Economic Analysis of Comcast's and Time Warner's Proposed Acquisition of Adelphia

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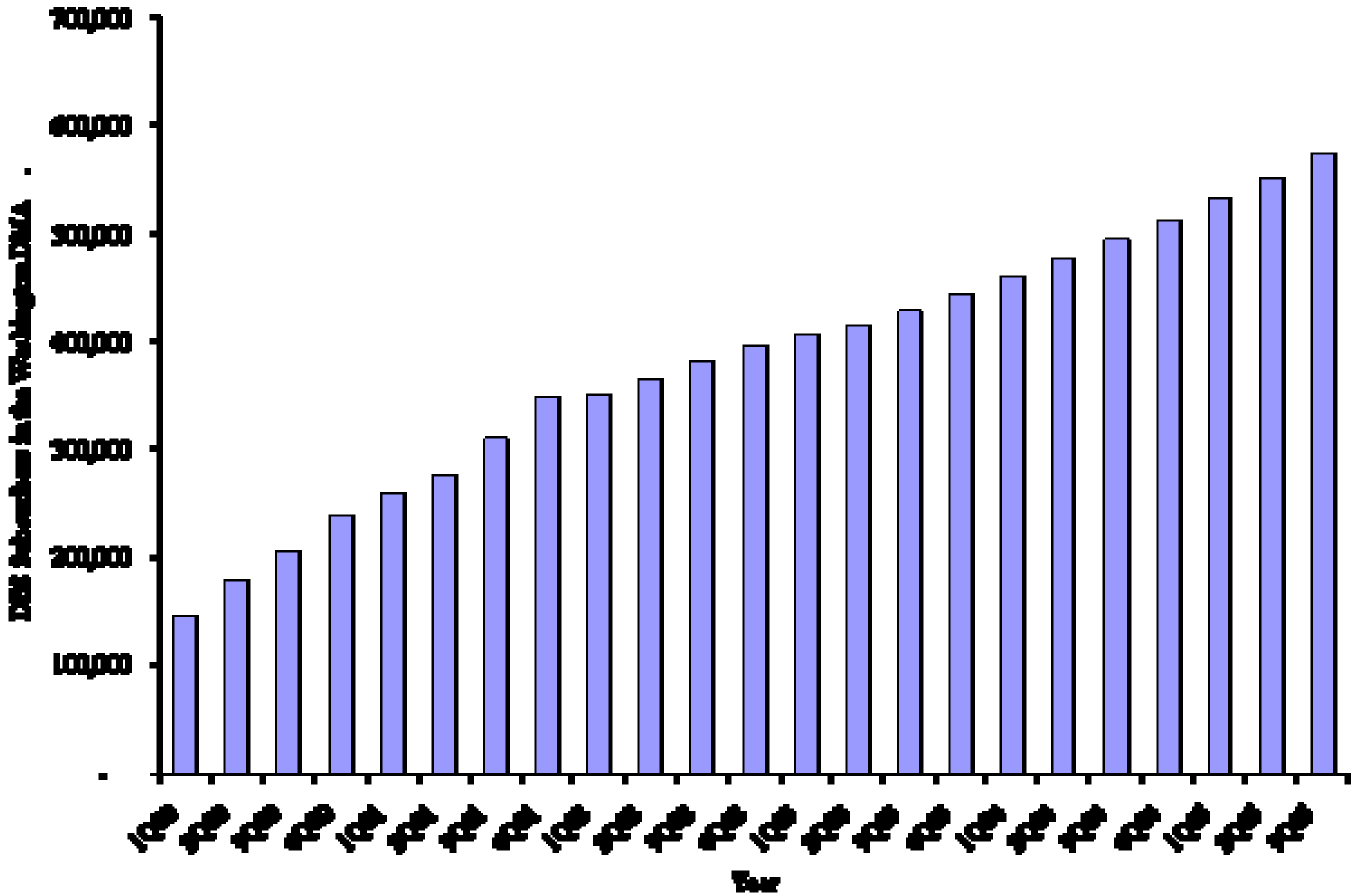
Merger will increase Comcast's incentives and ability to discriminate against MASN

- Vertically integrated cable operator like Comcast engages in content discrimination against an unaffiliated RSN so long as the gains from content discrimination (in terms of greater future affiliated content sales) exceeded the downstream losses (in terms of fewer cable subscriptions)
- Comcast is willing to incur downstream losses (if any)
  - to weaken MASN
  - to send a signal to any sports franchise considering entry into upstream programming market in the future
- The proposed merger would allow Comcast to more credibly commit to its foreclosure strategy, which is designed to drive MASN from the market.
  - increased downstream footprint means that future benefits from foreclosure are larger (can sell affiliated RSN to larger base of customers)

Merger Creates a Significant Likelihood of Foreclosure

- By denying MASN access to <u>more</u> cable homes in the Washington DMA, Comcast ensures that MASN cannot achieve minimum viable scale.
- If MASN cannot generate sufficient revenues to pay down its significant fixed costs, MASN will be forced to exit the market and likely sell its television rights at a distressed price to Comcast.
- At that point, Comcast will have successfully extended its downstream market power into the upstream programming market.

Comcast's in-region market share did not decline significantly as a result of Comcast's refusal to carry MASN



Other Reasons Why Costs of Content Discrimination Would Be Small

- High switching costs (even higher with bundle of services)
- Customer will not incur these significant switching costs so long as there is a non-trivial probability that Comcast and MASN will eventually reach an agreement
- New offers such as HDTV will increase switching costs further
- Decision to remain a Comcast subscriber even when Comcast refuses to carry MASN does not preclude the subscriber from viewing *all* Nationals' games

Merger will increase Comcast's incentives and ability to discriminate against competing MVPDs

- Benefits to this form of foreclosure *increase* as Comcast's downstream footprint increases
- Exact tipping point (share of homes passed) can be solved with margin data
- Given results from slide 8, we suspect that tipping point is between 61 and 69 percent of homes passed in the DMA

Local Markets in Which Comcast Owns a Regional Sports Network (RSN)

Market (DMA)	Affiliated RSN	Share of Homes Passed in DMA (Before)	Share of Homes Passed in DMA (After)	Deny Access to Unaffiliated RSN?	Deny RSN to DBS Providers?
Baltimore	SportsNet MidAtlantic	48	51	Yes	No
Washington	SportsNet MidAtlantic	51	65	Yes	No
Sacramento	SportsNet West	61	61	--	No[1]
Miami	SportsNet Southeast	69	80	--	Yes
Philadelphia	SportsNet Philadelphia	75	80	--	Yes
Detroit	Comcast Local Detroit	77	77	No	Yes[2]
Chicago	SportsNet Chicago	77	77	--	No[3]

Notes: (1) Requires DIRECTV to purchase SportsNet for a larger service area (beyond 150 miles of Sacramento) and denies SportsNet HDTV entirely. (2) Exclusive to Comcast subscribers in the Detroit area. (3) Comcast owns 30 percent of RSN only.

Proposed Merger Conditions

- Anti-discrimination provision vis-à-vis unaffiliated RSNs
  - Eliminate equity, exclusivity requirements
  - Unaffiliated RSN may choose to submit the dispute to commercial arbitration (with RSN carriage required during the arbitration process)
- Anti-discrimination provision vis-à-vis unaffiliated MVPDs
  - Unaffiliated MVPD may choose to submit the dispute to commercial arbitration (with RSN carriage required during the arbitration process)