of our trial funnels, no matter where they come in, our goal ought to be that as they exit that trial, somewhere, somehow, they’re in a funnel which we’re monetizing and creating value with.” Pandora’s stock shot up 10 percent soon after the opening bell, before retreating to close 1.1 percent lower at \$8.98, while Sirius shares closed 10.3 percent lower at \$6.26.

Meyer hopes Pandora CEO Roger Lynch “joins us going forward” after the sale closes, he said. Lynch, who was on the call, said nothing about his plans. “Roger and I have had many discussions about what various alternatives are that we can do together after the deal is closed,” said Meyer. “We’ll take those on, I think, thoughtfully and carefully.”

Sirius hasn’t “done anything” to cross-promote with Pandora since closing the strategic investment deal last year, said Meyer. It purposely stayed away from doing so to give the new Pandora management under Lynch, who joined the company a year ago, a chance to right its financial “ship,” he said. “Trying to overlay that” with a cross-promotion strategy “was never our intention in the first year of our relationship,” he said. Meyer is “very confident that we will successfully accomplish working together,” he said. Lynch said he thinks there’s “no shortage of ideas that Jim and I have had on things that we can do together,” he said. Meyer’s “gut feel” is that there’s “real money to be made by optimizing cross-promotion” between the Pandora and Sirius “platforms,” he said. “That’s where I see the biggest opportunity.”

Pandora/Sirius was “the worst-kept secret of a courtship that’s gone on for several years,” said Meyer. When Sirius signed the strategic investment deal with Pandora 15 months ago, “we couldn’t reach an agreement on value, quite honestly,” that would have brought about a full-fledged merger, he said. There was “no guarantee” then that “we would end up where we ended up today,” he said. What since changed was “my confidence in Pandora as an asset,” based on its turnaround in the past 12 months, he said. “I’m really impressed with the steps that have been taken” under Lynch’s helm, he said.

Meyer said he was reluctant on the call to speculate about what “synergies” Pandora and Sirius might pursue post-deal. “Both Pandora and Sirius believe we both need to take a more active step in podcasting,” he said. The combined company will devise “a strategy that will be done more efficiently together than would be done if we were apart,” he said. “My fundamental belief is that there is significant opportunity to both cross-promote across these two very large subscriber bases,” and “take share—you can guess

where from—from other audio platforms that are out there today,” said Meyer in an obvious Spotify reference. “That’s where we’ll keep our focus.” Spotify didn’t comment.

Sirius subscribers “stream quite a bit,” said Meyer. There’s a “misconception” that the Sirius subscriber base is “technically illiterate,” he said. “That’s nonsense. They stream a lot and they find the content they want. It’s one of the reasons why I think this combination is powerful because I think the offers complement each other as opposed to compete with each other.” Meyer thinks there’s “great overlap” between the two services, he said. “We’re now going to find out exactly how much that is and where that is.” Once the transaction is complete, “you’ll see us begin to, for instance, advertise on the Pandora platform to try to bring listeners back to our paid funnels, very, very quickly, as a first step,” he said.

With Pandora/Sirius, Meyer is “really, really happy” to have “a two-headed monster” in terms of a company that can “monetize both subscription and advertising,” he said. Pandora represents “about two-thirds of the digital advertising market today,” said Lynch. “That’s a market we expect to continue to grow globally as you see shift from things like terrestrial radio to digital and the growth of smart speakers and the whole ecosystem and podcasts and things like that.”

Pandora and Sirius together in 2019 will have paid royalties “that approach” \$2 billion to the “various music entities,” said Meyer, when asked if he thinks the combined company will have better leverage in renegotiating terms with the record labels. “The two companies have a tremendous respect for what artists bring to our business, what songwriters bring to our business. We obviously fully endorse models that compensate them for what they bring. I think this merger will be good for everyone in music for one simple thing, and that is, if we’re successful, we will begin to shift share from those channels that are not paying performance rights to musicians.” Meyer thinks “at the end of the day, the labels will wholeheartedly endorse that strategy,” he said. — *Paul Gluckman*

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## **CTA Falls Silent**

### **Tariffs Take Effect on \$200 Billion Worth of Chinese Imports; China Retaliates**

As Section 301 tariffs took effect Monday on \$200 billion worth of Chinese imports, including duties the tech industry fought unsuccessfully to defeat on printed circuit assemblies, networking equipment and other goods, CTA fell silent about what it might do about the duties that it said a week ago “run afoul” of the 1974 Trade Act (see [1809180020](#)). With China retaliating Monday with tariffs of its own on \$60 billion worth of U.S. goods, observers were watching to see if President Donald Trump makes good on his threat to “immediately pursue” a fourth tranche of tariffs on \$267 billion worth of additional Chinese imports as a countermeasure.

CTA has no “comments to add about our objections” to the tariffs and “concerns about the legal process,” emailed Vice President-International Trade Sage Chandler about a possible court challenge. The Trump administration exceeded its Trade Act authority by unlawfully using a Section 301 investigation as the grounds for launching retaliatory tariffs against China, [argued](#) CTA in Sept. 6 comments that Chandler co-signed with President Gary Shapiro. CTA also worries that the administration “is not taking its obligation to carefully consider public comments seriously,” as the Administrative Procedure Act requires, it said.

As recent earnings calls from Micron Technology and Voxx attested, tech companies that now accept tariffs as a fact of life are increasingly turning their sights toward mitigation strategies that lower their exposure. Sourcing from countries of origin other than China remains an option for some, but many tech companies testified at last month’s Section 301 hearings they have no practical alternative but to continue importing Chinese components.

“Product-specific” exclusion requests are another mitigation option, emailed David Cohen, customs law expert with Sandler, Travis & Rosenberg. The Office of the U.S. Trade Representative put procedures in place for seeking exclusions on the first two rounds of tariffs that took effect July 6 and Aug. 23. If granted, the exemptions would be in force for one year, retroactive to the dates the tariffs became effective, said Cohen: “No decisions have been made on the thousands of requests that have been filed so far.”

Other mitigation strategies, according to Cohen: (1) “Reclassification” of goods “if there is a more appropriate classification applicable” that’s not subject to tariffs; (2) “Tariff/origin engineering,” or “tinkering with the production process to result in a country of origin other than China”; (3) “First sale valuation.” This option “does NOT avoid the tariffs, but lessens their impact by legally structuring transactions to take advantage of an earlier sale for customs appraisalment”; (4) Using a foreign trade zone or bonded warehouse as “a deferral mechanism”; (5) “Duty drawback,” seeking import-duty refunds on goods once they are exported; (6) Using a “de minimis” provision in the customs laws “that permit small value shipments under certain circumstances to enter duty-free.”

Cohen cautions that in “pursuing these options” companies should engage recognized Customs experts to make certain these options are viable and compliant,” he told us. “We are counseling clients daily on all of these options in order to try and mitigate the impact of the Section 301 duties and encourage importers to reach out to explore which may be applicable to their circumstances.” — **Paul Gluckman**

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## Voice Control

### Roku OS 9, Due on Roku TVs Early 2019, to Enable Voice Control, Other Features

Roku began rollout out of its OS 8.2 software update for Roku TVs and expects the rollout to be complete in November, [said](#) the company Monday. Its OS 9 software release will begin rolling out to Roku streaming players in early November and Roku TVs early next year, it said. OS 8.2 enables new compatibility with upcoming Roku TV wireless speakers, while OS 9 will deliver “a variety of enhancements to give Roku customers new easy ways to search and control their entertainment experience,” it said. Roku will soon enable using Google Assistant to voice control Roku streaming devices, it said. Roku also is bringing Spotify and Pandora Premium support to Roku devices, it said.

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## Hi-Res Audio

### MQA Had \$9.3 Million in 2017 Operating Loss, Says IP Licensor in UK Filing

MQA, the British company that licenses the Master Quality Authenticated hi-res audio platform to record labels and hardware manufacturers, reduced its 2017 operating loss to 7.1 million pounds (\$9.3 million) from 8.6 million pounds a year earlier, said a Sept. 13 [filing](#) posted at Companies House, the U.K. government’s beta registry [website](#) for private companies. MQA drew 149,000 pounds in 2017 licensing revenue, up from 30,000 pounds in 2016. MQA draws its revenue from per-unit royalties it charges for decoders and “renderers” in CE products and on chips, it said. It draws income from revenue-sharing agreements with music retailers, it said. MQA has nondisclosure agreements in place with more than 150 companies globally, and actual signed license agreements with 40, it said. More than 100 MQA-enabled products are available for sale to the public, it said. —PG

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## Smartwatches

### Apple Watch Series 4 Has Battery With 4% More Capacity Than Series 3, Says iFixit

The first Apple Watch was “revolutionary,” but the updates since were “mostly minor,” until the debut of the Series 4, [said](#) right-to-repair firm iFixit in a teardown analysis Monday. The Series 4’s battery has 4 percent more capacity than the Series 3, despite having a case that’s 6 percent thinner, it said. The “taptic engine” inside the device “takes up a lot of room” that could have gone to a bigger battery, but Apple “seems to feel physical feedback is very important,” it said. Though the first-generation Apple Watch had internal components that seemed “awkwardly placed and unpolished by Apple standards,” with the Series 4, “they really painted the back of the fence,” it said.

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## Trade

### FCC Warns Low-Cost 2-Way Radios Must Comply With Agency Rules

Low-cost, two-way VHF/UHF radios must comply with rules, said an FCC enforcement [advisory](#) Monday. All such radios must be authorized before being imported, advertised, sold or operated here, the agency said. “Many of these radios violate one or more FCC technical requirements,” the FCC said. “Some can be modified to transmit on public safety and other land mobile channels for which they are not authorized, while others are capable of prohibited wideband operations. Such radios are illegal, and many have the potential to negatively affect public safety, aviation, and other operations by Federal, state, and local agencies, as well as private users.”

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## Streaming Media

### Hearst Debuts Anyscreen OTT Ad Platform With TV Station Content

Hearst launched Hearst Anyscreen, an over-the-top advertising platform for Hearst-owned programming, it [said](#) Monday. It said Anyscreen ties Hearst TV station local content and content from a variety of other programmers to ad inventory, with audience targeting across a variety of connected TV platforms, including Roku, Android TV, Apple TV, DirecTV Now, Google Chromecast and Sling TV.

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## 5G

### MetroPCS Becoming Metro by T-Mobile

T-Mobile said it's rebranding its prepaid MetroPCS product as Metro by T-Mobile. T-Mobile, which completed its buy of MetroPCS in April 2013, said it's time for a makeover. The combination of T-Mobile's and Sprint's prepaid lines under one company is seen as a potential sticking point to their proposed deal (see [1808270049](#)). "Metro by T-Mobile launches next month with new all-unlimited plans, including a tier that features Amazon Prime, making it the only U.S. prepaid wireless brand to include all the shopping and entertainment benefits of Prime ... and, the first and only wireless brand to include Google One, a subscription with expanded cloud storage and mobile backup," T-Mobile [said](#) Monday.

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## Mergers & Acquisitions

### CenturyLink CFO to Join T-Mobile, Lead Sprint Integration

T-Mobile said [Sunit Patel is joining as executive vice president-merger and integration lead](#). "Patel will lead T-Mobile's strategic planning efforts to integrate its business with Sprint as the two companies work through the necessary regulatory reviews and other closing conditions to combine," T-Mobile [said](#) Monday. Patel leaves CenturyLink, where he was chief financial officer. He will report to T-Mobile President Mike Sievert.

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### Disney Seen Selling Sky Stake, but Hulu's Direction Is Hazy in Comcast/Sky Deal

[Disney/Fox will likely shed its Sky stake, but Hulu's fate is unclear](#), said analysts after Comcast's \$40 billion auction bid over the weekend that was accepted by Sky's independent committee (see [here](#)). Comcast will likely follow up with deal that has it buying the rest of Sky from Disney/Fox "for the same stupendous price," and possibly as part of a swap where Disney takes Comcast's stake in Hulu, MoffettNathanson analyst Craig Moffett wrote Monday. He downgraded Comcast stock to neutral. He said Sky could be "an albatross" for Comcast given its satellite TV business and that satellite video distribution "is increasingly becoming obsolete." He said expanding Sky's nascent over-the-top business will be a challenge, with a variety of programmers going direct to consumer, meaning Comcast will have to ramp up creation of its own video content. BTIG's Richard Greenfield wrote investors Monday that given cord-cutting and cord-shaving trends, Disney/Fox and Comcast/Sky are "actually depressing" examples of legacy media staying locked in a comfort zone. He said Disney/Fox will likely tender its Sky stake as part of Comcast's offer to Sky shareholders since there's not an obvious strategic benefit to Disney/Fox remaining an investor in Sky. The analyst said Disney wants Comcast's Hulu stake, but Comcast isn't likely to sell since it can thus prevent Hulu from becoming a Disney-branded OTT service. He said with the Sky deal, Comcast is signaling that a deal for Charter Communications seems unlikely and that U.S. expansion isn't a priority. Instead, Discovery could be the next acquisition target for Comcast given

Discovery's investments in Europe in recent years, Greenfield said. Comcast plans to keep its stake in Hulu, an informed person said. U.K. M&A rules are such that it couldn't make a side deal with Disney to sell its portion, the person noted. Comcast didn't comment. The company closed down 6 percent at \$35.63. —*MD*

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## Smartphones

### CCA Device Hub Integrated Into Associated Carrier Group

The Associated Carrier Group (ACG), Sprint and Competitive Carriers Association said Monday they agreed to integrate the CCA Device Hub into ACG. It's "another critical step in allowing small- to medium-sized carriers access to niche products and other devices that are challenging to secure," said ACG President Russ Lipinski. The ACG consortium "enables its members to work with manufacturers, suppliers and other vendors to quickly develop and procure scarce or difficult to obtain products through economies of scale and standardization of coding and other features," said a [news release](#).

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## Privacy

### IHS Markit Seeks TCPA Clarity on Automotive Recall Messages

IHS Markit asked the FCC to clarify that auto safety messages it transmits to cellphones are "made for emergency purposes" and don't violate the Telephone Consumer Protection Act. "Motor vehicle safety recall communications save lives," said a [petition](#) posted Monday in docket 02-278. IHS Markit "provides critical consumer outreach communications and was recently retained to place calls and deliver text messages regarding manufacturers' recalls of vehicles equipped with Takata airbag inflators, which are at risk of exploding."

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## Consumer Electronics People

Actor **Robert De Niro** to headline opening keynote session at NAB Show New York Oct. 17, Javits Convention Center ... Tile, smart location company, hires board member **CJ Prober**, ex-GoPro, as CEO, replacing **Mike Farley**, who will continue as a strategic adviser and keep his board seat ... Facebook names **Ajit Mohan**, ex-Hotstar, managing director-vice president, Facebook India ... Fox Sports taps ThePostGame founder **David Katz** as executive vice-president-digital ... Infomart Data Centers appoints **Ty Miller**, ex-Digital Realty Trust, chief revenue officer ... New York Times Co. appoints **Aman Bhutani**, Expedia, to board.

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