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From the Los Angeles Times

Cable Giants Cleared to Buy Systems of Adelphia

Time Warner will serve 98% of the L.A. city market after the sale and a swap with Comcast.

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WASHINGTON — The cable TV market in Los Angeles is poised for a radical makeover after federal regulators Thursday approved the sale of Adelphia Communications Corp. to Time Warner Inc. and Comcast Corp.

Time Warner will become Southern California's largest cable TV provider under the deal, acquiring Adelphia's 1.2 million subscribers in the region along with 500,000 from Comcast in a complicated swap of assets arising from Adelphia's collapse into bankruptcy in 2002 amid an accounting scandal.

With the switch, customers can expect enhanced programming and services, notably faster high-speed Internet service. Time Warner said any price changes would mostly "be favorable" to subscribers, but consumer advocates warned of higher bills down the line.

Time Warner's share of the Greater Los Angeles market will jump from 15% to 75% as its subscribers in the area balloon to 1.9 million. In the city of Los Angeles, the company will control 98% of the market when the deal closes, most likely by the end of the month.

New York-based Time Warner plans to spend millions of dollars to promote itself in the L.A. area, said Roger Keating, the company's head of Los Angeles cable operations.

"When you only serve 15% of the Los Angeles area, it's hard to justify buying newspaper, TV and radio ads," he said. "We have been out-shouted by satellite TV and phone companies that have spent \$15 for every dollar we've spent in marketing."

After checking its inherited networks and fixing any problems, Time Warner plans to start launching new services by October, including faster Internet service, more high-definition channels and free on-demand programming, as well as additional Latino-oriented content, Keating said. Digital phone service is expected to be available by December.

"There's a lot of work to be done," said Keating, who would not reveal how much Time Warner planned to spend. "This won't all happen overnight, but we're sure that if our customers see that we're honest and posting progress every day, they will be patient."

The 4-1 vote by the Federal Communications Commission removed the last hurdle to the \$17.6-billion sale of Adelphia. Comcast and Time Warner, the nation's two largest cable TV providers, agreed as part of the deal to divvy up the subscribers of No. 5 Adelphia and to swap some of their own to consolidate each buyer's operations in several areas nationwide.

In addition to Southern California, Time Warner will bulk up its presence in New York, Ohio and the Carolinas. Comcast will grow in Boston, Pittsburgh, South Florida and the suburbs of Washington, D.C.

Concerned that Time Warner and Comcast would have more clout, the FCC included several conditions in its approval. The companies will be prohibited from trying to lure viewers by refusing to distribute their regional sports channels to rival providers such as satellite TV systems. In addition, independent programmers will have the right to binding arbitration if the cable systems decline to carry their channels.

"It's a mixed day for the cable guys," said industry analyst Blair Levin of Stifel Nicolaus & Co. "They got it done, but they don't like the conditions."

Commission Chairman Kevin J. Martin said the deal promised to improve cable service significantly for Adelphia's approximately 5 million subscribers. The company has fallen behind other operators in improving its systems since filing for Chapter 11.

"Comcast and Time Warner have committed to make long-needed upgrades to those systems to enable the rapid and widespread deployment of advanced services to Adelphia subscribers," Martin said. In Los Angeles, Time Warner is vowing to spend millions to offer residential phone service and high-speed Internet access.

Executives at Time Warner and Comcast said they were pleased that the FCC had approved their purchase of Adelphia, which had been before the commission since June 2005. But they declined to comment on the conditions imposed.

Those conditions were not enough for Commissioner Michael J. Copps, who voted against the deal because he said he feared that reduced competition would lead to higher prices for some customers.

"This decision is about big media getting bigger, with consumers left holding the bag," said Copps, one of two Democrats on the Republican-controlled commission.

Andrew Jay Schwartzman, president of the Media Access Project, a Washington-based public policy law firm, said the conditions made the deal more acceptable, but he predicted it would lead to higher prices.

Time Warner plans to boost basic cable modem Internet connection speeds for Adelphia customers by a third to 6 megabits per second, or more than 100 times faster than standard dial-up service. It will increase Comcast's high-end service from 8 to 10 megabits per second. The company plans to keep contracts in place so that third-party providers such as EarthLink Inc. can offer Internet service on Time Warner's system.

Cable companies believe that the lack of a dominant player in Southern California has allowed satellite TV to capture 28% of the pay TV market. DirecTV Inc., the biggest satellite firm, disputed that assertion.

"It's not so much the splintered market as it is more about consumers seeing the value and choice they receive when compared to cable," spokesman Robert G. Mercer said. "They want choice and value — more channels at a fair price — and we've been able to deliver that."

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Puzzanghera reported from Washington and Granelli from Los Angeles.

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