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Comcast, Time Warner win FCC approval for Adelphia

By Jeremy Pelofsky

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WASHINGTON (Reuters) - Comcast Corp. <CMCSA.O> and Time Warner Inc. <TWX.N>, the two largest U.S. cable companies, on Thursday won conditional permission from the Federal Communications Commission to acquire bankrupt rival Adelphia Communications Corp. <ADELQ.PK>

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After more than a year reviewing the approximately \$17.6 billion deal, the commissioners voted 4 to 1 to clear it on condition that the companies are barred from entering exclusive contracts for cable regional sports networks in all U.S. markets.

The FCC also required binding arbitration to resolve disputes in negotiations for the regional sports programming. Those conditions will sunset in six years.

However, the conditions do not apply to Comcast's popular sports network in Philadelphia, according to the FCC, despite pressure from satellite providers like DirecTV Group Inc. <DTV.N> that sought the content for their customers.

"I believe that, on balance, the transactions as conditioned will further the public interest," said FCC Chairman Kevin Martin. "Comcast and Time Warner have committed to make long-needed upgrades of the systems."

Adelphia, which has more than 5 million subscribers and is the fifth-largest U.S. cable operator, went bankrupt in 2002. It agreed to sell most of its assets to Comcast and Time Warner in April 2005.

FCC Commissioner Michael Copps, a Democrat, was the sole commissioner to vote against the transaction.

Copps argued protections were needed for more programming and that the deal would lead to higher prices. "The potential for harm here is in the sheer economic power of distribution and content that can and likely will ensue," he said.

Copps did say he was pleased the FCC required Comcast to enter arbitration on whether it must carry the Nationals, the Washington, D.C., major league baseball team, in their hometown.

New FCC Commissioner Robert McDowell, a Republican, noted there would be a time limit for the program access arbitrations. "Should arbitration be necessary, it will be concluded swiftly and at minimal cost," he said.

The FCC did not order the companies to adhere to its principles on Internet access, known as Net neutrality, drawing fire from Copps and the other FCC Democrat, Jonathan Adelstein. The agency imposed the requirement on two deals in 2005.

Comcast said it was reviewing the FCC decision while Time Warner praised it. They had argued the upgrades to Adelphia cable systems, which have languished while it was mired in bankruptcy for four years, would benefit consumers.

The companies hope to close the deal by July 31.

Consumer advocates have countered that the sale would concentrate more power, content and services into the two biggest U.S. cable operators, leading to higher prices.

"In the end, the higher prices and reduced competition that will result from today's action is contrary to the public interest," said Andrew Jay Schwartzman, president and chief executive of the consumer group Media Access Project.

As part of the deal, Comcast and Time Warner plan to swap cable properties in several cities, enabling them to create bigger clusters of operations and potential cost savings.

Time Warner will get customers in Los Angeles, Dallas and other cities from Comcast in exchange for customers in Memphis and Minneapolis, among others.

"It's not just about bulking up and the economies of scale that come with that, but also about rationalizing and creating mega-clusters," said Todd Mitchell, an analyst at Kaufman Bros. "I think this will kick off a second round of consolidation. But it will be nip-tuck consolidation."

(Additional reporting by Yinka Adegoke in New York.)

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