County of Santa Cruz

COUNTY ADMINISTRATIVE OFFICE

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SUSAN A. MAURIELLO, J.D., COUNTY ADMINISTRATIVE OFFICER

June 19,2002

AGENDA: June 25,2002

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean Street
Santa Cruz, California 95060

MERGER OF AT&T BROADBAND AND COMCAST CORPORATION

Dear Members of the Board:

On June 11,2002 your Board set 9:00 AM on June 25,2002 as the time for a public hearing on the proposed merger of AT&T Broadband and Comcast Corporation. The material which follows and the attachments to this letter provide background on the proposed merger. The attachments include a report and supplemental report on the proposed merger which were prepared for the County and the City of Santa Cruz by Special Counsel for Cable Television.

Also attached is a Resolution of the Board Supervisors of Santa Cruz County Conditionally Consenting to the Change in Control from AT&T Corporation to AT&T Comcast Corporation. The conditional approval provided for in the resolution is an attempt to make good public policy and protect the County and protect subscribers from the risks inherent in yet another high priced acquisition of our cable system.

Background

On February 27,2002 this office received an application from AT&T Broadband for approval of the merger of AT&T Broadband and Comcast Corporation. The resulting corporation will be the largest cable operator in the country. According to documents filed with the Federal Communications Commission the new corporation produced by the merger will control 27,276,500 subscribers in the United States or approximately **40%** of the 69,000,000 cable subscribers in the United States.

The request for approval of the merger is in the form of a Federal Communications Corporation Form 394. Pursuant to Federal law a local franchising authority must act on the Form 394 within 120 days of receipt or the applied for transaction is deemed approved. Similar requests are now pending before hundreds of local franchising authorities across the country. The June 25, 2002 public hearing scheduled by your Board occurs on the 117th day of the 120 day period provided for in Federal Law.

Report of Special Counsel

The attached report:

- reviews the salient features of the proposed AT&T Comcast merger and notes the acquisition price in the proposed transaction is now $4,500 per subscriber[1];

- provides history on the cable mergers which have occurred over the last few years and the financial collapse of Adelphia Corporation which became the sixth largest cable operator in the Country through high priced mergers and acquisitions financed with a great deal of debt; and

- discusses the information which is available to justify the proposed merger.

Included among the exhibits to the report is a document entitled *Review of the Proposed Merger of AT&T Boardband, Inc and Corncast Corporation to Form AT&T Comcast Corporation* (Exhibit 35) prepared by the independent accounting firm of Ashpaugh & Sculco, CPAs, PLC and dated May 24,2002 ("A&S Report"). The A&S Report was developed for a number of mid west communities with approximately 300,000 subscribers now served by AT&T or Comcast Corporation and was made available to members of the National Association of Telecommunication Officers and Advisors (NATOA) through their web site.

The A&S Report includes sobering information regarding the amount of debt that may be required by this merger and its effect on local franchising authorities. In this regard, the A&S report notes:

1. "Financial management of Comcast, AT&T and AT&T Comcast occurs or will occur at the upper levels of the companies. Cash collected locally is "swept" into a central banking facility and managed for the whole company. The local franchises have no financial resources to draw upon. This makes the financial position of and decisions made by the parent key to the financial ability of the local systems to operate.

Anticipated shortages of cash and working capital may increase certain risks for local franchising authorities. For example, these shortages could impact the local franchisee's ability to implement or complete construction and to initiate and offer new and additional services in some or all local franchising authorities."

2. "The merged company will start operation with approximately $32.7 billion of debt; $12.2 billion of Comcast and $19.3 billion of AT&T Broadband, plus additional debt associated with the transaction. In excess of **$16** billion of this

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[1]At $4,500 per subscriber the approximately 50,000 subscribers which make up the Santa Cruz System are valued at $225,000,000.

debt will mature in 2006. For 2001, AT&T Broadband and Comcast had a combined cash flow deficit of over $4.0 billion.

The capital expenditures of AT&T Broadband and Comcast are budgeted in total to be **$5.6** billion for 2002. Based on historical information publicly available and on statements of Comcast and AT&T Broadband regarding future operations, we believe that capital expenditures of AT&T Comcast will continue to exceed $4.0 billion per year. We also believe the merged entity will have a cash flow deficit in excess of $3.5 billion annually for at least the first few years.

The combination of the need to fund maturing debt, fund capital expenditures and fund cash flow will require the level of debt of AT&T Comcast to increase in excess of $3.0 billion annually for the first 3 to 5 years. This could result in a significant debt load in excess of $40.0 billion. These deficits may well continue into the future. We do not know, and Comcast and AT&T Broadband have repeatedly told us in this process that they have not done projections of future operations (cash flows, revenues and expenses).

Since Comcast AT&T Broadband claim that they are unable to provide projections; they are also unable to show that (a) the short term deficits are insignificant in light of reasonably expected cash flows; (b) that the long term cash flows are likely to justify this transaction or (c) that, as will be addressed below, the "synergies" and "efficiencies" associated with this transaction are reasonable."

3. "Operationally, AT&T Comcast may need to make decision to reduce these impacts, such as to increase revenues, decrease expenses, or to reduce capital expenditures, or some combination. This creates a risk that the parent would be forced to reduce capital support to the local franchisee resulting in a reduction in quality of existing services and customer service, and slowing or reducing the roll out of new services".

A&S concludes that

"based on the limited information available, it is not possible to state that this merger will be beneficial to any of the existing franchises.

- The franchises currently served by Comcast will go from a company currently touted as being in the strongest financial position of any of the cable multiple system operators ("MSOs") to a company, AT&T Comcast, with a large amount of debt and significant shortages in cash flow.
- Franchises currently served by AT&T Broadband will go from a company with significant debt and shortages in cash flow to a company with even more debt and greater shortages in cash flow".

Supplemental Report

The Supplemental Report of Special Counsel presents AT&T Corncast's response to a supplemental questionnaire which attempted to isolate some of the specific problems and practices which led to Adephia's downfall and sought information and assurances that the proposed AT&T Broadband/Comcast merger is not subject to the same "snakepit" of debt and self dealing. Regarding the matter of internal conflicts of interest, Special Counsel notes, that the combination of the history of Comcast, and its senior management and controlling shareholders, in conjunction with protections which will hopefully exist subsequent to the closing of the Merger is sufficient to eliminate, at least at this point in time, concerns relating to potential conflicts of interest between AT&T Comcast, on the one hand, and its officers', directors, and controlling shareholders, on the other.

Regarding the level of debt, Special Counsel notes, that AT&T Comcast responses do not provide the same degree **of** comfort. In response to both general and specific questions relating to the level of debt to be incurred by AT&T Comcast upon closing of the Merger and subsequent thereto, AT&T Comcast indicates, in substance as follows:

(i) Starting debt of AT&T Comcast is expected to be approximately $30.8 billion;

(ii) Based upon the use of a debt to cash flow ratio, a common indicator of cable operator performance, AT&T Comcast will possess a debt to cash flow ratio ("Leverage Ratio") lower than all but two of the major multiple system operators; and

(iii) Comcast has historically de-leveraged its balance sheet through public offering, liquidation of non strategic investments, and further de-leveraging is possible by way of an additional $1.1 billion in public equity financing and the divestiture of AT&T Comcast's 25% interest in Time Warner entertainment which, based upon a "consensus of analysts" can be expected to produce net after tax proceeds of between $6 to $7 billion.

With respect to the preceding assertions:

1. We do not believe that starting debt is the appropriate measure. As noted in the A&S Report and consistently observed in previous mega mergers the cable operator vastly increased their debt burden subsequent to the closing of the merger.

2. The cash flow measure cited by AT&T Comcast included $500 million dollars in annual synergies. The history of cable mergers demonstrates that synergies are not easily attained.

3. While AT&T Corncast's statements regarding de-leveraging are admirable they are also speculative and non assuring in others.

- First, there is no assurance that sale proceeds from non strategic properties will be used to reduce debt. In fact it has been widely reported that AT&T intends to use the proceeds of a recent sale of caie systems ($735 million Bresnen Broadband Holdings) to acquire other cable properties so as to reduce AT&T's tax liability.

- A public equity offering is highly unlikely in the short term based upon the current condition of cable stocks.

- Third, reliance upon a Time Warner Entertainment transaction is problematic given the fact that AOL Time Warner have been unable to reach agreement regarding the disposition of this asset for many years. Additionally, it is questionable whether a sale of the asset would produce the after tax proceeds target based on the decline in the value of AOL Time Warner.

Local Concerns

In conclusion, our primary concerns with the AT&T Broadband/Comcast merger involve:

1. the level of debt which AT&T Comcast will incur and the unforeseen risks for the County and its subscribers inherent in increased levels of debt; and

2. the actions which AT&T Comcast will take to realize the synergies or cost savings and the effect of their actions on local services.

Our concerns are based on the history of the most recent round of cable industry mergers which is discussed in the Report of Special Counsel; the financial collapse of Adelphia Corporation; and the problems identified in the A&S report with the current merger. Locally, in the past few years we have witness the effects of the last merger — the acquisition of TCI by AT&T. AT&T Broadband, the successor to TCI has:

- closed local customer service offices in Aptos and Boulder Creek;
- eliminated local staff; and
- regionalized local customer service functions.

The new services which the AT&T/TCI merger promised to produce — high speed Internet access and telephony — have not materialized.

Unlike the shareholders of AT&T and Comcast who have mobility by virtue of the fact that they can sell their shares if they do not like the results of the merger, the County and its subscribers have no mobility, no choice and will be stuck with the merged company for many years to come. Accordingly, we believe that it is important to proceed with the transaction in a manner which protects the County and its subscribers. The next section discusses a conditional approval of the merger which we believe will protect the County and its subscribers while providing the cable operator with sufficient freedom to act to make the merger work.

Approval of the Merger

Attached for your Board's approval is a resolution conditionally consenting to the change in control of the County's cable franchisee from At&T Corporation to AT&T Comcast Corporation. Exhibit A of the resolution is a Change of Control Agreement. Among other things the agreement provides for:

- a prohibition on any "off balance sheet" borrowing;

- a limit on the amount of additional debt which can be incurred without the consent of the County which consent shall not be unreasonably withheld and a process for securing the County's approval; and

- for a period of thirty six months commencing upon the closing of the merger, the franchisee shall not make any of the following changes in the operation of the cable system without the written consent of the Board of Supervisors:

    1. reduction in the number of customer service representatives;

    2. reduction in the number of service technicians or other technical personnel providing installation, maintenance, and other technical services to the cable system;

    3. transfer of any customer service or technical service functions to an office, location or facility other than the facility where those services are being provided as of the close of the merger;

    4. elimination of management positions at the system level and/or regional level;

    5. elimination of local offices, customer service centers, payment drop centers, and other locations at which customers can pay bills, pickup equipment, deliver equipment, exchange equipment, register complaints, or otherwise interface with the cable system on a personal basis;

    6. reduction in the number of local system employees by more than five percent;

    7. reduction in the number of regional area employees which provide services to the cable system by more than ten percent;

8. elimination or reduction of live customer service representatives responding to telephone calls and or the substitution of answering services or other mechanical/electrical devices for live customer service representatives;

9. transfer, assignment, or reassignment vehicles, converters or other physical equipment from the cable system to other locations except in normal course of business.

The agreement also provides a 120 day process for securing the County's approval of any of the preceding provided the Grantee can explain why the change will not produce a significant negative impact upon services.

- Finally, the agreement provides that prior to the effective date, the Franchisee shall fully interconnect its cable system with the cable system owned and operated by an affiliate or subsidiary of Charter **so** that all of the PEG channels of the Franchisee's system can be received by subscribers of the Charter System and all of the PEG Channels of the Charter System can be received by Franchisees subscribers.

With respect to the matter of the interconnection, AT&T Broadband's franchise agreement specifies that:

> *"Grantee will construct and operate its Cable System so that it is fully capable of interconnection with any and all neighboring adjacent cable television systems."*[2]

AT&T has not complied with this requirement despite long standing requests of the County, the Fire Chiefs Association and Cabrillo College. The absence of an interconnect works to the detriment of subscribers, local governments and important local programs. In addition to making PEG channels available on a county wide bases, the interconnection requirement will assist Cabrillo College in making educational courses available county wide and the Fire Chiefs Association in the County wide distribution of their training materials.

Exhibit B of the resolution contains County Consumer Protection and Service Standards. The protections and service standards in Exhibit B include a broad range of subscriber protections through the establishment of operational and service standards, billing and information standards, procedures for verification of compliance, dispute resolution procedures and regulations for changes in service, deposits, parental control options, privacy, nondiscrimination, disconnection and re-connection and converters. Exhibit B also establishes penalties for noncompliance including monetary penalties and free service.

Regarding the various Sections of the Resolution:

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[2] Section 30 of Franchise Agreement.

- Section 1 of the Resolution approves the merger and change of control of our franchise contingent upon approval and mutual execution of the Change of Control Agreement.

- Section 2 of the Resolution provides instructions for distribution to the cognizant parties at AT&T Broadband.

- Section 3 provides that if the Change of Control Agreement is not executed and returned to the County by all parties other than the County within 90 days following the approval by the Board then the consent shall be voidable at the County's sole discretion and the Change of Control shall be deemed denied as of the date of adoption of the Resolution for the reasons enumerated in the Resolution.

- Section 4 provides that the Customer Protection and Service Standards set forth on Exhibit B are thereby adopted and that Franchisee shall comply therewith on the ninety-first day subsequent to receipt of a copy of this Resolution.

Recommendation

At the conclusion of the Public Hearing it is recommended that your Board adopt the attached Resolution of the Board of Supervisors of the County of Santa Cruz Conditionally Consenting to the Change of Control of the Cable Franchisee From AT&T Broadband to AT&T Comcast Corporation.

Very truly yours,

Susan A. Mauriello
County Administrative Officer

Attachments

cc: Richard Wilson
Bill Marticorena
Communication Workers of America Local 9423
John D. Hurd, President Cabrillo College
Fire Chiefs Association C/O
Mike Phinn, Scotts Valley Fire Protection District
Geoffrey Dunn, Community Television of Santa Cruz County

AT&T C/O (VIA Fax and Overnight Mail)

Kent Leacock
Vice President, Franchising and Local Government Affairs
AT&T Broadband

H:\WPWIN\CABLE\TCI\MergerAT&TComcastII.wpd

PO Box 5147
San Ramon, CA 94583
Fax: 925-973-7104

and

Ms. Maria Arias
AT&T Broadband
188 lnverness Drive West, Room 6-042
Englewood, CO 80112
Fax: 303-858-261**5**

RESOLUTION OF
THE BOARD OF SUPERVISORS

RESOLUTION NO. __________

A RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF SANTA CRUZ CONDITIONALLY CONSENTING TO THE CHANGE OF CONTROL OF THE CABLE FRANCHISEE FROM AT&T CORP. TO AT&T COMCAST CORPORATION

WHEREAS, an indirect subsidiary (the Franchisee") of AT&T Corp. ("AT&T") is duly authorized to install, operate and maintain a cable communications system in the County of Santa Cruz (the "System") by the County of Santa Cruz ("Franchise Authority") pursuant to a franchise (the "Franchise") granted by the Franchise Authority; and

WHEREAS, pursuant to an Agreement and Plan of Merger among AT&T, AT&T Broadband Corp., and Comcast Corporation, and certain of their respective affiliates, dated December 19,2001 (the "APM"), and a Separation and Distribution Agreement by and between AT&T and AT&T Broadband Corp. dated December 19, 2001, AT&T intends to merge its subsidiary AT&T Broadband Corp. with Comcast Corporation to create a new company to be known as AT&T Comcast Corporation (the "Transferee") (the "Merger"); and

WHEREAS, Franchisee will continue to hold the Franchise after consummation of the Merger; and

WHEREAS, a Federal Communications Commission Form 394 will respect to the change of control of the Franchisee to Transferee ("Change of Control") has been filed with the Franchise Authority (the "Application"); and

WHEREAS, the parties to the application have requested consent by the Franchise Authority to the Merger and change of control of the Franchisee.

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. The Franchise Authority hereby consents to and approves the Merger and change of control of the Franchisee contingent upon approval and mutual execution of the attached Change of Control Agreement in the form specified as Exhibit A.

SECTION 2. The Clerk of the Board is directed to send a certified copy of this resolution and the Change of Control Agreement to Franchisee at the following addresses within ten (10) days after approval by the Board of the resolution:

AT&T Broadband
Kent Leacock
Vice President of Government Affairs
P.O. Box 5147
San Ramon, California 94583

Ms. Maria Arias
AT&T Broadband
188 Inverness Drive West
Room 6-042
Englewood, Colorado 80112

SECTION 3. If the Change of Control Agreement is not executed and returned to the County by all parties other than the County within ninety (90) days following the approval by the Board of this Resolution, this consent shall be voidable at the County's sole discretion, and in that event, the Change of Control shall be deemed denied as of the date of adoption of this Resolution for cause based upon the following reasons:

(A) The Franchisee has committed material breach(s) of its Franchise;

(B) The parties to the Application have failed to demonstrate that the Transferee will possess the financial capability to assume control of the Franchise and the Franchisee.and that the Merger will not impose a significant negative impact upon rates and services;

(C) The Transferee does not possess the financial capability to assume control of the Franchise and the Franchisee and the Merger will impose a significant negative impact upon subscriber rates and services; and

(D) The parties to the Merger have failed to execute a Transfer Agreement which cures or mitigates the above described issues.

SECTION 4. The Customer Protection and Service Standards set forth on Exhibit B are thereby adopted. The Franchisee shall comply therewith on the ninety-first (91^{st}) day subsequent to receipt of a copy of this Resolution.

SECTION 5. This Resolution shall be deemed effective in accordance with applicable law.

PASSED, ADOPTED, AND APPROVED this **25*** day of June 2002.

____
Chairperson of the Board

ATTEST:

____
Clerk of the Board

STATE OF CALIFORNIA)
COUNTY OF SANTA CRUZ) SS
COUNTY OF SANTA CRUZ)

I, ___________________,Clerk of the Board of Supervisors of the County of Santa Cruz, California, DO HEREBY CERTIFY that the forgoing resolution was adopted by the Board of Supervisors of said County at a regular meeting of said Board of Supervisors held on the _____ day of June 2002, and that it was so adopted by called vote as follows:

AYES:

NOES:

ABSENT:

____
Clerk of the Board

EXHIBIT A

AGREEMENT RELATING TO THE CONSENT
OF THE COUNTY OF SANTA CRUZ, CALIFORNIA
TO THE CHANGE OF CONTROL OF ____________

THIS AGREEMENT (the "Change of Control Agreement" or "Agreement") is entered into as of the latter of the dates set forth in the signature section, between and among the County of Santa Cruz, California (the "County"), ____________________________ (the "Franchisee") and AT&T Comcast Corporation (the "Transferee"). The obligations and liabilities of the Transferee under this Agreement are limited to those expressly stated herein as applying to the Transferee.

WHEREAS, Franchisee is the duly authorized holder of a franchise (the "Franchise") authorizing the installation, operation and maintenance of **a** cable television system (the "System") within the County; and

WHEREAS, Franchisee is an indirect subsidiary of AT&T *Corp.* ("Transferor"); and

WHEREAS, Transferor intends to merge its subsidiary AT&T Broadband Corp. with Comcast Corporation to create a new company to be known as AT&T Comcast Corporation pursuant to the terms of an Agreement and Plan of Merger dated December 19, 2001, by and between Transferor, AT&T Broadband Corp. and Transferee, and certain of their respective affiliates (the "Merger Agreement") and a Separation and Distribution Agreement dated December 19, 2001, by and between Transferor and AT&T Broadband Corp. (the "Merger"); and

WHEREAS, following the Merger the Franchisee will remain in place and continue to hold the Franchise; and

WHEREAS, the Franchisee, Transferor and Transferee filed a written application to the County on or about ______________, 2002 (the "Application") wherein they have requested the consent of the County to the Change of Control of the Franchisee to Transferee (the "Change of Control") pursuant to Ordinance No. _____ (the "Ordinance"); and

WHEREAS, the Board of Supervisors of the County has reviewed the Application as well as all relevant documents, staff reports and recommendations; and

WHEREAS, pursuant to the Ordinance, the Change of Control is subject to written consent of the County; and

WHEREAS, based upon the evidence presented to the Board of Supervisors, it has determined that it would be in the public interest to conditionally approve the Change of Control.

NOW, THEREFORE, it is agreed by and between the parties as follows;

1. The Board of Supervisors of the County hereby gives its consent to and approval of the Change of Control of the Franchisee.

2. The granting of this consent to the Change of Control does not waive the right of the County to consent to any subsequent change in control.

3. Franchisee agrees that his Change of Control Agreement and approving resolution is not a new franchise agreement, the granting of a franchise, or the renewal of the existing franchise, but rather is exclusively an agreement consenting to a change of control of the Franchisee and said Change of Control Agreement neither affects nor prejudices in any way the rights of the County or, the Franchisee under the Franchise, Franchisee and Transferee further agree that (i) in adjudging whether particular obligations are commercially impracticable, as that term is used and defined under Section 625 of the Cable Communications Policy Act of 1984, as amended (the "Cable Act"), or (ii) in any proceeding relating to the approval or establishment of

a rate subject to the jurisdiction of the County, the parties will not consider the economic burden of debt service and equity requirements incurred directly or indirectly to fund the Change of Control to the extent such debt service and equity exceeds the debt service and equity requirements of Franchisee as they existed prior to the closing of the Proposed Transaction.

4. The Franchisee and the County acknowledge and agree that the Change of Control will not alter their respective commitments, duties and obligations present, continuing and future embodied in the Franchise Agreement, the Ordinance, any prior Change of Control or Transfer Agreements between them relating to the System, and any lawful orders or directives of any administrative agency relating to the Franchise or the System including, but not limited to , the Federal Communications Commission (the "Commission") (collectively, the "Franchise Documents"). The County's consent to the Change of Control shall not in any respect relieve Franchisee or any of its successors-in-interest of the responsibility for past acts or omissions, known or unknown, or for any obligations or liabilities pursuant to the Franchise Documents. Franchisee agrees to cooperate and furnish relevant information in relation as required by the Franchise to any audit and/or investigation relative to any breaches and/or defaults that may accrue subsequent to the Change of Control.

To the extent that the Franchisee or Transferee, or any related person or entity, challenges the validity or interpretation of the Franchise Documents in the future in any administrative proceeding or court of law, such a challenge shall be subject to all defenses which would have been available to the County had the Transferor, Franchisee or any related person or entity, brought said challenge(s), as well as any and all defenses independently available against Transferee, to the extent applicable. Transferee acknowledges that the Change of Control will not affect, diminish, impair or supersede the binding nature of the Franchise and any other existing ordinances, resolutions, and agreements applicable to the operation of the System and that the Franchisee shall comply with all applicable requirements of the Franchise.

5. The parties acknowledge and recognize that the Change of Control, the consent process, the County's Resolution granting consent, and this Agreement do not provide any basis for increasing the amounts paid by subscribers through cost pass-throughs as so-called "external costs" or as new requirements and the consent process and Resolution Granting consent do not provide any basis for increasing the rates paid by subscribers in any manner.

6. By executing this Change of Control Agreement, the Franchisee agrees to fully reimburse the County for all costs up to a maximum of Ten Thousand Dollars ($10,000) reasonably incurred by it in relation to this Change of Control proceeding including, but not limited to, all attorneys fees, consultant fees, and audit fees unless a final, effective, and binding judicial decision prohibits said payment. The County shall inform Franchisee of the amount of said costs, which my include costs directly incurred by the County and its share of joint costs incurred with other reviewing fi-anchising authorities, by providing the Franchisee's Vice President for Government Affairs with a general statement within thirty (30) days of the execution and delivery of this Agreement by Franchisee and Transferee. Such statement shall include a certification that the costs were incurred by it in relation to the Change of Control. Failure of the Franchisee to pay said cost within forty-five (45) days of receipt of such statement shall result in this Change of Control Agreement and the approving resolution being null and void, the consent to the Change of Control Agreement and the approving resolution being null and void, the consent to the Change of Control becoming void, and the Change of Control deemed disapproved as of the date of the approving resolution of this Change of Control Agreement.

7. In regard to any payment made, equipment provided, or service provided to the County pursuant to this Change of Control Agreement, the Franchisee, or any affiliate party, will not pass through, externalize, or otherwise attempt to add the costs of the payment or equipment to any regulated rate.

8. Franchisee represents that the letter of credit, insurance and bonding required by the Franchise Documents have been obtained, and that there will be no gaps in required coverages or liabilities, Franchisee will continue to maintain the letter of credit and bonds, if any, that are required under the Franchise notwithstanding the Change of Control.

9. Transferee and Franchisee represents and warrants that the Change of Control of the Franchisee complies with and is not in violation of any applicable federal, state, or La Palma law, statute, and/or regulation. Franchisee agrees to defend, indemnify and hold the County harmless against any loss, claim, costs, damage, liability or expense (including, without limitation, reasonable attorney's fees) arising out of this Change of Control Agreement, and/or incurred as a result of (i) any representation made by Transferor, Transferee or Franchisee in the Application or in connection with the County's review of the Change of Control which proves to be untrue or inaccurate in any material respect or (ii) any violation of any applicable federal or state law or regulation relative to Transferee's ownership or control of the Franchisee. In the event the County receives any such notice of a loss, claim, damage, liability or expense, the County shall promptly notify Franchisee which shall, at the request of the County, assume direct responsibility for defending against any such loss, claim, damage, liability or expense. The County shall reasonably cooperate in such defense.

10. This consent is not affirmation that Franchisee is currently in compliance with the Franchise Agreement. Any consent given by the County in this Change of Control Agreement

and any resolution approving this Change of Control Agreement is not a finding that, after the Change of Control, Franchisee or Transferee will be financially, technically or legally qualified, and no inference will be drawn, positively or negatively, as a result of the absence of a finding on this issue. Any consent is therefore made without prejudice to, or waiver of any right the County may have to fully investigate and consider Franchisee's or Transferee's financial, technical and legal qualifications and any other relevant considerations during any subsequent proceeding including by way of example and not limitation any future change of control, transfer or renewal proceeding. Without limiting the foregoing, the County's consent to the Change of Control is not a finding or representation by the County that the Franchise will be renewed or extended (and approval shall not create an obligation to renew or extend the Franchise that does not otherwise exist); that Franchisee or Transferee is "financially, technically or legal" qualified to hold a renewed franchise; or that any other renewal issue that may arise with respect to past performance or future cable-related needs and interests will be resolved in a manner favorable to Franchisee. Nothing in this Change of Control Agreement shall constitute a waiver of any of Transferor's, Transferee's, Franchisee's, or County's rights or remedies under federal, state, or local law.

11. The Franchisee and Transferee expressly agree that any litigation arising among the County, Franchisee and Transferee relating to the Franchise Agreement, this Agreement, the Ordinance, or any other agreements directly relating to the regulation, franchising, refranchising, operation and maintenance of the System shall be filed and litigated exclusively in the Superior Court, County of Santa Cruz, State of California or, if jurisdictional requirements are otherwise met, the Federal District Court for the Northern District, California. Transferee agrees to accept service of process by way of service upon: AT&T Comcast Corporation, ________________

______________________________________, or whoever may be subsequently identified as Transferee's designated agent for service process with the California Secretary of State.

12. The Transferee shall not, under any circumstances, incur any debt, either by way of direct incurrence or by way of a guarantee of the debt of another entity, whether short term debt, long term debt, or otherwise, without reporting all of said debt on all publicly available filings including, without limitation, filings with the Securities and Exchange Commission, the County, shareholders, or otherwise as an obligation of the Transferee irrespective of the Transferee's determination as to the likelihood, or lack thereof, that any such guaranteed debt shall actually be required to be paid, or shall be paid, by the Transferee. The Transferee shall not engage in "off-balance-sheet" borrowing whereby it directly or indirectly incurs debt or guarantees the debt of another entity, in any way, without reflecting said debt as an obligation of the Transferee.

13. **(A)** Neither the Transferee or any subsidiary, affiliate, thereof, shall, directly or indirectly, incur debt, whether short term, long term, or otherwise beyond the amount of debt which exists as of the date of closing of the Merger by more than five percent ***(5%)*** (the "Debt Limit") without the prior written consent of the Board of Supervisors, which consent shall not be unreasonably withheld. For the purposes of this paragraph, the term "debt" shall refer to all short term and long term debt obligations of the Transferee, or any affiliate or subsidiary thereof, or any party for which the Transferee has guaranteed the debt, in whole or in part, and shall include, without limitation, all bank debt, letters of credit, publicly traded debt, or other debt instruments which contain a conditional or unconditional obligation to pay monies at a future date.

(B) Transferee shall not incur any debt in excess of the Debt Limit without providing the County with a minimum of one hundred twenty (120) days advance written notice.

Said written notice shall include the amount of said debt which exceeds the Debt Limit (the "Proposed Debt"), the terms and conditions of said Proposed Debt, the uses of said Proposed Debt, and such other information as may be reasonably relevant to the County in evaluating the request to exceed the Debt Limit. The Transferee shall provide any additional information relating to said Proposed Debt as reasonably requested by the County within ten (10) days of the receipt of said request. Transferee shall reasonably cooperate with the County in providing sufficient information for the County to determine whether or not the incurrence of the Proposed Debt will negatively impact the financial capability of the Transferee or impose a significant negative impact upon rates and/or services.

(C) Unless the Board of Supervisors disapproves the request to incur Proposed Debt within one hundred twenty (120) days of the receipt of the written notice specified in subparagraph (B) above, except as such time is extended by mutual agreement of the parties, the request to incur Proposed Debt shall be deemed approved.

(D) The Transferee shall reimburse the County for all reasonable expenses incurred by it in processing the Transferee's request to incur the Proposed Debt.

14. **(A)** For a period of thirty-six *(36)* months commencing upon the closing of the Merger and concluding thirty-six **(36)** months thereafter, the Franchisee shall not make any of the following types of changes in the operation of the cable system without the prior written consent of the Board of Supervisors:

(1) Reduction in the number of customer service representatives;

(2) Reduction in the number of service technicians or other technical personnel providing installation, maintenance, and other technical services to the cable system;

(3) Transfer of any customer service or technical service functions to a office, location, or facility other than the facility where those services are being provided pursuant to as of the close of the Merger;

(4) Elimination of management positions at the system level and/or the regional level;

(5) Elimination of local office(s), customer service centers, payment drop centers, and other locations at which customers can pay bills, pick up equipment, deliver equipment, exchange equipment, register complaints, or otherwise interface with the cable system on a personal basis;

(6) Reduction in the number of local system employees by more than five percent (5%);

(7) Reduction in the number of regional area employees which provide services to the cable system by more than ten percent (10%);

(8) Elimination or reduction of live customer service representatives responding to telephone calls and/or the substitution of answering services or other mechanical/electrical devices for live customer service representatives;

(9) Transfer, assign, or reassign vehicles, converters, or other physical equipment from the cable system to other locations except in the normal course of business;

(B) If the Franchisee desires to alter system operations in any of the manners specified in subparagraphs 1-9 above, it shall submit a written plan (the "Plan") to the County no less than one hundred twenty (120) days prior to the proposed implementation date. The Plan shall describe, with specificity, the proposed changes and the Grantee's explanation as to why said changes will not produce a significant negative impact upon services. The County acknowledges that it is not its intent that reasonable modifications to system operations will be disapproved so long as the Grantee can demonstrate that said operational modification will not significantly negatively impact subscribers. Any Plan for a proposed modification of system operations not disapproved by the Board of Supervisors within one hundred twenty (120) days **of** receipt thereof shall be deemed approved.

15. Any violation of this Change of Control Agreement shall be deemed to be a violation of the Ordinance and the Franchise.

16. The County hereby gives Franchisee notice that the Change of control may create a taxable possessory interest upon which the Franchisee may be liable for the payment of certain property taxes. Franchisee hereby acknowledges that it has received actual notice as provided by California Revenue and Taxation Code Section 107.6.

17. This Change of Control Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. The parties agree that this Change of Control Agreement will be considered signed when the signature of a party is delivered by facsimile transmission. Such facsimile signature shall be treated in all respects as having the same effect of an original signature.

18. Change of Control Agreement shall be deemed effective upon the closing of the Merger so long as it is executed by the Franchisee and Transferee and delivered to the County within ninety (90) days of its approval by the Board of Supervisors; provided, however, any obligation of the Franchisee to pay costs become effective upon execution and delivery of this Transfer Agreement is not conditioned upon the occurrence, or lack thereof, of any other event.

19. On or before the Effective Date, Franchisee shall fully interconnect its cable system with the cable system owned and operated by an affiliate or subsidiary of Charter

Communications, Inc. ("Charter") in South County (the "Charter System") so that all of the PEG Channels of the Franchisee's system can be received by subscribers of the Charter System and all of the PEG Channels of the Charter System can be received by Franchisee's subscribers. In addition, programming originated at the County's PEG studio located in the City of Santa Cruz shall be transmitted directly to Charter's South County head-end.

ATTEST:

COUNTY OF SANTA CRUZ, CALIFORNIA

____

Clerk of the Board

____

Its: ____________________________

____

("FRANCHISEE")

By: _________________________________

Its: ___________________________

AT&T COMCAST CORPORATION ("TRANSFEREE")

By: _________________________________

Its: ___________________________

EXHIBIT B

COUNTY CONSUMER PROTECTION AND SERVICE STANDARDS

A. Applicability.

Unless preempted by paramount federal or state law, a Grantee must maintain the necessary facilities, equipment, and personnel to comply with the consumer protection and service standards of this section, which standards apply, without limitation, to all video, voice, and data services that are provided by the Grantee to its subscribers. In the event of a conflict between the provisions hereof and any franchise, license, ordinance, resolution, regulation or similar document; the provision most protective of the subscriber(s) shall prevail.

B. Operational Standards.

1. The Grantee must comply, under normal operating conditions, with the following operational standards and requirements:

a. Sufficient toll-free telephone line capacity must be available during normal business hours to ensure that telephone calls are answered before the fourth ring. Telephone answer time by a customer service representative, including wait time, may not exceed 30 seconds. Callers who must be transferred may not be required to wait more than 30 seconds before being connected to a service representative.

b. A caller must receive a busy signal less than three percent **(3%)** of the time.

c. Emergency toll-free telephone line capacity must be available on a 24-hour basis, including weekends and holidays and shall be answered on a 24/7 basis by trained customer service representatives.

d. A local business and service or payment office must be located within the franchise service area and must be open during normal business hours at least ten hours daily on weekdays, and at least six hours weekly on evenings or weekends, and adequately staffed with trained customer service representatives to accept subscriber payments and to respond to service requests, inquiries, and complaints.

e. An emergency system maintenance and repair staff must be available that is capable of responding to and repairing major system malfunctions on a 24-hour per day basis.

f. A trained installation staff must provide service to any subscriber requiring a standard installation within seven business days after receipt of a request, in all areas where trunk and feeder cable have been activated.

"Standard installations" are those that are located up to 150 feet from the existing distribution system, unless otherwise defined in the franchise agreement.

g. All officers, agents, and employees of the Grantee, or of its contractors or subcontractors, who, in the normal course of work come into contact with members of the public, or who require entry onto subscribers' premises, must carry a photo-identification card in a form approved by the County. The Grantee must account for all identification cards at all times. All vehicles of the Grantee or its subcontractors must be clearly identified as vehicles engaged in providing services for the Grantee.

h. In processing a request for installation of service, the Grantee may not request more personal-identity information than is necessary to verify the identity of a subscriber. This information may vary depending upon the circumstances, but Grantee may not deny service to a potential subscriber if that person fails to provide a driver's license number or a social security number. Service may, however, be denied by Grantee if a potential subscriber fails to produce any verifiable personal-identity information after being requested to do so.

1. The Grantee must schedule, within a specified four-hour time period Monday through Saturday (legal holidays excluded), all appointments with subscribers for installation of service, service calls, and other activities at the subscriber's location. The Grantee may schedule installation and service calls outside of normal business hours for the convenience of the subscriber. The Grantee may not cancel an appointment with a subscriber after the close of business on the business day prior to the scheduled appointment. If a Grantee representative is delayed in keeping an appointment with a subscriber and will not be able to honor the scheduled appointment, the subscriber must be contacted prior to the time of the scheduled appointment, and the appointment must be rescheduled, as necessary, at a time that is convenient for the subscriber. The Grantee must use its best efforts to contact every customer within two weeks after an installation or repair work is completed to ensure that the customer is satisfied with the work.

j. Subscribers who have experienced one missed appointment due to the fault of the Grantee will receive an installation free of charge if the appointment was for an installation. **If** an installation was to have been provided free of charge, and for all other appointments, the subscriber will receive one month of the subscribed-to service or service tier, free of charge. Subscribers also will be entitled to receive a free installation, or one-month free service, as provided above, if the Grantee fails to complete a standard installation within seven days of receiving an installation request due to its fault, its failure to schedule an appointment within a specified four-hour time period, or its failure to notify the subscriber that the Grantee's representative will be late for an appointment. Subscribers who have experienced two missed appointments due to the fault of the Grantee will receive two months of the subscribed-to service or service tier, free of charge, in addition to the free installation or free month of service provided for the first missed appointment.

k. Upon a subscriber's request, the Grantee will arrange for pickup or replacement of converters or other equipment provided by the Grantee at the subscriber's address within 14 days after the request is made if the subscriber is mobility-limited.

2. The standards of subparagraphs (a) and (c) above must be met not less than 90 percent of the time, measured on a monthly basis. Grantee shall provide sufficient data, on a franchise area by franchise area basis, to determine compliance or lack thereof with all standards. Regional data is not deemed sufficient.

C. Service Standards.

1. The Grantee will render efficient service, make repairs promptly, and interrupt service only for good cause and for the shortest time possible. Except in emergency situations, scheduled interruptions will occur during a period of minimum use of the cable system, preferably between midnight and 6:00 a.m. Unless the scheduled interruption lasts for no more than two hours and occurs between midnight and 6:00 a.m. (in which event 24-hours prior notice must be given to the County), 48 hours prior notice must be given to subscribers.

2. The Grantee will maintain a repair force of technicians who will respond to subscriber requests for service within the following time frames:

a. For a system outage: Within two hours, including weekends, of receiving subscriber calls or requests for service that by number identify a system outage of sound or picture of one or more channels, affecting five or more subscribers of the system.

b. For an isolated outage: Within 24 hours, including weekends, of receiving requests for service identifying an isolated outage of sound or picture for one or more channels.

c. For inferior signal quality: No later than the following business day, excluding Sundays and holidays, after a request for service identifying a problem concerning picture or sound quality.

3. The Grantee will be deemed to have responded to a request for service under the provisions of this paragraph (B) when a technician arrives at the service location and begins work on the problem. If a subscriber is not home when the technician arrives, the technician must leave written notification of arrival.

4. The Grantee may not charge for the repair or replacement of defective or malfunctioning equipment provided by the Grantee to subscribers, unless the defect or malfunction was caused by the subscriber.

5. The Grantee must determine the nature of the problem within **24** hours after commencing work and resolve all cable-system related problems within three business days, unless technically infeasible.

D. Billing and Information Standards.

1. Subscriber bills must be clear, concise, and understandable. Bills must be fully itemized, with itemizations including, but not limited to, basic and premium service charges and equipment charges. Bills also must clearly delineate all activity during the billing period, including optional charges, rebates, and credits.

2. To ensure that subscribers are fully informed of the charges they will incur, both current and potential subscribers must, in their telephonic communications with Grantee's representatives, be quoted rates and charges that are inclusive of all applicable fianchise and other fees that are imposed upon a subscriber.

3. The first billing to a subscriber after a new installation or service change must be prorated based upon when the new or changed service commenced. Subscribers must not be charged a late fee or otherwise penalized for any failure attributable to the Grantee, including the failure to bill the subscriber correctly and in a timely manner.

4. In case of a billing dispute, the Grantee must respond in writing to a written complaint from a subscriber within 10 days after receiving the complaint at the office specified on the billing statement for receiving that complaint.

5. If a subscriber in good faith disputes all or any part of a billing, the subscriber has the option of withholding the disputed amount without the threat of disconnection until the dispute is resolved, provided that:

a. The subscriber pays all undisputed charges;

b. The subscriber provides written notification to Grantee of the dispute in a timely manner; and

c. The subscriber cooperates in determining the appropriateness of the charges that are in dispute.

6. The Grantee must, upon request from the subscriber, provide a credit or refund to a subscriber whose service has been interrupted for two hours or more in any one day by other than a planned outage as to which the subscriber has received reasonable advance notice. This credit or refund will be equal to a pro-rata share of the subscriber's monthly billing for one full day. All credits for service must be issued no later than the customer's next billing cycle following the determination that a credit is warranted. For subscribers terminating service, refunds must be issued promptly, but no later than 30 days after the return of any Grantee-

supplied equipment. Failure to provide credits or refunds as required by this section will entitle the subscriber to an additional $10 rebate.

7. Late fees imposed by the Grantee must not exceed the amount authorized under California law.

8. Subject to prior review by the County, the Grantee must provide written information on each of the following matters at the time of the installation of service, at least annually to all subscribers, and at any time upon request:

a. Products and services offered.

b. Prices and options for programming services and conditions of subscription to programming and other services.

c. Installation and service maintenance policies.

d. Instructions on the use of the cable service.

e. Channel positions of programming carried on the cable system.

f. Billing and complaint procedures, including the address and telephone number of both the Grantee's and the County's office designated for dealing with cable-related complaints.

g. Consumer protection and service standards and penalties for noncompliance, which standards must include procedures for refunds and credits, disconnection and termination of service, and the scheduling of service calls.

9. Subscribers must be notified of any changes in rates, programming services, or channel positions as soon as possible through announcements on the cable system and in writing. Notice must be given to subscribers a minimum of 30 days in advance of those changes if the change is within the control of the Grantee. In addition, the Grantee must notify subscribers through announcements on the cable system and in writing 30 days in advance of any significant changes in the information required above in subsection (8).

10. The Grantee must offer to subscribers the option to receive an A/B switch at the time of initial cable service installation and must provide to subscribers written information on the use of that switch. The Grantee may charge a reasonable price for the switch. Upon subscriber request, the Grantee must provide an A/B switch after the initial installation of cable service. If the subscriber requests installation of a switch in order to receive broadcast television without a cable hookup, the Grantee may charge reasonable fees for that installation and equipment.

11. The Grantee must maintain a public file containing all notices provided to subscribers under these consumer protection and service standards and all promotional offers

made by Grantee to subscribers. These documents must be maintained for a minimum period of four years.

E. Verification of Compliance with Standards.

1. Upon 15 days prior written notice, the County may require the Grantee to provide a written report with data provided on a franchise area by franchise area basis demonstrating its compliance with any of the consumer protection and service standards specified in this Ordinance. The Grantee must provide sufficient documentation to enable the County to verify compliance.

2. A repeated and verifiable pattern of noncompliance with the consumer protection and service standards of this Ordinance, after the Grantee's receipt of written notice and an opportunity to cure, may be deemed a material breach of the franchise agreement.

F. Subscriber Complaints and Disputes.

1. The Grantee must establish written procedures for receiving, acting upon, and resolving subscriber complaints without intervention by the County. The written procedures must prescribe the manner in which a subscriber may submit a complaint, either verbally or in writing, specifying the subscriber's grounds for dissatisfaction. The Grantee must file a copy of these procedures with the County.

2. Grantee must maintain a log or similar written record that lists the date and time of each customer complaint, identifies the subscriber, describes the nature of the complaint, and specifies what action was taken, and when, in response to the complaint. This written record must be maintained at the Grantee's local office for a period of three years and must be available during regular business hours for review by the County's authorized representative in order to determine the Grantee's compliance with the County's consumer protection and service standards.

3. All subscribers have the right to continue receiving service so long as their financial and other obligations to the Grantee are honored. If the Grantee elects to rebuild, modify, or sell the system, or if the County gives notice of intent to terminate or not to renew the franchise, the Grantee must act so as to ensure that all subscribers receive service while the franchise remains in force.

4. Upon a change of control of the Grantee, or if a new operator acquires the cable system, the original Grantee must cooperate with the County, the new Grantee, or the new operator in maintaining continuity of service to all subscribers. During that transition period, the Grantee is entitled to the revenues derived from its operation of the cable system.

G. Disconnection/Downgrades.

1. A subscriber may terminate or downgrade service at any time, and the Grantee must promptly comply with the subscriber's request within five days or at the time requested by the subscriber. No period of notice prior to voluntary termination or downgrade of service may be required of subscribers. Grantee will impose no charges for the voluntary termination or

downgrade of service unless a visit to the subscriber's premises is required to remove a converter box or other equipment or property owned by Grantee.

2. The Grantee must provide each new subscriber with a three-day right to rescind the subscriber's order for service, which right will commence on the day following the date on which the order is placed; provided, that this right may not be exercised after the service ordered has been activated,

3. Every subscriber who is billed for Grantee's services will have not less than 15 days from the date that the bill is mailed to pay the invoiced charges. Payments must be promptly posted by the Grantee to subscribers' accounts. Residential service may not be disconnected by Grantee for nonpayment of a delinquent account without 15 days prior written notice. That notice may not be mailed until after the sixteenth day from the date that the bill was mailed to the subscriber. No late charge may be assessed by the Grantee earlier than the twenty-second day after the date that the bill was mailed to the subscriber. If the subscriber pays all past due amounts, including late charges, before any scheduled disconnection date, the Grantee may not disconnect service. If service is disconnected for nonpayment of past due fees or charges, the Grantee must promptly reinstate service upon payment in full by the subscriber of all such fees and charges, including late charges. Residential service may be disconnected only on those days and at those times when the subscriber can contact a customer service representative of the Grantee, either in person or by telephone.

4. Notwithstanding the requirements of subsection **(3)** above, the Grantee may immediately disconnect service to a subscriber if the subscriber is damaging or destroying the Grantee's cable system or equipment. In the event of disconnection on such grounds, the Grantee will resume service to the subscriber upon receiving adequate assurances that the subscriber has ceased the practices or conduct that resulted in disconnection and has paid all proper fees and charges, including any amounts reasonably owed the Grantee for the damage caused by the subscriber.

5. The Grantee may also disconnect service to a subscriber when signal leakage occurs that exceeds federal limits. If service is disconnected, the Grantee will immediately restore service without charge upon the satisfactory correction of the signal leakage problem.

6. Upon termination of service to a subscriber, the Grantee will remove its equipment from the subscriber's premises within **30** days. The equipment will be deemed abandoned if it is not removed within such time period unless the Grantee has been denied access to the subscriber's premises.

7. Grantee must issue security or subscriber deposit refund checks promptly, but no later than **45** days following the termination of service, less any deductions authorized by law.

H. Changes in Service.

Except as otherwise provided by federal law, subscribers must not be required to pay any additional fee or charge, other than the regular service fee, in order to receive the services selected (such as upgrade or downgrade charges). No charge may be imposed for any service or product that the subscriber has not affirmatively selected. Payment of the regular monthly bill will not by itself constitute an affirmative selection.

I. Deposits.

The Grantee may require a reasonable, nondiscriminatory deposit on equipment provided to subscribers, which deposit must not exceed the actual replacement cost of that equipment. Such deposits must be placed in an interest bearing account. The deposit must be returned, with interest earned to the date of repayment, within 30 days after the equipment is returned to the Grantee.

J. Parental Control Option and Channel Scrambling.

1. The Grantee must provide parental control devices to all subscribers who desire to block the video or audio portion of any programming that the subscriber finds objectionable. Such devices will be provided at no charge to the subscriber, unless otherwise required by federal law or unless a converter box is required to be installed for the purpose of providing the parental control device.

2. Grantee must provide subscribers with at least 30 days prior written notice of any proposed scrambling or descrambling of a channel that carries R-rated or similar adult programming.

K. Privacv Rights of Subscribers.

1. Grantee must at all times protect the privacy rights of all subscribers in accordance with applicable state and federal laws, including the provisions of 47 U.S.C. $551 of the Communications Act.

2. At least annually, Grantee must provide notice to each subscriber in the form of a separate, written statement that clearly and conspicuously informs the subscriber of the following:

a. The nature of personal-identity information collected or to be collected with respect to the subscriber and the nature of the use of that information.

b. The nature, frequency, and purpose of any disclosure that may be made of that information, including an identification of the types of persons to whom the disclosure may be made.

c. The period during which that information will be maintained by the Grantee.

d. The times and place at which the subscriber may have access to that information in accordance with federal and state law.

e. The limitations provided in federal and state law with respect to the collection and disclosure of that information by the Grantee and the rights of the subscriber under applicable law.

3. The following provisions apply to the protection of information relating to subscriber preferences:

a. Grantee may not disclose individual subscriber preferences, viewing habits, beliefs, philosophy, creeds, or religious beliefs to any third person, firm, agency, governmental unit, or investigating agency without court authority or the prior written consent of the subscriber.

b. The subscriber's written consent, if given, must be limited to a period of time not to exceed one year, or a term agreed upon by the Grantee and the subscriber.

c. The Grantee may not condition the delivery or receipt of cable services to any subscriber on any such written consent.

d. **A** subscriber may revoke, without penalty or cost, any consent previously given by delivering to the Grantee written notice of the subscriber's intent to so revoke.

4. The Grantee may not disclose, or sell, or permit the disclosure or sale of its subscriber lists without the prior affirmative written consent of each subscriber; provided that the Grantee may use its subscriber lists as necessary for the construction, marketing, and maintenance of the Grantee's services and facilities authorized by a franchise, and the concomitant billing of subscribers for cable services; and provided further that, consistent with applicable law, the County may use Grantee's subscriber lists for the purpose of communicating with subscribers in connection with matters relating to the operation, management, and maintenance of the cable system.

5. The prohibitions contained in this paragraph (K) apply to the Grantee, its affiliates and subsidiaries, and to the officers, directors, employees, agents, and holders of equity interests in the Grantee and its affiliates and subsidiaries.

L. Nondiscrimination.

Grantee may not unlawfully discriminate between or among subscribers within one type or class in the availability of services, at either standard or differential rates set forth in published rate schedules. No charges may be made for services except as set forth in published schedules that are available for inspection at Grantee's office, quoted by Grantee on the telephone, or displayed or communicated to existing or prospective subscribers. This paragraph does not apply to offers or promotions of limited duration.

M. Entry on Private Property.

Whenever possible, Grantee will provide verbal or written notice to affected property owners before entering upon their property. The notice must include Grantee's telephone number that property owners may call with regard to any matters related to the proposed entry.

N. Additional Requirements.

1. If the Grantee fails to operate the system for seven consecutive days without the County's prior approval or subsequent ratification, the County may, at its sole option, operate the system or designate an operator until the Grantee restores service under conditions acceptable to the County, or until a permanent operator is selected. If the County satisfies this obligation on behalf of the Grantee, then during that time period the County is entitled to collect all revenues derived from the system, and the Grantee will indemnify the County against any damages that the County may suffer as a result of the Grantee's failure to operate the system.

2. Additional standards relating to service, consumer protection, and response by the Grantee to subscriber complaints not otherwise provided for in this Ordinance may be set forth in the franchise, license, lease, or similar written agreement, or by separate ordinance, and the Grantee must comply with those standards in the operation of the cable television system. A verified and continuing pattern of noncompliance may be deemed a material breach of the written agreement, provided that the Grantee receives written notice and an opportunity to cure before any penalty or other remedy is imposed.

3. Grantee may not scramble or otherwise encrypt signals carried on the basic service tier. Requests for waivers of this prohibition must demonstrate either a substantial problem with theft of basic tier service or a compelling need to scramble basic signals for other reasons. Grantee must also provide "open cable" specifications that allow the use of set-top boxes and encryption devices that are available for purchase in retail stores.

O. Disconnect for Cause.

Grantee may disconnect a Subscriber only for cause, which shall include, without limitation, the following:

1. Payment delinquency in excess of forty-five (45) days.

2. Willful or negligent damage to or misappropriation of Grantee's property.

3. Monitoring, tapping, or tampering with Grantee's system, signals, or service.

4. Threats of violence to Grantee's employees or property.

P. Reconnection.

Grantee shall, upon Subscriber's written request, reconnect service which has been disconnected for payment delinquency when payment has removed the delinquency. If authorized by applicable law, a published standard charge may be made for reconnection. Grantee shall not be required to make more than three (3) reconnections for the same subscriber if the disconnections involved were caused by payment delinquency within any previous twenty-four (24) month period.

1. Grantee shall promptly provide and maintain service as specified in the Franchise to the residential, commercial, and industrial structures in the service area, as defined in the Franchise, upon request of the lawful occupant or owner.

2. In the case of a new drop, Grantee shall advise each subscriber that the subscriber has the right to require that installation be done over any route on the subscriber's property, and in any manner the subscriber may elect which is technically feasible and consistent with proper construction practices. If the subscriber requests installation other than a standard installation, then the subscriber may be required to pay a reasonable fee for the time and materials occasioned by that installation.

3. For purposes of this paragraph, a standard installation shall include installation of drop cable with fittings up to one hundred and **fifty** feet (150) feet from the distribution system measured along the cable from the center line of the street or utility easement through the house wall or, at the subscriber's option, through the floor from a house vent or crawl space directly to the subscriber's television set with five feet of cable from the wall or floor entry to the TV set. **Also** included as part of a standard installation is the grounding cable, fine tuning of the television set, and the provision by the Grantee of the appropriate literature and information.

4. After cable service has been established by activating trunk or distribution cables for any area, Grantee shall provide service to any person requesting Service in that area within seven days from the date of request, provided that the Grantee is able to secure all rights-of-way necessary to extend service to that potential subscriber within that seven **(7)** day period on reasonable terms and conditions.

Q. Converters/Terminals.

At such time as a converter or terminal is required for subscribers to have access to all services on its system, Grantee shall make them available to subscribers. Grantee may require each subscriber who elects to install a converter or terminal to furnish a security deposit therefor.

1. Each converter or terminal device shall be and remain the property of the Grantee unless Grantor approves or requires its sale to the subscriber. Grantee shall be responsible for maintenance and repair of all equipment owned by Grantee and may replace it as Grantee may from time-to-time elect, except that subscriber shall be responsible for loss of or damage to any such device while in the subscriber's possession.

2. Upon termination or cancellation of subscriber's service, subscriber shall promptly return Grantee's property to Grantee in the same condition as received, reasonable wear and tear excepted.

3. Grantee may apply the security deposit against any sum due from subscriber for loss of or damage to such converter or terminal exceeding reasonable wear and tear. In the event that no security deposit has been required, the Grantee may charge the subscriber for any such damage exceeding reasonable wear and tear.

4. If Grantee has no claim against the subscriber's security deposit, Grantee shall return it, or the balance, to the subscriber within twenty (20) days of return of the converter or terminal.

R. Penalties for Noncompliance.

1. Purpose. The purpose of this paragraph is to authorize the imposition of penalties for the violation of the customer service standards. These penalties are in addition to any other remedies provided by this chapter, the franchise, license, lease, or similar written agreement, or any other law, and the Grantor has the discretion to elect the remedy that it will apply. The imposition of penalties authorized by this paragraph will not prevent the Grantor or any other affected party from exercising any other remedy to the extent permitted by law, including but not limited to any judicial remedy as provided below by subsection (2)(d).

2. Administration, Appeals. and Penalties.

a. The County Administrative Officer or the County Administrative Officer's designee is authorized to administer this paragraph. Decisions by the County Administrative Officer to assess penalties against the Grantee must be in writing and must contain findings supporting the decisions. Decisions by the County Administrative Officer are final, unless appealed to the Board of Supervisors.

b. If the Grantee or any interested person is aggrieved by a decision of the 'County Administrative Officer, the aggrieved party may, within 10 days of the written decision, appeal that decision in writing to the County Board of Supervisors. The appeal letter must be accompanied by the fee established by the County Board of Supervisors for processing the appeal. The County Board of Supervisors may affirm, modify, or reverse the decision of the County Administrative Officer.

c. Schedule of Penalties. The following schedule of monetary penalties may be assessed against the Grantee for the material breach of the provisions of the customer service standards, provided that the breach is within the reasonable control of the Grantee:

(i) For a first material breach, the maximum penalty is $200 for each day of material breach irrespective of the number of customers affected.

(ii) For a second material breach of the same nature within a 12-month period for which the Grantor has provided notice and a penalty has previously been assessed, the maximum penalty is $400 for each day of the material breach irrespective of the number of customers affected.

(iii) For a third or further material breach of the same nature within a 12-month period for which the Grantor has provided notice and a penalty has previously been assessed, the maximum penalty is $1,000 for each day of the material breach irrespective of the number of customers affected.

d. Judicial Remedy. This paragraph does not preclude any affected party from seeking any judicial remedy available to that party without regard to this paragraph.

e. Notification of Breach. The Grantor must give the Grantee written notice of any alleged breach of the consumer protection and service standards and allow the Grantee at least **30** days from receipt of the notice to remedy the specified breach. For the purpose of assessing penalties, a material breach is deemed to have occurred for each day, following the expiration of the period for cure specified in the Grantor's written notice, that any breach has not been remedied by the Grantee, irrespective of the number of customers affected.

S. Free Service for Noncompliance.

Notwithstanding any other penalties or remedies provided herein, or any other law, the Grantee must provide the following months of free service to subscribers affected by the Grantee's failure to comply with the specified consumer protection and service standard:

1. One Month Free Service. The Grantee will provide one month of free service to each subscriber affected by the failure of the Grantee to timely and satisfactorily comply with any of the following requirements:

a. The pickup or replacement of converters or other equipment within 14 days after subscriber request. (Paragraph (B)(1)(k).)

b. Forty-eight hour notice of service interruption. (Paragraph (C)(1).)

c. Response time for system outages and inferior signal quality. (Paragraph (C)(2).)

d. Resolution of cable system related problems within three business days. (Paragraph (C)(5).) One additional month of free service will be provided for each seven-day period that the problem remains unresolved.

e. Written response to billing complaints. (Paragraph (D)(4).)

f. Credits and refunds. (Paragraph (D)(6).)

g. Provision of all required information to subscribers. (Paragraph (D)(8).)

h. Notification of rate, service, or channel changes. (Paragraph (D)(9).)

i. Completion of termination or downgrade of service. (Paragraph (G)(1).)

j. Provision of parental control devices. (Paragraph (J)(1).)

2. Three Months Free Service. The Grantee will provide three months of free service to each subscriber affected by the Grantee's disconnection of subscriber service without just cause, provided that Grantee fails to restore service within four hours after the disconnection. (Paragraph (G)(3).)

3. Definition of Free Service. The free service required by this paragraph relates to the service tier or tiers subscribed-to by the affected subscriber.

4. Reduction in Fees. In the event that the system fails to meet any performance standards for a full three-month period, Grantee may reduce all subscribers fees by twenty-five percent until all performance standards are met. The County Administrative Officer shall notify the Grantee during the first month of the three-month period that the system has failed to meet performance standards.

5. Customer Credits. Except for rebuild or planned service interruptions for which Grantee receives prior approval from the Grantor, in the event that one-third or more of its service to any subscriber is interrupted for six *(6)* consecutive hours, or for a total of twelve (12) nonconsecutive hours within any thirty (30) day period, and subscriber notifies Grantee of said service interruption within twenty-four (24) hours of subscriber discovery thereof, Grantee shall provide a ten percent (10%) credit of monthly fees to affected subscribers for each such consecutive six-hour or nonconsecutive twelve-hour service interruption period. Grantor shall provide a fifty percent (50%) credit of the monthly fees to all affected subscribers for each failure to make a service call within the specified four (4) hour period. In no case shall such credit exceed the monthly fee charged to subscribers.

REPORT
OF SPECIAL COUNSEL FOR CABLE TELEVISION

I. SALIENT FEATURES OF THE AT&T COMCAST MERGER

The AT&T Comcast Merger (the "Merger") will create the largest cable television company in history and involves the following salient features:

(1) AT&T Comcast Corporation ("AT&T Comcast") will serve approximately **22** million cable subscribers, which includes about ***5*** million digital video customers, to 2,200,000 cable modem subscribers, and 1,000,000 cable telephone subscribers.

(2) Control of AT&T Comcast will be vested effectively in the Roberts Family, which currently controls Comcast. The Roberts Family will possess, subsequent to closing, ***33%*** of the voting shares of the merged company. Given the widely diversed ownership of remaining shares, the Roberts Family will possess effective control of AT&T Comcast.

(3) The Board of Directors of AT&T Comcast will be comprised of five (5) members nominated by Comcast, five ***(5)*** members nominated by AT&T, and two (2) additional members unaffiliated with either company. Brian Roberts of Comcast will be Chief Executive Officer and C. Michael Armstrong of AT&T will be Chairman of the Board.

(4) On the liability side, AT&T Comcast will assume almost **$20** billion in debt and other liabilities from AT&T and its subsidiaries, as well as $5 billion of AT&T subsidiary trusts convertible preferred securities held by Microsoft Corporation making the aggregate value of the transaction to AT&T shareholders worth **$72** billion, based on the closing price of Comcast class K stock on December 19th. (Exhibit **1,** p. 4.)

(5) AT&T Comcast Corporation will assume significant debt in that AT&T constitutes a highly leveraged cable operator with significant going forward capital demands. (Exhibit **2.)**

(6) Accounting for non-strategic assets that have been, or will be sold, AT&T originally paid $4,100 per subscriber for TCI and Media One, largely in AT&T stock. The Merger essentially values AT&T cable systems at approximately $4,500 per subscriber. (Exhibit 1, p. 6.)

(7) The Merger is touted as producing "significant synergies" based upon predictions, or perhaps speculation, that AT&T Comcast would generate **$1.25** billion in cost savings annually with the potential to increase those benefits to between **$2.6** billion and **$2.8** billion as the companies work together to improve broadband's cash flow margins. Comcast predicts significant improvements in operating margins with overhead perhaps being slashed by a factor of 10x. ("Brian's Bear Hug-Comcast Roberts Want AT&T's MSO", Multichannel News, July 16,2001, Exhibit **3,** p. 5; Exhibit **4,** pps. **8,** 10.)

II. THE 1998-2001 CABLE "MEGA-MERGERS" HAVE PROVED FINANCIALLY DISASTROUS TO CABLE SHAREHOLDERS AND COUNTERPRODUCTIVE TO THE BEST INTERESTS OF CABLE SUBSCRIBERS.

Between 1998 and 2001, we saw numerous "Mega-Mergers" of various cable operators including, without limitation, the acquisition of Century Communications by Adelphia Communications ("Adelphia"), the acquisition of TCI, Inc. by AT&T to form AT&T Broadband ("AT&T"), the acquisition of numerous cable operators including Marcus Communications and Charter Communications by Paul Allen to form Charter Communications, Inc. ("Charter"), and the merger of Time-Warner Cable and AOL, Inc. to form AOL Time-Warner, Inc. ("AOLTW') In all of these mergers, the following claims were made to justify the merger or acquisition to both shareholders and regulatory bodies:

(1) The merger would increase shareholder value through a combination of massive increases in revenue growth and cost savings synergies;

(2) The merger would accelerate the deployment of cable based telephony so as to provide a viable competitive alternative to incumbent local exchange carriers;

(3) The merger would produce significant opportunities for capital expansion and accelerate the upgrade of cable systems and the deployment of new services;

(4) The merger would produce no negative impact on subscribers in terms of instability of management personnel, increased rates, or reductions in the quality of services; and

(5) The merger would put an end to the fragmentation of cable ownership and provide long-term stability to the ownership and management of cable systems throughout the Country.

Without a doubt, almost all of the promises listed above have proved hallow with the reality being far worse than any analyst or government official could have reasonably predicted.[1] The following constitutes a discussion of the proven historic results of past mergers which are substantially similar to the one being proposed by AT&T and Comcast.

A. Impact on Shareholder Value.

One only need to review the historic performance of the affected cable stocks over the past three to five years to determine the market reaction to the above-described "Mega-Mergers". On June 6, 2002, AT&T Corp. traded at $11.67. Immediately prior to the consummation of the TCI-AT&T merger, AT&T stock traded in the range of $40.00 per share. (Exhibit 5.) Charter Communications, Inc., a company built almost totally through high priced acquisitions by Paul Allen, traded on June 6, 2002, at around $5.40. During much of 2001, Charter traded between $21-25 per share. (Exhibit *6.)* AOLTW, which obviously includes significant cable and non-cable properties, traded on June 6,2002, at $16.56 although that stock traded in the range of $50-$55 immediately subsequent to the closing of the AOL Time Warner merger on January 11, 2001. (Exhibit 7.) AOLTW has recently taken a $54 billion non-cash pre-tax charge for

[1] The fact that we are here today demonstrates the invalidity of the fifth premise.

impairment of goodwill, substantially all of which was generated in the merger of AOL and Time-Warner, which reflects declines in market value of the combined assets. (Exhibit 8.) A material portion of this impairment charge relates to the decline in value of Time-Warner's cable property ($22.98 billion or 42.3% of the total impairment charge). (Exhibit 8.) Recent reports have indicated that the early retirement of Gerald Levin, the prior former CEO of Time-Warner, Inc. was based upon the perceived debacle of the AOL Time-Warner merger. (Exhibit 9.) Although not treated as harshly as other cable operators, the stock price of Comcast Corporation has also taken a significant hit, trading at around $25.99 on June 6, 2002, down from approximately ***$56*** in November 2000. (Exhibit 10.)

The financial implosion sf Adelphia, which no longer trades on the NASDAQ due to its delisting, is breathtaking from a negative viewpoint and merits a separate discussion given its dire potential consequences upon Adelphia' creditors, shareholders, franchising authorities, and subscribers.

Although numerous factors obviously account for the horrendous declines in market value of the major cable operators which went on a "spending spree" between 1998-2001 by purchasing cable systems and companies for prices in the range of $3,000-$6,000 per subscriber, the uniformly dismal financial performance of these entities suggest that the financial burdens imposed by these acquisitions, and the debt and equity demands associated therewith, create a grounds for suspicion of any transaction which goes off at extremely high per-subscriber prices and boasts of significant synergies. Against this factual backdrop, it is incumbent upon any cable operator proposing a merger similar to that undertaken by AT&T, Charter, AOL Time-Warner, and Adelphia to fully explain how and why that proposed will succeed whereas other mergers have failed and why the merger will produce positive as opposed to negative subscriber results.

B. Impact Upon Deployment of Cable-Based Telephony and Other New Services.

The "Mega-Mergers" have produced little competition in the delivery of local exchange phone service. Although Cox Communications, Inc., has aggressively deployed cable-based telephony in a few of its franchise areas, the availability of competitive local exchange service options continues to be non-existent for the vast majority of citizens in this Country. AT&T touted its merger with TCI as producing an entity that would pursue the deployment of competitive local exchange service in an aggressive manner on a national level. However, three years later, AT&T's local exchange telephony deployment has proved relatively insignificant, as compared to the boasted promises, and the commitment of other "Mega-Merger" cable operators to local telephony has proved even more evasive. For example, Adelphia boasted the deployment of local exchange telephony service through its affiliated entity, Adelphia Business Solutions, Inc. However, Adelphia Business Solutions, Inc. recently declared bankruptcy and has sold the bulk of its infrastructure to potentially soon to be bankrupt Adelphia. Although AT&T and Comcast have, once again and without specificity, boasted the telephony deployment potential of the Merger, they have refused to provide any details, plans, budgets, roll-out schedules, or otherwise to support their claim that this Merger will succeed in an area where every prior merger has failed.

It is questionable, at best, whether the "Mega-Mergers" have enhanced the availability of capital for the purpose of rebuilding systems and deploying new services. Certainly, the reverse has been true over the last twelve months as highly-leveraged cable companies have lost the ability to access either debt or equity capital based upon the market's curtailment of their capital sources. The fact that billions in debt and equity capital were raised and expended to pay the prior owners of many of these cable systems has certainly contributed to this problem. It is well known that AT&T has terminated or materially delayed numerous capital improvement programs throughout the Country within the 12-18 months based upon "capital securement concerns". Likewise, highly-leveraged cable companies, such as Charter and Adelphia, have found it increasingly difficult to borrow additional sums based upon negative market perception of high leverage ratios. Adelphia has recently announced the termination of all of its rebuild projects, at least in Southern California, based upon its current financial condition.

C. Impact Upon Subscriber Rates.

Congress significantly deregulated the cable television and telecommunications industries in 1996.[2] Based upon the extensive deregulation of cable operators, especially in the area of rates, values of cable systems soared between 1998 and 2001 from a national average of approximately $1800-$2,000 in 1997 per subscriber to the range of $4,000-5,000 per subscriber with some large transactions peaking in excess of $6,000 per subscriber in 2001. Cable systems were bought and sold, often more than once within the same twelve month period, at a frenzied pace between 1998 and 2001 with cable owners realizing profits in the billions of dollars based upon the sale of cable systems which had escalated in value two or three times within a six to eighteen month period. Large and small fortunes were made literally overnight during this timeframe as local franchising authorities were inundated with FCC Forms 394 seeking franchise transfers. Little known cable operators, such as Charter and Marcus which did not even exist prior to the mid-1990's, all of a sudden jumped into the "top ten" stratus of MSO's with some operators, such as Marcus, going through a cycle where it was created, grew by acquisition and flipped in its entirety to another cable operator between 1993 and 2001. Cable executives and their investment bankers reaped billions in short term profits during this period of rampant speculation.

Telecommunications operators, which consist of primarily competitive local exchange carriers ("CLECS") and competitive long-distance carriers also enjoyed a stock market halo during the same timeframe. Between 1998 and early 2000, telecommunication operators, including the so-called "video overbuilders" such as RCN, Inc., Wide Open West, WIN First, Inc. and Siren Communications enjoyed easy access to the capital market. Publicly-traded

[2] It should be noted that it was only in 1992 that Congress significantly re-regulated the cable television industry, and the rates charged by those video providers, based upon a determination that the cable industry had unreasonably raised Basic Service Tier ("BST") and Cable Programming Service Tier ("CPST") rates between 1984 and 1992. The legislative history of the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act") is replete with anecdotal and statistically valid examples of rate gouging by monopolist cable operators. However, for whatever reason, the political winds shifted by 1996 and the cable industry was largely deregulated in terms of the rates which it could charge for video services irrespective of the introduction of actual competition in any particular marketplace.

telecommunication operators likewise rode the "E-commerce" optimism right into stockholders meetings due to rapidly escalating market capitalizations and easy access to debt and equity financing. Much of the economic enthusiasm for competitive telecommunications providers was built upon the purported availability and desirability of new fiber-based services which, in one way or another, were often hinged upon lightening quick access to the Internet. In theory, the introduction of material competition into the traditionally monopolistic markets for voice, video, and data was supposed to produce the same type of consumer benefits which were predicted by the creators of electric deregulation within the same timeframe espoused by the electric deregulation proponents. Unfortunately, reality and vision often do not coincide.

The deregulation of video providers was largely premised upon the notion that meaningful competition would be quickly infused into monopolistic local video markets through a combination of satellite providers, competitive video providers, and local phone companies. The harsh reality is that the local phone business and the video business simply did not mesh for a number of reasons. Although policy makers possessed great expectations in 1996 regarding the entry of Regional Bell Operating Companies ("RBOCS") into the local video market, it simply didn't happen. Although some RBOCS, such **as** Pacific Bell, commenced construction of video platforms in certain selected markets, it ultimately abandoned those efforts upon its acquisition by SBC. Likewise, Ameritech applied for and received numerous franchises in the Chicago area and ultimately constructed cable plant to be operated in conjunction with its existing phone system.

Competitive overbuilders have largely come and gone due to the non-availability of capital in competitive markets. Likewise, entrenched and monopolistic providers, such as AT&T Corp., are currently experiencing significant problems in raising capital for system rebuilds even in largely monopolistic markets. At this point in time, all but a few of the competitive overbuilders have scaled back significantly upon their overbuild efforts with little competitive plant having been constructed as of this date. Even in those situations where competitive overbuilders possess the capital and wherewithal to construct plant, it is uncertain whether their long-tern plans envision a continuing market presence or a "bulk up and sale" exit strategy to a larger existing video or voice provider. Finally, although direct broadcast satellite ("DBS") is certain a real force in the marketplace today, its presence has only served to slightly slow the rate of growth in traditional cable television penetration and has not caused, at least in most large markets, any decline in traditional cable penetration. Although DBS can be expected to continue as a market force in rural and even marginal cable markets, it is unlikely that DBS, or any other form of over-the-air delivery, will constitute a competitive force sufficient to actually cut cable penetration in all but a few markets.

As a result of the convergence of abrupt governmental deregulation market speculation competitive failures, video and telecommunications suppliers are experiencing significant financial problems with a portion of those problems ultimately being strapped to the back of consumers. The Telecommunications Act of 1996 (the "TCA") has produced little if any meaningful competition in the areas of video and local phone services. On May **3,** 2001, the **Wall** Street Journal published an article entitled "The Big Telecom Disconnect" which essentially reported that the **TCA** has failed to deliver upon its competitive promises to consumers with the result that the monthly bills for local telephone service and cable continue to rise reflecting an array of new fees and dearth of competitors. Among the points made by the Wall Street Journal are as follows:

(1) Basic cable rates on average have risen 33% since the TCA took effect in 1996 – almost three times the rate of inflation.

(2) Prices for basic high-speed Internet access via digital subscriber lines are increasing to approximately $49.95 a month from $39.95, thanks to increases by SBC Communications, Inc. and Earthlink, Inc. Verizon Communications, Inc. and BellSouth Corp. are expected to announce similar jumps.

(3) AT&T Corp. in 2001 raised its prices on Internet access via cable modems by $6 per month to about $45.95 a month. Another rate increase relating to equipment rental was announced last week. AOL Time Warner, Inc. raised AOL's basic service rate for online access to $21.95. Double digit rate increases are the norm as opposed to the exception.

(4) Local telephone bills are ballooning due to numerous fees that the RBOC'S and regulators have slapped on or ratcheted up, while most basic phone rates remain regulated. Significant rate increases can be found in such deregulated or marginally regulated services as voice mail, national directory assistance. In addition, basic monthly charges for twisted copper connections are likewise rising.

Although the TCA has produced little direct consumer benefit, the telecom providers are likewise struggling in this new deregulated environment. Although the TCA was intended to spur competition, the law has actually left long-distance companies struggling with low profits, RBOC'S continue to angle to get into long distance without success, cable TV rates rise far in excess of inflation, and many phone and high-speed Internet service start ups have collapsed or are on the verge of collapse. (Wall Street Journal, "Everyone's Got a Solution for Industry Woes," May 3,2001).

Many of the new startup telcom providers, which were often pointed to as the bearers of new competition in the post-TCA age, are bankrupt or will soon be in that sorry state of affairs. The years 2001 and 2002 witnessed a flurry of bankruptcy filings by telecommunications providers throughout the Country. Well known companies including Convergent Communications, Winstar Communications, North Point Communications, Digital Broadband, Flashcom, Inc., Fast Point Communications, ICG Communications, Inc., Global Crossing, Net Tel Communications, Inc., MFN, Inc., GST Telecommunications, Inc., and Op Tel, Inc., have already bitten the dust. Even major players such as Qwest are experiencing severe financial troubles. However, the numerous existing bankruptcy filings may only be the tip of the iceberg. The number of bankruptcy filings by companies providing telecommunications and broadband services is expected to increase dramatically. These bankruptcies raise a number of questions and concerns for communities in which these telecommunications companies are constructing or operating networks, not to mention the subscribers who are looking forward to the provision of competitive telcom services from these companies. At least some of the more realistic members of Congress have acknowledged that the TCA has done little to change the fact that RBOCS control about 93% of residential telephone and existing cable operators continue to control the vast majority of video connections into American households. (Multichannel News, "Sens. Bemoan Lack of Phone Competition," May 2,2001).

Although competitive conditions exist in the telecommunications business market, CLECs are nowhere close to unseating the four regional Bell operating companies with Bells claiming about 95% of the small business and residential markets according to the Federal Communications Commission. (Multichannel News, "CLEC Surge Could be Last Hurrah," May 28, 2001, p. 31). The impact of the TCA upon one-way cable television video services has been equally unimpressive. Although AT&T Corp. ballyhooed the synergistic benefits of its combination with TCI in 1999 in terms of the spurring of competition in local residential phone service as well as the creation of a robust and healthy video provider, the realities have been anything but kind to AT&T Corp. Its stock price has decreased dramatically since its acquisition of TCI, and it has now announced its intent to "take Humpty Dumpty apart" in 2002 with the Merger. In the meantime, both the trade and popular press have reported significant rate increases for AT&T as well as other cable operators (Multichannel News, "Cablevision Hikes Ex-Mediaone Rates," May 7, 2001) and customer complaints relating to service quality degradation have likewise increased. (Multichannel News "Complaints Skyrocket in L.A.," April 20, 2001; Multichannel News "AT&T Media Services Eyes Layoffs," April 27, 2001). One cannot go a week without reading an article in Multichannel News regarding layoffs or other economic constrictions at cable operators hit hard by a decline in their stock price or the availability of market capital.

Cable operators are not only raising video programming rates, many of which were deregulated pursuant to the TCA in 1996, but have also announced significant increases in cable modem service rates. (Multichannel News, "Powell: Data Rates Could Curb Growth," May 28, 2001, p. 31).[3] At least certain members of Congress have rejected the Commission's spin as to

[3] The spin doctors at the Federal Communications Commission (the "Commission") have recently created a new index for rate reasonableness evaluation, that being "price per channel". The Commission reported that cable rate increases are not unreasonable, at least in the opinion of the Cable Services Bureau, in that cable rates have stayed relatively flat as calculated on a per channel basis. However, in the same report, the Commission acknowledged that cable rates, calculated in the aggregate, rose 5.8% during the twelve month period ending July 1, 2000 compared with a **3.7%** inflation rate during the same period. The same Commission survey showed that rates on a per channel basis remained flat at 57¢ for cable operators facing competition from overbuilders. (Multichannel News "FCC Official: Cable Rates Flat," May 3, 2001). Cable rate increases don't appear to be a concern of Michael Powell, the Republican Commission Chairman, when he indicated that cable rates don't appear to be a problem in that average cable rates don't even come close compared to what you pay for gas, for electric service. ". . . my electric bill is by an order of magnitude higher than my phone bill ever is or ever will be [and] a magnitude higher than my cable bill." (Multichannel News, "Cable Rates Reasonable, Powell Says," April 24, 2001.) The methodology currently utilized by the Commission, as well as its Chairman, is inconsistent with the aggregate pricing analysis utilized by Congress as well as the Commission in relation to the adoption and implementation of the 1992 Cable Act. In addition, rate calculations on a per channel basis possess little relevance to consumers who are forced to buy large packages of programming as opposed to selecting only programming which they find to be valuable or desirable.

questions, both individually and collectively, constitute the sort of "sweeping inquisition" which would be deemed unreasonable and thus beyond the Franchising Authority's authority to require as part of the review of the Application. Indeed, in Charter Communications, Inc. v. Countv of Santa Cruz, the court specifically condemned as unreasonable the kind of broad inquiries made in your March 28th letter.[4] This is especially true where, as here, the volume of questions and the amount of additional work to create and/or compile such data would be extremely burdensome and time consuming.[5]

Specific Responses

Notwithstanding the foregoing, reserving all rights, and in an effort to accommodate the Franchising Authority's reasonable and lawful need for information, we provide, for informational purposes only, the responses set forth below. By responding, the Company does not waive any arguments regarding the relevance of such information or the Franchising Authority's authority to make such a request. Additionally, nothing hereinafter is intended to expressly or implicitly agree with or otherwise accept the "Rules of Engagement" set forth in Section IX of your Questionnaire.

I. QUESTIONS RELATING TO AGREEMENT AND PLAN OF MERGER DATED AS OF DECEMBER 19, 2001 BY AND AMONG AT&T CORP., AT&T BROADBAND CORP., COMCAST CORPORATION, AT&T BROADBAND ACQUISITION CORP., COMCAST ACQUISITION CORP. AND AT&T COMCAST CORPORATION (THE "APM").

(1) Please provide a complete and unredacted set of exhibits, schedules and annexes to the APM.

As explained in Exhibit 2 to the FCC Form 394, certain exhibits and schedules to the Agreement and Plan of Merger dated December 19, 2001 and the Separation and Distribution Agreement dated December 19, 2001 (collectively the "Agreements") were omitted. The instructions to FCC Form 394 state that exhibits and schedules are to be submitted only if "necessary in order to understand the terms" of the transaction that has resulted in a change of control of the cable franchise. These instructions further provide that confidential trade, business, pricing or marketing information, or other information not otherwise publicly available, may be redacted.

4 ~~See id.~~ at 1209-1211.

5 Id. at 1210 ("the large number [of questions] actually propounded and the bone-crushing work the answers would have entailed rendered them unreasonable in scope").

Certain other exhibits to the Agreements have been summarized as part of the FCC Form 394. Section 1, Part 6 of the FCC Form 394 requires a description of documents, instruments, contracts or understandings relating to the ownership or future ownership rights of AT&T Comcast. A description of those documents is set forth in Exhibit 7 of the FCC Form 394. In addition, Exhibits A, D-1, D-2, D-3 and D-4 and an updated version of Exhibit E to the Merger Agreement and Exhibits C and G and an updated version of Exhibit **A** to the Separation and Distribution Agreement are either summarized or included in the Proxy, which we have enclosed in response to Question I (2).

AT&T and Comcast believe that none of the exhibits or schedules that have been omitted is necessary to understand the terms of the Agreements. Through this response, the parties confirm that the omitted exhibits or schedules do not include information necessary to understand the terms of the Agreements or contain confidential trade, business, pricing or marketing information or other information not otherwise publicly available. As expressly permitted by the FCC Form 394, AT&T and Comcast are not required to submit such information.

Federal law strictly limits the Franchising Authority's authority to require information in conjunction with a cable franchise change of control to the information required in the initial Application and such additional information as may be "reasonably necessary to determine the qualifications of the proposed transferee."

Notwithstanding the foregoing, we have enclosed as Exhibit **A** a list of the schedules and exhibits to the Agreements that details the subject or title of each schedule and exhibit. This list confirms that, as the Company and Comcast have concluded, such documents are not necessary to understand the Agreements. After reviewing this list, as well as the information contained in the Proxy, we believe you will agree that such documents are not necessary to your review of the Application.

We hope the foregoing information fully explains why the Application contains all information necessary to your review of the proposed Transaction, without the need for additional exhibits or schedules. We understand, however, that you may, after your review, continue to desire to review some of the documents not otherwise provided. We request that you review the attached list with a view toward the exhibits that you have already received as a part of the Proxy, as well as the issues of relevance and the sensitive nature of the information. If, after reviewing the information included with this letter, you feel that certain of the exhibits and schedules to the Agreements not otherwise provided are necessary to your review, we would be happy to discuss the possibility of your reviewing such exhibits and schedules that are reasonably necessary to determining the qualifications of AT&T Comcast pursuant to an appropriate confidentiality agreement.

(2) Please provide a copy of the "Registration Statement", as that term is defined and utilized in Section 5.09 of the APM, and the "Joint Proxy Statement",

as that term is defined and utilized in Section **5.09** of the APM. **If** one or both **of** these documents are not available in final form at this point in time, please provide a draft thereof and indicate your agreement to provide a final version **of** said document(s) as soon as it is available and specify the projected date **of** availability.

A copy of the Preliminary Joint Proxy Statement/Prospectus filed by AT&T Comcast with the Securities and Exchange Commission on February 11, 2002 is enclosed (the "Proxy"). We will provide a final copy of the Proxy once the Registration Statement has become effective, which is expected to occur in the second quarter of this year.

(3) Please provide a copy of the "Opinion of Financial Advisor", as that term is defined and utilized in Section 5.15 of the APM, of Morgan Stanley & **Co.,** Inc., JP Morgan Stanley, Inc., and Merrill, Lynch, Pierce, Fenner & Smith, Inc.

Such information is not within the Franchising Authority's appropriate scope of review related to the Application. The document requested by this item would not pertain to the Transaction or the qualifications of the proposed new entity to assume control of the Franchisees. Notwithstanding the foregoing and without waiving our rights with respect to the relevance of this question, the referenced opinion is attached as an annex to the enclosed Proxy.

(4) Please provide a copy of the "Opinion of Financial Advisor", as that term is defined and utilized in Section 6.15 of the APM, of Credit Suisse First Boston and Goldman, Sachs & Co.

See answer to Question I (3) above.

(5) Please provide a copy of the "Neutrality Agreement", as that term **is** defined and utilized in Section **8.05** of the APM.

Neither the Neutrality Agreement nor matters related *to* labor unions **is** within the Franchising Authority's appropriate scope of review related to the Application. The document requested by this item would not pertain to the Transaction or the qualifications of AT&T Comcast. Accordingly, the Company is not under any obligation to provide such information as part of this proceeding.

(6) Please provide a copy of any budget, financing plan, or other document evidencing the recommendations of the Interim Financing Committee, as that term is defined and utilized in Section 9.15 of the **APM,** as it relates to the charges and assignment of the Interim Financing Committee pursuant to Section 9.15 **of** the APM.

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Any budgets, financing plans or other documents related to the recommendations of the Interim Financing Committee are confidential and proprietary. Furthermore, they are not within the Franchising Authority's appropriate scope of review related to the Application. The documents requested by this item would not pertain to the Transaction or the qualifications of the proposed new controlling entity. Accordingly, the Company is not under any obligation to provide such information as part of this proceeding.

The financial qualifications of AT&T Comcast, together with its financing plans, are set forth in the Application and the additional information that is being provided to you. We believe that this information is more than sufficient to determine that AT&T Comcast has the necessary legal, financial and technical qualifications to assume control of the Franchisees.

(7) Please provide a copy of the "Exchange Agreement", as that term **is** defined and utilized in Section **9.21** of the APM.

The Exchange Agreement is described in detail in the Proxy. Once the Exchange Agreement has become public, we can provide a copy to you if you would like.

II. QUESTIONS RELATING TO SEPARATION AND DISTRIBUTION AGREEMENT BY AND BETWEEN AT&T CORP., AND AT&T BROADBAND CORP. DATED AS **OF** DECEMBER **19,2001** (THE "SDA").

(I) Please provide complete and unredacted copies of all exhibits, schedules, and annexes to the SDA.

See answer to Question I (1) above and Exhibit A.

(2) In relation to Section **2.07 of** the SDA, please indicate whether the provisions of Section 2.07(b) which indicate that "in addition, the person retaining such assets shall take such other actions as may be reasonably requested by the person to whom such asset is to be transferred in order to place such person, insofar as reasonably possible, in the same position as if such asset had been transferred **as** contemplated hereby and **so** that all benefits and burdens relating to such AT&T Broadband asset (or such AT&T Communications asset, as the case may be), including possession, use, risks of **loss,** potential for gain, and dominion, control and command ***of*** such assets are to inure from and after the distribution date to the AT&T Broadband Group (or the AT&T Commurrications Group, as the case may be) imposes an obligation on any direct party or third-party beneficiary of the SDA to transfer **all** indices of ownership of the asset in question; other than bare legal title, to the intended transferee? **If** not, please indicate why not.

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The provision accurately describes the obligations of the parties to the Separation and Distribution Agreement with respect to such assets.

111. QUESTIONS RELATING TO MANAGEMENT STABILITY.

(1) Please provide an organizational chart which shows by title and name all management positions relating to the Franchise and/or Franchisee at the system level, regional level, and headquarters level as of the date that the transactions closed which transferred control of the Franchise and/or Franchisee to AT&T Corp. ("AT&T").

We do not believe that information related to management positions at the system, regional and headquarter level during prior years are relevant to this Transaction or the qualifications of the transferee entity, AT&T Comcast.. Accordingly, the Company is not under any obligation to provide such information as part of this proceeding. Additionally, we note that AT&T Comcast has not been involved with any current or past management decisions regarding positions relating to the Franchises or the Franchisees.

It is unknown at this time if there will be any changes to local, regional and/or national management that will affect the Franchises or Franchisees. As with all business transactions of this nature, AT&T Comcast will evaluate the management teams and make decisions as appropriate to best support the products and service provided to customers drawing from the best of both companies.

Mr. Brian Roberts, President of Comcast, well be President and Chief Executive Officer of the new company with all day-to-day authority over the operation of the business. Mr. Roberts, as CEO, will also be responsible for all matters relating to other officers and employees of the new company, and will consult with the Chairman, C. Michael Armstrong, with respect to senior officers. Mr. Roberts and the management team he selects will be responsible for the full operational control of the merged company. Mr. Roberts plans to continue Comcast's demonstrated track record in system upgrades, deployment of new services and customer care.

(2) Please provide an Organizational chart showing the same information as of January 1,2000.

See answer to Question III (1) above.

(3) Please provide an organizational chart showing the same information as of January 1, 2001.

See answer to Question III (1) above.

(4) Please provide an organizational chart showing the same information as of January **1,2002.**

See answer to Question III (1) above.

(5) Please provide any and all information which you would like the Franchising Authority to consider and evaluate relating to any plan which exists, or is intended to be created, which would provide management stability at the local, regional, and national levels in relation to management positions affecting the Franchise and/or the Franchisee including, without limitation, any management contracts, employee contracts, employee agreements, "stay bonus" programs, stock option programs, or any other devices or programs which are intended to maintain management stability and expertise upon close of the Merger and for thirty-six (36) months thereafter.

See answer to Question III (1) above.

(6) It has been widely reported in the trade press and popular press that high ranking executives of Comcast Corporation ("Comcast") have asserted that the corporate overhead of AT&T is excessive by both industry standards and the overhead charges incurred by Comcast. Please provide detailed information as to how Comcast intends to reduce said overhead including, without limitation, any anticipated or contemplated reductions in management staffing or other cutbacks which would directly or indirectly reduce the corporate overhead or other overhead charges incurred by the AT&T assets being transferred to the Transferee upon closing of the Merger. Please further indicate, with specificity, how these reductions, if they are contemplated or planned, can be undertaken without reductions in the quality of video service, customer service, or other aspects of the cable system operations which affect subscribers or the Franchising Authority.

AT&T Comcast believes that it should be able to decrease amounts spent on overhead by the Company and Comcast for corporate services, such as corporate management, development, strategic development, treasury, accounting, tax and in-house legal services. Currently all of these functions are performed separately by or for both companies. After the Transaction, AT&T Comcast intends to consolidate redundant services within a single corporate management structure. Such reductions in corporate overhead should have no impact on the quality of video service, customer service or other aspects of the cable system operations that affect subscribers or the Franchisees.

IV. QUESTIONS RELATING TO POTENTIAL CONSOLIDATION OF THE OPERATIONS OF AT&T AND COMCAST INTO AT&T COMCAST CORPORATION.

A. The Franchising Authority possesses concerns and questions regarding the ability of AT&T and Comcast to merge their respective cable television operations into a single entity without a significant degree of operational disruption, subscriber inconvenience, and other associated problems. Please provide the Franchising Authority with any and all plans, projections, timetables, budgets, operating plans, or any other information which the Applicant desires to be considered by the Franchising Authority in assessing the impact of said consolidation upon subscribers. To the extent that the Applicant possesses any form of plan or strategy as to the consolidation strategy, please provide it to the Franchising Authority. If no operating plan or strategy exists, please so indicate.

AT&T and Comcast believe that they will be able to merge the respective cable operations without a significant degree of operational disruption, subscriber inconveniences and other associated problems. No public documents exist with respect to operating plans, budgets, timetable or other projections.

V. <u>QUESTIONS RELATING TO SELECTION **OF** CABLE **MODEM** SERVICE **PROVIDERS.**</u>

(1) It is has come to the attention of the Franchising Authority that its subscribers have experienced significant disruption, inconvenience, and other problems relating to the conversion from the At-Home Cable Modem Network to AT&T's proprietary network. Please indicate whether the merger of AT&T and Comcast will, in any way, affect the continuous and stable provision of cable modem service to subscribers or result, or potentially result, in a further conversion or changeover from AT&T's proprietary network to any network associated with Comcast or any affiliate thereof.

Such information is not within the Franchising Authority's appropriate scope of review related to the Application as cable modem services were classified by the FCC on March 14, 2002, as an “interstate information service”, and are therefore no longer regulated as a cable service. Notwithstanding the foregoing, it is AT&T Comcast's expectation that there will be continuous and stable provision of cable modem service now that the provisioning of such service has been moved in-house. No further conversions from the existing network are currently expected as a result of the merger, however, we reserve the right to make changes to the network in the ordinary course of business.

(2) Please present and discuss any and all plans relating to any material changes in the delivery of cable modem service within the jurisdiction of the Franchising Authority within the first thirty-six (36) months subsequent to the closing of the Merger. If no plans exist or are contemplated, please so indicate.

Such information is not within the Franchising Authority's appropriate scope of review related to the Application as cable modem services were classified by the FCC

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on March 14, 2002, as an "interstate information service", and are therefore no longer regulated as a cable service. Notwithstanding the foregoing, we have no current plans to change the delivery of cable modem service within the franchise areas in question, however, we reserve the right to make changes to the service in the ordinary course of business.

VI. QUESTIONS RELATING TO CHOICE BETWEEN SWITCHED/INTERNET PROTOCOL ("IP") TELEPHONE TECHNOLOGY DEPLOYMENT.

(1) It has been reported in the Trade Press that AT&T has elected to utilize switched telephone technology for deployment upon its broadband systems. It has also been reported that Comcast has avoided utilization of switched telephony technology in favor of IP telephony. Please provide any and all information available to the Applicant regarding plans, or potential plans, for the introduction of telephone service within the Franchising Authority and the technology which will be utilized for said telephony deployment.

Such information is not within the Franchising Authority's appropriate scope of review related to the Application, which is a change of control of a Title VI cable operator. The merger will have no implications on the regulation of telecommunications services provided under Title II of the Communications Act or the regulations of state regulatory agencies. The information requested by this item would not pertain to the Transaction or the qualifications of AT&T Comcast. Accordingly, the Company is not under any obligation to provide such information as part of this proceeding. Notwithstanding the foregoing, AT&T Comcast has announced that it will support switched circuit telephony where it has already been introduced. For example, switched circuit telephony is currently offered in Pleasant Hill, Hercules and other parts of Contra Cost County. AT&T Comcast reserves the right to make changes to such telephone service in the ordinary course of business and in accordance with federal and state regulations.

(2) Does the Applicant, or any related affiliate thereof, have any plans of any type to offer telephony service within the jurisdiction of the Franchising Authority within the next thirty-six **(36)** months? If **so,** what type of technology, Switched or IP, or other, will be deployed?

See answer to Question VI **(1).**

VII. QUESTIONS RELATING TO NEUTRALITY AGREEMENT.

Section **8.05** of the APM reads as follows:

> "Section ***8.05*** Neutrality Agreement. Notwithstanding any other provision of this agreement, AT&T shall not renew, extend or modify the Neutrality And Consent Election Agreement (the "Neutrality Agreement") among AT&T,

the Communication Workers of America and the International Brotherhood of Electrical Workers, such that such agreement, as so renewed, extended or modified, will apply to or otherwise bind or purport to apply to or otherwise bind, after the effective time, AT&T Broadband, any of the AT&T Broadband subsidiaries, parent, Comcast or any of the Comcast subsidiaries, either as a matter of contract or term or condition of employment. AT&T shall not enter into any other agreement or arrangement with respect to the same or similar matters as the matters covered by the Neutrality Agreement if such agreement or arrangement would apply to or otherwise bind or purport to apply to or otherwise bind, after the Effective Date, AT&T Broadband, any of the AT&T Broadband subsidiaries, parent, Comcast or any of the Comcast subsidiaries, either as a matter of contract or term or condition of employment."

(1) What is the purpose of the Neutrality Agreement?

See answer to Question I (5). Such information is not within the Franchising Authorities' appropriate scope of review related to the Application. The information requested by this item does not pertain to the Transaction or the qualifications of AT&T Comcast. Accordingly, the Company is not under any obligation to provide such information as part of this proceeding. Notwithstanding the foregoing, we note that since the Neutrality Agreement applies only to AT&T Corp. and its wholly owned subsidiaries, it will not apply to employees of AT&T Comcast after the close of the merger. Until the merger closes, matters involving AT&T Broadband employees are the sole responsibility of the Company, and AT&T Comcast has no position on such matters. Following the closing of the Transaction, AT&T Comcast's labor relations' policies will be governed by relevant labor laws and the terms of applicable agreements with various labor organizations. Any matters relating to agreements with the Communication Workers of America and/or the International Brotherhood of Electrical Workers will be discussed with such organizations by the Company and, following closing, by AT&T Comcast.

(2) When does the Neutrality Agreement expire?

See answer to Question VII (1).

(3) What are the parties' objections to the Neutrality Agreement?

See answer to Question VII (1).

(4) Have the Communication Workers of America and/or the International Brotherhood of Electrical Workers been informed of the contents of Section 8.05 of the APM?

See answer to Question VII (1).

(5) Describe the Applicant's plans in relation to replacement or modification of the Neutrality Agreement, or the subject matter to which it relates, subsequent to closing of the Merger.

See answer to Question VII (1

(6) If the Neutrality Agreement is not satisfactorily replaced or modified, is there a potential of employee disruption? If **so,** what are the Applicant's plans or contingency arrangements to deal with any potential employee disruption?

See answer to Question VII (1).

(7) What employees, if any, which perform services that directly or indirectly relate to the Franchise or the Franchisee are affected by the Neutrality Agreement?

See answer to Question VII (1).

(8) Are there any other labor agreements which the Applicant does not intend to survive closing of the Merger or which the Applicant intends to materially modify subsequent to closing. **If so,** please identify with specificity those agreements.

See answer to Question VII (1).

VIII. <u>QUESTIONS RELATING **TO** LOCAL TELEPHONE SERVICES.</u>

In a document entitled "AT&T Comcast Corporation Informational Presentation for Local Franchise Authorities", distributed by purportedly authorized representatives **of** AT&T and/or Comcast at a SCAN-NATOA meeting of March **13, 2002,** the Applicant represents to Local Franchising Authorities as follows:

> "AT&T Comcast will be committed to deploying new and exciting. video services, High-speed Cable Internet and a choice for local phone services at competitive prices to more customers across the United States." (p. **23)**

AT&T Comcast further represents:

> "AT&T Comcast **will** expand its efforts to offer customers a choice **of** local phone service**...** within a year of closing AT&T Comcast expects to introduce local phone choice to at least one million additional homes."

(1) Please indicate, with specificity, what agreements, if any, will exist

subsequent to closing between and among, as the case may be, AT&T Comcast Corporation, or any direct or indirect subsidiary thereof; on the one hand, and AT&T Corp., or any direct or indirect subsidiary thereof, on the other hand, relating to the utilization, or right to utilize, any assets, as that term is defined in the broadest sense, of either entity or series of entities, for the provision of local telephone service subsequent to closing of the Merger.

Such information is not within the Franchising Authority's appropriate scope of review related to the Application of the change of control of a Title VI cable operator. AT&T Comcast, and/or its affiliates as appropriate, will obtain any necessary and lawful federal, state or local authorizations prior to the introduction of telecommunications services over any cable system. The merger will have no implications on the regulation of telecommunications services provided under Title II of the Communications Act or the regulations of state regulatory agencies. The documents requested by this item do not pertain to the Transaction or the qualifications of AT&T Comcast. Accordingly, the Company is not under any obligation to provide such information as part of this proceeding. Notwithstanding the foregoing, AT&T will assign to AT&T Broadband all of the assets of AT&T's broadband business, as indicated in the Separation and Distribution Agreement, including those assets that will be utilized for the provision of local telephone service.

(2) **If,** and to the extent, AT&T Corp., or any direct or indirect subsidiary thereof, possesses any type of agreement with any entity controlled by or affiliated with AT&T Broadband Corp. relating to the provision of local telephone service, please indicate what will happen, if anything, to that agreement, or series of agreements, upon closing **of** the Merger. In other words, will AT&T Corp. retain any rights subsequent to closing of the Merger to utilize the assets or properties of AT&T Comcast Corporation or any direct or indirect subsidiary thereof, in relation to the provision of local telephone service? If **so,** please identify those agreements with specificity, provide copies thereof, and indicate the impact of the Merger upon those agreements.

See answer to Question VIII (1)

(3) Please identify, with specificity, the plans of AT&T Comcast to "... introduce local phone choice to at least one million additional homes." As to that statement, please indicate the existing targeted area for the provision of those services, the anticipated roll out date and roll out schedule for those services, the anticipated technology switched, **IP,** or otherwise), and any and all information which the Applicant desires to be considered by the Franchising Authority in evaluating the alleged "Benefits of the Merger" in relation to the expanded deployment of local phone service.

See answer to Question VIII (1). Notwithstanding the foregoing, on a national basis, AT&T Comcast believes that the merger will expedite the deployment of local telephone service. However, no specific plans exist with respect to the deployment of such service in those franchise areas not already served.

(4) As part of the FCC **394** review process relating to the TCI - AT&T Merger in **1998-1999,** representatives **of** those entities indicated, in these words or words of equivalent substance, to the Franchising Authority that one of the significant "public benefits" of the TCI - AT&T Merger would be the rapid deployment of local phone service on a competitive basis throughout the franchise areas previously served by TCI. **Now,** almost three years subsequent to the closing of the TCI - AT&T Merger, there appears to be little deployment **of** competitive local exchange telephone service by AT&T Broadband in its cable television service areas. Please provide any information which **you,** would like to be considered by the Franchising Authority as to why the Franchising Authority should believe that the merger of AT&T with Comcast will any more effectively deliver these promised benefits than did the TCI - AT&T Merger.

See answers to Question VIII (1), (2) and (3). Notwithstanding the foregoing, the Company disagrees with your assertion that there has been little deployment of competitive local exchange telephone services in its cable television service areas. The Company currently offers a choice of local phone service to more than 6.8 million homes.

IX. QUESTONS RELATING TO IMPACT OF MERGER UPON RATES AND SERVICES.

(1) The Franchising Authority has questions about the potentially deleterious impact of the Merger upon cable television rates. Please provide any and all information which you desire to be considered by the Franchising Authority in evaluating the impact, positive or negative, of the Merger upon rates charged to subscribers for the provision **of** cable television services.

Regulated rates will continue to be set in conformance with FCC regulations that are generally designed to cover inflation, programming costs and other costs related to system operations. Other rates will continue to be established based on various market and operational factors.

(2) The Franchising Authority has questions about the potentially deleterious impact of the Merger upon cable television services. Please provide any and all information which you desire to be considered by the Franchising Authority in evaluating the impact, positive or negative, of the Merger upon cable television services.

Although comprehensive plans or time frames have not yet been developed, and no specific plans or time frames exist for the systems, economies of scale should enhance AT&T Corncast's ability to upgrade systems and deploy new services, including new cable television services. .

Thank you for your letter confirming receipt of the Form 394 Applications. Now that the Form 394 Applications have been submitted, the review and consent process has commenced as of March 8, 2002. We very much look forward to working with you as the Franchising Authority completes its review and to receiving the Franchising Authority's consent within the 120-day period.

Very truly yours,

F. Kent Leacock

F. Kent Leacock
Vice President
Franchising & Government Affairs
Bay Area Market

Enclosures

cc: Patricia Burke
Philip Arndt

EXHIBIT A

LIST OF SCHEDULES AND EXHIBITS TO THE AT&T BROADBAND/COMCAST MERGER AGREEMENTS

(All documents on this list, unless otherwise publicly disclosed, are considered to be non-public, proprietary, confidential or trade secret documents.)

The Exhibits to the Agreement and Plan of Merger are as follows:

Exhibit A Form of Support Agreement*
(Described in Exhibit 7 to Form 394)
Exhibit B Form of Rule 145 Affiliate Letter
Exhibit C Form of Separation and Distribution Agreement
(Provided in Form 394)
Exhibit D-1 Form of Parent Charter - Preferred Structure*
(Described in Exhibit 7 to Form 394)
Exhibit D-2 Form of Parent Charter - Alternative Structure *
(Described in Exhibit 7 to Form 394)
Exhibit D-3 Form of Parent Bylaws*
Exhibit D-4 Form of Comcast Articles Amendment*
Exhibit E AT&T Broadband Financial Statements*
Exhibit F Admission Agreement
AT&T Disclosure Schedule
Comcast Disclosure Schedule
<u>See</u> Schedules to Agreement and Plan of Merger

The Exhibits to the Separation and Distribution Agreement are:

Exhibit A AT&T Communications Financial Statements*
Exhibit B Corporate Name Agreement
Exhibit C Employee Benefits Agreement*
Exhibit D Intellectual Property Agreement
Exhibit E Interim Services and Systems Replication Agreement
Exhibit F Patent Assignment
Exhibit G Tax Sharing Agreement*
Exhibit H Trademark and Service Mark Agreement

* These documents or an updated version of these documents are described in or filed as annexes to the Preliminary Joint Proxy Statement/Prospectus filed with the SEC on February 11,2002.

The Schedules to Agreement and Plan of Merger are as follows:

Schedule 6.03	Government Authorizations
Schedule 6.04	Non-Contravention
Schedule 6.05(b)	Capitalization
Schedule 6.06	AT&T Significant Broadband Subsidiaries
Schedule 6.07	SEC Filings
Section 6.08	Financial Statements
Schedule 6.10	Absence of Certain Changes
Schedule 6.11	No Undisclosed Material Liabilities
Schedule 6.12	Compliance with Laws and Court Orders
Schedule 6.13	Litigation
Schedule 6.16	Taxes
Schedule 6.18	Employee Benefit Plans and Labor Matters
Schedule 6.19	Environmental Matters
Schedule 6.20	Intellectual Property
Schedule 6.21	Contracts
Schedule 6.24	Comcast Securities
Schedule 6.25(a)	TWE
Schedule 6.26	Intercompany Transactions
Schedule 6.27	Sufficiency of Transferred Assets
Schedule 6.28	Investments
Schedule 8.01	AT&T Broadband Interim Operations
Schedule 9.08	Approved Directors

The Schedules to the Distribution and Separation Agreement are as follows:

Schedule 1.14(a)	Assets Excluded From the Definition of AT&T Broadband Assets
Schedule 1.14(k)	AT&T Broadband Assets
Schedule 1.18(g)	AT&T Broadband Contracts
Schedule 1.18(i)	Monetizations of AT&T Broadband Group
Schedule 1.19	AT&T Broadband Entities
Schedule 1.21(d)	AT&T Broadband Group
Schedule 1.21(e)	AT&T Broadband Group
Schedule 1.23(g)	AT&T Broadband Liabilities
Schedule 1.23(i)	Monetizations of AT&T Broadband Group
Schedule 1.236)	AT&T Broadband Liabilities
Schedule 1.28(j)	AT&T Communications Assets
Schedule 1.31(a)	AT&T Communications Contracts
Schedules 2.04(b) (ii), (iii), and (vi)	Agreements that shall not terminate as of the Distribution Date
Schedule 2.05(c)	Joint Locations
Schedule 2.05(d)	Joint Locations
Schedule 4.03(c)	Governmental Consents

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Exhibit 27

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Direct Dial: (714) 641-3416
E-mail: bmarticorena@rutan.com

April 8, 2002

F. Kent Leacock
Vice President
Government Affairs and Franchising
Bay Area Markets
AT&T Broadband
P.O. Box 5147
San Ramon, CA 94583

Re: City of Berkeley, California - Contra Costa County, California - City of Richmond, Califomia - City of Santa Cruz, California - County of Santa Cruz, California (collectively, the "Franchising Authorities")

Dear Mr. Leacock:

This letter constitutes the response of the Franchising Authorities to your March 29, 2002 letter (the "Letter") responding to my March 18, 2002 Information Requests (the "Information Requests"). First, in relation to your refusal to provide a complete and unredacted set of Exhibits. Schedules, and Annexes to the APM, please be advised that your correspondence did not include an Exhibit A, although the Letter does reference an Exhibit **A** and another copy of this package sent by Federal Express to me on April **4,** 2002 (Fed Ex Tracking No. 831801007427) did contain such a document. Thus, I had no timelv way to evaluate the representations made within the body of your Letter regarding why your failure to provide a complete and unredacted set of Exhibits, Schedules, and Annexes to the APM should not result in a determination that the Applicant has not complied with 47 C.F.R. Section 76.502(a) and that, as a result thereof, the 120-day review period set forth therein has failed to commence.

Second, please be advised that based upon the Applicant's failure to provide complete and accurate responses to the following questions, the information provided by the Applicant pursuant to 47 C.F.R. Section 76.502(a) shall not be deemed to be "accepted" within the meaning of 47 C.F.R. Section 76.502(b):

(1) Question Nos. I (1), (5), (6), and (7).

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(2) Question No. II (1).

(3) Question No. III (1) – (6).

(4) Question No. IV (1).

(5) Question No. VII (1) – (8).

(6) Question No. VIII (3).

(7) Question No. IX (1) – (2).

Sincerely,

RUTAN & TUCKER, LLP

William M. Marticorena

WMM:vb
Enclosure
cc: Manuela Albuquerque, Esq., City Attorney, City of Berkeley
Roger Miller, City of Berkeley
Patricia Burke, Contra Costa County
Eric Xavier, City of Richmond
Richard C. Wilson, City of Santa Cruz
Pat Busch, County of Santa Cruz

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Exhibit 28

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RUTAN & TUCKER LLP

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April 18,2002

F. Kent Leacock
Vice President
Government Affairs and Franchising
Bay Area Markets
AT&T Broadband
P.O. Box 5147
San Ramon, CA 94583

Re: City of Berkeley, California, Contra Costa County, California, City Of Richmond, California and the County of Santa Cruz, California (the "Franchising Authorities")

Dear Mr. Leacock:

This letter constitutes a response to your letter to me dated April 4, 2002. Please be advised that my letter to you dated April 8,2002 also constitutes a response to your April 4,2002 letter.

Your March 29, 2002 letter did not contain an Exhibit A which purports to be a "list of schedules and exhibits to the AT&T BroadbandComcast Merger Agreements". However, your April 4,2002 letter did contain such an exhibit. Thus, without waiving any objection which the Franchising Authorities may have in relation to an untimely response to my March 18, 2002 letter, please be advised that the Franchising Authorities desire to review the following schedules and exhibits and believe that said exhibits and schedules are necessary in order to understand the transaction in its entirety:

1. Exhibits to the Amendment and Plan or Merger:

    a. AT&T Disclosure Schedule.

    b. Comcast Disclosure Schedule.

2. Exhibits to the Separation and Distribution Agreement:

a. Exhibit E – Interim Services and System Replication Agreement.

3. Schedules to Agreement and Plan of Merger:

a. Schedule 6.03 – Government Authorizations.

b. Schedule 6.12 – Compliance with Laws and Court Orders.

C Schedule 6.13 – Litigation.

d. Schedule 6.27 – Sufficiency of Transferred Assets.

e. Schedule 8.01 – AT&T Broadband Interim Operations.

4. Schedules to the Distribution and Separation Agreement:

a. Schedule 1.14(a) – Assets excluded from Definition of AT&T Broadband Assets.

b. . Schedule 1.14(k) – AT&T Broadband Assets.

c. Schedule 1.18(g) – AT&T Broadband Contracts.

d. Schedules 2.04(b)(ii), (iii), and (iv) – Agreements that Shall Not Terminate **As** of the Distribution Date.

e. Schedule 4.03(c) – Government Consents.

I would be happy to discuss a mutually-acceptable confidentiality agreement that complies with all applicable law.

Sincerely,

RUTAN & TUCKER, LLP

William M. Marticorena

WMM:vb

cc: Manuela Albuquerque, Esq., City Attorney, City of Berkeley
Roger Miller, City of Berkeley
Patricia Burke, Contra Costa County
Eric Xavier, City of Richmond

Richard C. Wilson, City of Santa Cruz
Pat Busch, County of Santa Cruz

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Exhibit 29

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AT&T Broadband

facsimile transmittal

To:	William M. Marticorena, Esq.	**Fax:**	714-546-9035
From:	**F. Kent Leacock**	**Date:**	April 23, 2002
Phone:	714-641-3416	**Cc:**	
Re:	Response to Request for Information	**Pages:**	8 including cove

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AT&T Broadband

P.O. Box 5147
San Ramon, CA 94583

April 22,2002

VIA FACSIMILE AND OVERNIGHT MAIL

William M. Marticorena, Esq.
Rutan & Tucker, LLP
611 Anton Boulevard, 14* Fl
Costa Mesa., California 92626-1931

Re: April 8, 2002 Response on behalf of the City of Berkeley, California; Contra Costa County, California; City of Richmond, California; City of Santa Cruz, California; County of Santa Cruz, California, (collectively the "Franchising Authorities") relating to the AT&T/Comcast Merger.

Dear Mr. Marticorena:

We are writing in response to your April 8, 2002 letter, which we received on April 12, 2002, regarding the supplemental information that we provided relating to our February 27, 2002 FCC Form 394 filing for the merger (the "Transaction") of AT&T Broadband and Comcast Corporation ("Comcast"). As stated in my previous letter to you, we disagree with your assertion that our Application was in any way incomplete and that, as a result, the statutory 120-day deadline for the Franchising Authorities' review of the Application has not begun. While FCC rules permit local franchising authorities to request additional infomation (subject to limitations), the failure to provide such information does nor render the Application incomplete.[1] To the contrary, the FCC rules prohibit local franchising authorities fiom rendering a filed Application incomplete for failure to include information subsequently requested by a local franchising authority.[2] We also note that, in adopting FCC Form 394, the FCC found that the form provided the information necessary to establish the legal, technical and financial qualifications of the proposed transferee.[3] Thus, for the

[1] See Implementation of Sections 11 and 13 of the Cable Television and Competition Act of 1992, Report and Order, 8 F.C.C.R 6828, ¶¶ 85-86 (1993) ("1993 FCC Order"); Implementation of Sections 11 and 13 of the Cable Television Consumer Protection and Competition Act of 1992, Memorandum Opinion and Order on Reconsideration, 10 F.C.C.R. 4654, 4676, ¶¶ 50-53 (1995) ("1995 FCC Order")

[2] See 1995 FCC Order at ¶ 50 (rejecting a request by NATOA that an FCC Form 394 Application not be deemed complete until information subsequently requested by the LFA is provided).

[3] See id. at ¶ 52 ("we created FCC Form 394 with the expectation that the information required by the form would establish the legal, technical and financial qualifications of the proposed transferee or assignee.")

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reasons set forth above, the absence of the information referenced in your April ·, 2002 letter does not affect the sufficiency or completeness of the Application and will not toll th· statutory 120-day review period. The Application, as filed with the Franchising Authorities on · ebruary 27, 2002, contained all information required by the FCC Form 394 and the licenses, and th· refore the 120-day deadline was properly commenced as of that day.

Further, under the FCC rules, even if the Application had not been complete s filed, which we dispute. such incompleteness would not be grounds for tolling the 120-day reviev period. Although FCC *rules* permit local franchising authorities to challenge the completeness ·f the Application within thirty (30) *days* of filing, the 120-day deadline is only tolled if the applica ıt fails to cure any such incompleteness within ten (10) days of their receipt of such challenge.[4] Wit n this 10-day time frame, the companies previously replied to your letter and clearly demonstratec how and why the Application was complete as filed. Accordingly, FCC rules prohibit any tolli ıg of the 120-day deadline based on this Application as filed.

Your letter alleges that our March 29, 2002 correspondence failed to provide Exhibit A, which prevented you from timely evaluating the information provided in such letter. E› ıibit A, which you acknowledge receiving on April 4, *2002,* sets forth the list of exhibits and schec ıles to the Merger Agreement and the Separation and Distribution Agreement (the "Agreements' ı. Exhibit A was inadvertently nor attached to the March 29, 2002 letter due to a clerical error. H· wever, as we have previously indicated, we do not believe that the exhibits and schedules must be fi ed as a part of the Application. Furthermore, the list of exhibits are clearly set forth in the indexes · the Agreements, which you received as part of the Application.

In your most recent letter you cite as incomplete or inaccurate twenty-three respon es to your original request for additional information. Of.these, nine of the responses relate to inf rmation regarding labor unions and the Neutrality Agreement entered into between AT&T and th· Communications Workers of America. While we do nor believe that information with respect · labor matters is within the appropriate scope of inquiry generally, and in any event does not relate to the qualifications of AT&T Comcast, we are particularly puzzled as to its relevance to the Franchising Authorities. There are no employees who work in the systems in any of the Fran hising Authorities who are members of a labor union. Three of the responses that you deemed n· n-responsive were offers to provide you with additional documentation, either under a confident;.ıity agreement or when such documents became publicly available. A further five respor .es were deemed unresponsive because we failed to provide historical organizational charts c ' all management posirions at the local, regional and headquarter level during four different time pe ·ods. However, as noted previously, this information was not related to the qualification of the transferee, AT&T Comcast, but asked for historical information about the transferor. In·leed, in Charter Communications. Inc. v. County of Santa Cruz, the court specifically condemned . s unreasonable the kind of broad inquiries made in your letter.[5] This is especially true where, as E ne, the amount of

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[4] See 47 C.F.R. § 76.502(b). See also Charter Communications. Inc. v. Count of Santa Cruz, 133 F.Supp.2d 1184, 1207 (N.D.Cal. 2001).

[5] See, e.g., Santa Cruz, 133 F.Supp.2d at 1201 (Federal law imposes "certain outer limits n the LFAS' power to request information over and above that required by Form 394").

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additional work to create and/or compile such data would be extremely bur ensome and time consuming.[6]

We have submitted a complete, derailed Application to the Franchising Author ties containing all information reasonably necessary to determine the financial, technical and leg l qualifications of AT&T Comcast as required under federal law and the franchises. Furthermore, we have provided supplemental infomation to you on behalf of the Franchising Authorities. We have provided information on the respective operations of AT&T and Comcast when relevant t the qualifications of AT&T Comcast and when the information was accessible without undergoing an undue burden. We have offered you the opportunity to review sensitive documentation unde a confidentiality agreement. In light of the foregoing, please be more specific about what additio al information the Franchising Authorities find necessary to review this proposed merger that we ha e not yet provided or offered to provide, and we will certainly try to meet any reasonable and lawful expectations.

Since the date of our first response, further information, including the Exchan e Agreement, has become available with the filing of the Public Interest Statement with the FCC. This statement can be found at http://fcc.eov.mb.nttcomcnstorg. In addition, we are attaching a document entitled Financing Considerations that has reccntly been prepared by AT&T Corncast.

We very much look forward to working with you as the Franchising A thorities complere their review and to receiving the Franchising Authorities' consent within the 120-day period,

Very truly yours,

F. Kent Leacock, mg

F. Kent Leacock
Vice President
Franchising & Government Affairs
Bay Area Market

Enclosures

Cc w/enclosures (via regular mail):

Manuela Albuquerque, Esq.
Roger Miller
Eric Zavier
Richard C. Wilson
Pat Busch
Jeremy Stem, Esq.

6 Id. at 1210 ("the large number [of questions] actually propounded and the bone-crushing work the answers would have entailed rendered them unreasonable in scope").

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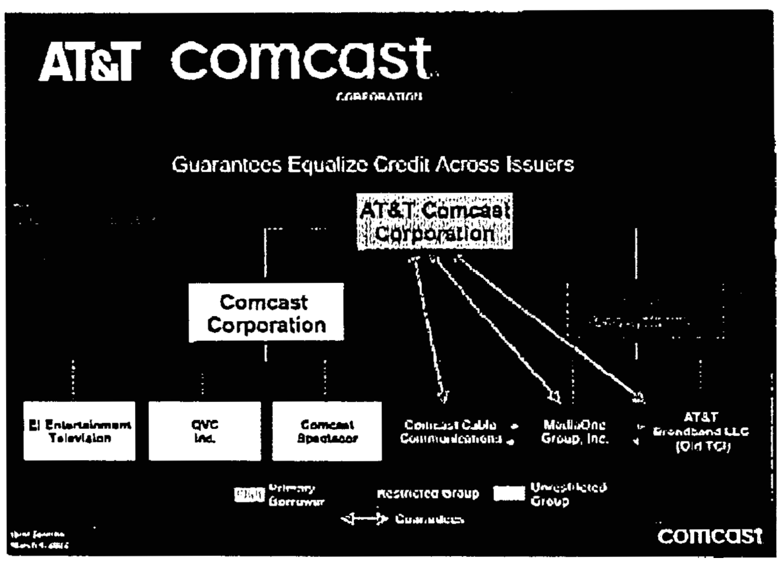
AT&T COMCAST CORPORATION
FINANCING CONSIDERATIONS

Corncast's merger with AT&T Broadband will create one of the leading entertainm :nt, communications, and information companies in the United States. AT&T Comcast Corporation's cable systems will pass 38 million bomcs and serve 22 million customers, making th company the nation's largest cable operator and providing a solid base for the introduction of a · ide range of new and Innovative products and services. With projected revenues of $18 billion ɛ ıd an operating earnings growth rate approaching 20%, AT&T Comcast will have the financial str ngth and flexibility needed to maximize broadband's growth opportunities and enhance the ‹ ›mpany's profitability porenrial.

Merger Financing

Comcast's merger with AT&T Broadband will be accomplished through **a** stock- or-stock exchange and through the assumption or refinancing of existing AT&T Broadbaı ı debt.

AT&T's shareholders **will** receive. subject to adjustment, approximately 0.34 of ‹T&T Corncast **Corporation Class A shares** for ench **share of AT&T owned.** In addition, the **exis ing debt of** Comcast Cable Communications and **the entities acquired** under AT&T Broadba **d, namely** Mcdin Onc **and** AT&T Broadband LLC, f.k.a. TCI, will **be combined under the n· w company.**



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Assumed Debt

Under the proposed terms of the merger transaction, it was initially projected tha approximately $25 billion in debt from AT&T Broadband and $10 billion in debt from Comcast would be assumed by AT&T Corncast. This total assumed debt amount will be immediate / reduced by $5 billion, however, with Microsoft Corporation's conversion of its holdings in / T&T Broadband convertible debt into shares of equity in AT&T Corncast. This transl tes into an adjusted total debt at closing for AT&T Comcast of $30 billion.

It should bc notcd, too, that any mcrgcr-rclatcd dcbt will bc assumcd by thc spcc: ic parcnt company of a franchisee, not by any individual community. As such, debt will b assumed by the parent of the franchisee.

Debt to Cash Flow

"Debt to Cash Flow Ratio" is the common industry metric for measuring the fina cial strength of an MSO. Corncast currently enjoys a significantly stronger balance sheet than A '&T Broadband., with a ratio of debt to 2001 operating cash flow of less that 4 to 1, cc npared to AT&T Broadband's ratio of over 8 to 1. The merged company will have a first y ar combined debt to operating cash flow ratio of less than 5 to 1. This number de-leverages wi h very conservative assumptions to an excellent ratio of 2.5 to 1 by 2004.

Summary Credit Statistics of Selected Cable Companies
Consolidated Results * Source Merrill Lynch & Co.
(Dollars in Billons)

	AT&T Comcast An of 12/31/02 With Synergies	AOL Time Warner	Cox Comm.	Cablevision Systems	Adelphia Comm, (Ex-ABIZ)	Char er Com I.	Insight Comm	Mediacom . LLC
Ratings								
Senior	Baa2/BBB [1]	Baaa2/BBB	Baa2/BBB	Ba2/BB+	B2/B+	B3/I .	B3/B-	Caa1/B+
Financials [2]								
Subscribers	22.0	12.8	8.2	3.0	5.0	7.(	1.3	1.6
2001E EBITDA	$5.5 [3]	89.3	$1.6	$0.8	51.4	$1.	50.3	$0.3
Total Debt & Convertible Debt	$30.9	$29.6	86.2	$5.4	$11.6	$18	51.6	$2.8
Leverage Ratio								
Total Debt & Convertible/EBITDA	4.7 x	3.2 x	3.3 x	6.5 x	8.0 x	8.9	8.0 x	8.5 x

(1) currently under review
(2) Pro forma for all announced transactions
(3) Based on 2002E EBITDA. Includes $500 million in synergies

Investment Grade Rating

Given the above, AT&T Corncast Corporation will be a solid, investmenr-grade ompany. In fact, on March 4, 2002, Fitch Ratings assigned indicative ratings of BBB to the s nior unsecured debt obligations of AT&T Comcast Corporation.

Moody's and Standard and Poor's are currently reviewing the combined entities ating position, although both firms have suggested that the new company will maintain its inves ment grade status.

Working Capital

Successful facilities-based providers of broadband services, such as Comcast, rec lire cash reserves and working capital in order to invest in their infrastructure and busines. development.

We have estimated that somewhere between $1 billion and $2 billion in funding · ill be required at the merger transaction's closing to provide appropriate cash reserves to fund tl : operations and the capital expenditures of AT&T Comcast.

We are currently seeking financing for: this working capital; the retirement of A1 &T Broadband's inter-company loans to its current parent AT&T Corp.; and refinanc ng of a portion of the debt AT&T Comcast will assume with the acquisition of AT&T Broadban . As of March 1,2002, approximately 80% of the projected amount needed has already been sex ured from five leading underwriters, including Morgan Stanley, Merrill Lynch, J.P. Morgan Cha e, B of A Securities, and Citicorp SSB. This early interest in loan syndication remains higl strengthening our expectation that a total $12.5 billion commitment will be in place by May 20(2.

In addition, Comcast Cable maintains significant funding availability from extern .l liquidity sources. Comcast Cable currently has an available credit facility of $4.5 billion, a d funds from this facility will be available to provide additional liquidity, as needed.

With a very strong balance sheer, Comcast is also currently generating high "free :ash flow" from its operations, which provides a significant non-debt source of funding for c pital expenditures. Over 95% of Comcast's customers are served by upgraded/rebuilt s 'stems. With most of this important investment already made, capital expenditures are decreasi g resulting in more free cash flow that can be deployed to accelerate the upgrade of AT&T Bro dband cable systems.

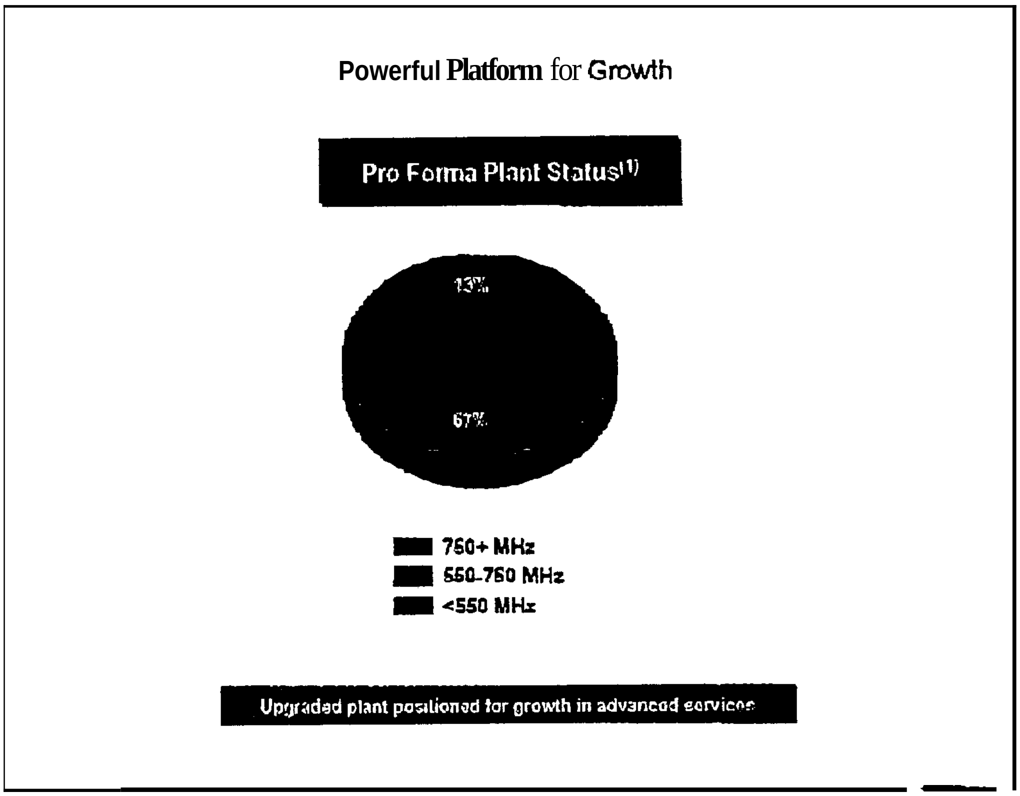
Cost Synergies

It is estimated that within five years the merger should result in synergies and effi iencies worth approximately $1.25 to $1.95 billion. This estimate includes cost savings due to t e elimination of corporate overhead costs, moderation of programming expenditures and impro ed operating margins. The merged company is also expected to save $200-300 million annuall from lower prices due to the increased scale of capital expenditures.

Franchise Commitments to Local Communities

Our existing commitments to our local franchises remain intact. Planned system :builds and upgrades, scheduled service rollouts, and other financial commitments already m le to our local communities will continue.

Finally, looking not so far down the road, the merger of Comcast and AT&T Broadband will provide significant and direct benefits to our communities and customers. The combination of the companies will establish a sturdy foundation from which to offer more broadband services to more people more quickly. The merger will facilitate the deployment of new and exciting video services, high-speed cable Internet and a choice for local phone services at competitive prices to more customers across the United States.



Received Apr-23-02 05:03pm From-510 988 8600 To-RUTAN & TUCKER LLP, Page 08

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Exhibit 30

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COLE, RAYWID & BRAVERMAN, L.L.P.

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TELEPHONE (202) 659-9750
FAX (202) 452-0067

April 30,2002

<u>VIA TELECOPIER AND OVERNIGHT MAIL</u>
714.546.9035

William M. Marticorena, Esq.
Rutan & Tucker
611 Anton Blvd., 14th Floor
Costa Mesa, CA 92626

Re: AT&T BroadbandComcast Corporation Form 394 Application – Confidentiality Agreement

Dear Bill:

I am writing in response to your April 18,2002 letter received on April 24, 2002 requesting access to certain confidential information. AT&T Broadband and Comcast Corporation have agreed to allow confidential review of certain exhibits and schedules ("Subject Documents") that were not included with the Agreement and Plan of Merger or Distribution and Separation Agreement (collectively, the "Agreements") included in the companies' pending FCC Form 394 Applications that were recently filed with the various California municipalities you represent including Berkeley, Richmond, Contra Costa County and Santa Cruz County (the "Communities"). The review would be for the sole purpose of confirming that the Subject Documents are not necessary to understand the terms of the Agreements and, in any event, are not necessary to an analysis by the communities of the qualifications of AT&T Comcast as the new parent company. This Confidentiality Agreement will further memorialize the obligation of the parties and facilitate that review.

AT&T Broadband and Comcast, subject to the terms of this Confidentiality Agreement, and execution of this Confidentiality Agreement by you, will make the Subject Documents available for review by you on behalf of the Communities. Specifically, the Communities' review will be conducted by you at the offices of AT&T Broadband in the Los Angeles area at a specific time and location mutually convenient to you and company representatives. Representatives of AT&T Broadband and Comcast shall have the right to be present during such review. It is further understood that the Subject Documents contain confidential, trade secret and/or proprietary information and that no copies of the documents will be made. No notes will be generated other than necessary for consultant work product and no such notes will be circulated beyond you and your direct employees on a need to know basis.

It is further understood that the review is for the limited purpose set forth above and in order to form and report conclusions related thereto to the Communities. As such, you will assure that no specific information set forth in the Subject Documents will be provided to or otherwise disclosed to the Communities; nor will any information set forth in the Subject Documents be provided or disclosed to any other municipality or other party. The substance of the Subject Documents will not be included in any written report you submit to any Community or its representatives.

By permitting review of the Subject Documents pursuant to this Confidentiality Agreement, neither AT&T Broadband, Comcast, nor AT&T Comcast in any way waive the confidentiality of the Subject Documents or the information provided therein or any arguments with respect to whether the Subject Documents are within the appropriate scope of review of the FCC Form 394 Application. You shall be responsible for protecting the confidentiality of any information reviewed and will act in good faith and will not intentionally do anything to deprive AT&T Broadband, Comcast or AT&T Comcast of the benefits of this Confidentiality Agreement.

Please indicate your agreement to these terms by signing below.

Very truly yours,

COLE. RAYWID & BRAVERMAN, LLP

Jeremy H. Stern

cc: Mr. Rick Witherington
Mr. Kent Leacock
Michael P. Hurst, Esq.
Gregory L. Cannon, Esq.

This Confidentiality Agreement is agreed to and executed on behalf of the Communities and Mr. William M. Marticorena this __ day of ___________, 2002 by:

____
William M. Marticorena, Esq.

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Exhibit 31

RUTAN & TUCKER LLP

ATTORNEYS AT LAW

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
611 ANTON BOULEVARD, FOURTEENTH FLOOR
COSTA MESA, CALIFORNIA 92626-1931
DIRECT ALL MAIL TO: POST OFFICE BOX 1950
COSTA MESA, CALIFORNIA 92628-1950
TELEPHONE 714-641-5100 FACSIMILE 714-546-9035
INTERNET ADDRESS www.rutan.com

Direct Dial: (714) 641-3416
E-mail: bmarticorena@rutan.com

May 1, 2002

Jeremy H. Stem
Cole, Raywid & Bravennan, LLP
2381 Rosecrans Avenue, Suite 110
El Segundo, CA 90245-4290

Re: City of Berkeley, California - City of Richmond, California - City of Santa Cruz, California - Contra Costa County, California - County of Santa Cruz, California (collectively, the "Franchising Authorities"); AT&T Broadband/Comcast Corporation Merger (the "Transfer")

Dear Jeremy:

This letter constitutes a response to your letter to me dated April 30, 2002 (the "Letter"). Please be advised that the Confidentiality Agreement which you have proposed in relation to my review, on behalf of the Franchising Authorities, of certain exhibits and schedules ("Subject Documents") that were not included with the Agreement and Plan of Merger or Distribution and Separation Agreement (collectively, the "Agreements") included in the pending FCC Form 394 Applications (the "Applications") filed with the Franchising Authorities is not acceptable for the following reasons:

(1) The scope of review of the Subject Documents is not limited to the "sole purpose of confirming that the Subject Documents are not necessary to understand the terms of the Agreements and, in any event, are not necessary to an analysis by the communities of the qualifications of AT&T/Comcast as the new parent company." On the contrary, a review of the Subject Documents is relevant to the purposes stated above as well as to the potential impact of the transfer upon the provision of cable service within the Franchising Authorities.

(2) Provision of the Subject Documents to me at the Los Angeles offices of AT&T Broadband without my ability to copy the documents or to make notes thereof is unacceptable. It is not reasonable to expect any attorney or consultant to be placed in a room with a large set of complicated documents for a limited period of time and expect any type of useful analysis without the aid of selective photocopying and/or extensive note taking. Simply making

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documents available for a cursory inspection is not the same as fulfilling your obligation to provide all relevant and necessary infomation to the Franchising Authorities.

(3) I am not in the position to agree that "no specific infomation set forth in the Subject Documents will be provided to or otherwise disclosed to the communities. . ." or to agree that ". . . the substance of the Subject Documents will not be included in any written report [I] submit to any community or its representatives." These limitations, both individually and collectively, render my review of the Subject Documents meaningless and of no value to the Franchising Authorities. Any limitation which precludes relevant information contained within the Subject Documents from being provided to the Franchising Authorities, including relevant members of Staff and elected officials, violates both the spirit and the letter of federal law as well as the local Franchise Agreements.

The limitations set forth in your letter constitute an effective denial of access to the Subject Documents. In a spirit of cooperation, I hereby suggest the following alternative procedure:

(1) A photocopy of the Subject Documents will be provided to me for review at my offices.

(2) I will review the Subject Documents solely for purposes relating to the Transfer as it affects and relates to the Franchising Authorities.

(3) The Subject Documents will neither be copied nor provided to anyone for review in a location other than the offices of Rutan & Tucker, LLP.

(4) To the extent that I determine that the provision of information contained in the Subject Documents is relevant to the decision making process of the Franchising Authorities, such information may be provided to the Franchising Authorities, their Staff and elected officials, by way of summary and narrative description in relevant oral and written presentations. The actual Subject Documents will not be made part of any Staff Report or other written document which is made generally available to the public pursuant to applicable law.

(5) If, and to the extent, AT&T Broadband, Comcast, or AT&T BroadbandComcast Corporation challenge any decision of the Franchising Authorities, or any of them, relating to the transfer, the Subject Documents shall be deemed to be a portion of the Administrative Record upon which said decision was made notwithstanding the fact that said Subject Documents were not actually provided to the legislative bodies of the Franchising Authorities.

(6) Within thirty (30) days of closing of the Transfer, or within thirty (30) days of the conclusion of any administrative/judicial proceeding relating thereto, the Subject Documents

shall be returned to you. No copies shall be retained by my office or the Franchising Authorities thereof.

The concepts contained in the above-described proposal is consistent with confidentiality protections which have been afforded other cable operators by this office in relation to purportedly sensitive business records. I would certainly be happy to discuss details of my proposal with you at your convenience.

Sincerely,

RUTAN & TUCKER, LLP

William M. Marticorena

WMM:vb
cc: Manuela Albuquerque, Esq., City Attorney, City of Berkeley
Roger Miller, City of Berkeley
Patricia Burke, Contra Costa County
Eric Xavier, City of Richmond
Richard C. Wilson, City of Santa Cruz
Pat Busch, County of Santa Cruz

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Exhibit 32

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COLE, RAYWID & BRAVERMAN, L.L.P.

JEREMY STERN
ADMITTED IN CA AND DC
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FAX (202) 452-0067

May 8,2002

VIA TELECOPIER AND OVERNIGHT MAIL
714.546.9035

William M. Marticorena, Esq.
Rutan & Tucker
611 Anton Blvd., 14th Floor
Costa Mesa, CA 92626

Re: AT&T BroadbandComcast Corporation Form 394 Application – Confidentiality Agreement

Dear Bill:

As a follow up to our telephone conversation on Friday, May 3, 2002, I am writing to propose a revised version of a confidentiality agreement. AT&T Broadband and Comcast Corporation have agreed to allow confidential review of certain exhibits and schedules ("Subject Documents") that were not included with the Agreement and Plan of Merger or Distribution and Separation Agreement (collectively, the "Agreements") included in the companies' pending FCC Form 394 Applications that were recently filed with the various California municipalities that you and the law firm of Rutan & Tucker represent including the cities of Berkeley, Richmond, Santa Cruz, Contra Costa County and Santa Cruz County (the "Communities"). The Communities have asked the companies to produce a complete copy of the Subject Documents. The companies have responded that the Subject Documents are not necessary to understand the terms of the Agreements and, in any event, are not necessary to an analysis by the communities of the qualifications of AT&T Corncast as the new parent company.

The Communities, except those Communities which Rutan & Tucker otherwise identifies in writing, have asked to have Rutan & Tucker conduct an initial review of the documents to determine whether they appear to raise issues relevant to Communities' review of the transaction. By making this request, the Communities do not waive any obligations that the companies may have to respond in a timely manner to the Communities' original requests. The Rutan & Tucker review will be for the sole purpose of determining whether the Subject Documents are material to the Communities at this point in the proceedings in order to understand the terms of the Agreement and analyze the qualifications of AT&T Comcast as the new parent company. If in its reasonable discretion. Rutan & Tucker determines that said Subject Documents or any portion thereof are material to the Communities' understanding of the Agreement or the qualifications of AT&T Comcast as the new parent company, AT&T shall enter into negotiations with Mr. Marticorena to reach an acceptable disclosure arrangement. If an acceptable disclosure arrangement is not reached, neither the Communities nor AT&T waive their respective legal positions regarding the confidentiality of the Subject Documents or the information provided therein or any arguments with respect to the Communities' appropriate scope of review or the relevancy of the Subject Documents to such review. This Confidentiality Agreement will memorialize the obligation of the parties and facilitate that review.

AT&T Broadband and Comcast, subject to the terms of this Confidentiality Agreement, and execution of this Confidentiality Agreement by William M. Marticorena, Esq., will make the Subject Documents available for review by Rutan & Tucker on behalf of the Communities. Specifically, the Communities' review will be conducted by Mr. Marticorena and one of his firm's attorneys at the offices of Cole, Raywid & Braverman in El Segundo, California at a specific time mutually convenient to Rutan & Tucker and company representatives. Representatives of AT&T Broadband and Comcast shall have the right to be present during such a review. It is further understood that the Company Asserts that the Subject Documents contain confidential, trade secret and/or proprietary infomation and that no copies of the documents will be made. No notes will be generated other than necessary for attorney work product and no such notes will be circulated beyond you and your direct employees on a need to know basis.

It is further understood that the review is for the limited purpose set forth above and in order to form and report conclusions related thereto to the Communities. As such, you will assure that no specific information set forth in the Subject Documents will be provided to or otherwise disclosed to the Communities. Nor will any confidential information set forth in the Subject Documents and derived solely from this review be provided or disclosed to any other municipality or other party. The substance of the Subject Documents derived during this review will be held confidential and not made available for public distribution.

By permitting and participating in a review of the Subject Documents pursuant to this Confidentiality Agreement, neither AT&T Broadband, Comcast, AT&T Comcast nor the Communities in any way waive any claims concerning the confidentiality of the Subject Documents or the information provided therein or any arguments with respect to whether the Subject Documents are within the appropriate scope of review of the FCC Form **394** Application. Likewise, the Communities do not waive any claim as to the legal requirement that said Subject Documents be produced without the restrictions of this Confidentiality Agreement. Rutan & Tucker shall be responsible for protecting the confidentiality of any information reviewed and will not use the information obtained for any purpose other than the limited purposes set forth above. All parties agree this agreement is subject to and limited by applicable state and federal laws.

Please indicate your agreement to these terms by signing below.

Very truly yours,

COLE, RAYWID & BRAVERMAN, LLP

Jeremy H. Stern
Jeremy H. St

cc: Mr. Rick Witherington
Mr. Kent Leacock
Michael P. Hurst, Esq.
Gregory L. Cannon, Esq.

This Confidentiality Agreement is agreed to and executed on behalf of the Communities and Mr. William M. Marticorena this 9th day of MAY ,2002 by:

By: Rutan & Tucker, LLP
William M. Marticorena, Esq.

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Exhibit 33

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FIGURE **1**

COMPARISON OF AT&T BROADBAND AND COMCAST CABLE
($ in millions)

	· AT&T Broadband	Corncast (cable svcs.)
Nine-Month Revenue (1/1/01-9/30/01)	7,423	3,704
Annualized Revenue – 2001•	9,897	4,934
Revenue per Year per Subscriber**	707	617
Revenue per Month per Subscriber	58.91	51.45
Operating Income (Loss) before Depreciation and Amortization (Operating Cash Flow) Nine Months (11/1/01-9/30/01)	1,496	1,160
Depreciation and Amortization	3,330	2,175
Operating Income (Loss)	(1,834)	(565)
Operating Cash Flow as a % of Revenue	20.2%	43.5%

• 4/3 x nine months revenue.
** Based on 14,000,000 AT&T subscribers and 8,000,000 Comcast subscribers.

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Exhibit 34

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Report of Creighton, Bradley & Guzzetta, LLC Relating to the FCC Forms 394 and Related Materials Filed by AT&T Corp. and Comcast Corporation

Creighton, Bradley & Guzzetta, LLC
Communications Law

Thomas D. Creighton
Michael R. Bradley
Stephen J. Guzzetta
5402 Parkdale Drive, Suite 102
Minneapolis, MN 55416
(952) 543-1400 (Voice)
(952) 543-8866 (Fax)

May 30,2002

I. INTRODUCTION

This Report is prepared on behalf of the following local fianchising authorities:

Minnesota: the Burnsville/Eagan Telecommunications Commission (Cities of Burnsville and Eagan); the North Metro Telecommunications Commission (Cities of Blaine, Centerville, Ham Lake, Spring Lake Park, Lino Lakes, Ham Lake, and Lexington); the Central St. Croix Valley Joint Cable Communications Commission (Cities of Stillwater, Bayport, Baytown Township, Oak Park Heights and Stillwater Township); the City of Columbia Heights; the City of Coon Rapids; the City of Gem Lake, the North Suburban Cable Communications Commission (Cities of Roseville, New Brighton, St. Anthony, Lauderdale, North Oaks, Mounds View, Arden Hills, Shoreview, Little Canada, and Falcon Heights); the Quad Cities Cable Communications Commission (Cities of Anoka, Champlin, Andover, and Ramsey); the Ramsey Washington Counties Suburban Cable Commission (Cities of Maplewood, Oakdale, White Bear Lake, White Bear Township, Dellwood, Birchwood, Grant, Lake Elmo, Mahtornedi, North St. Paul, Vadnais Heights and Willernie); and the South Washington County Telecommunications Commission (Cities of Woodbury, Cottage Grove, Newport, St. Paul Park and Denmark Township).

Tennessee: the Metropolitan Government of Nashville and Davidson County ("Metropolitan Nashville"); the City of Murfieesboro; and the Town of Smyrna.

Wisconsin: the City of River Falls; and the City of Prescott.

The local government entities listed above are collectively referred to herein as the "LFAs" or singularly as an "LFA." The LFAs' local cable television franchises are collectively referred to herein as "Franchises" or singularly referred to as **a** "Franchise").

This transaction involves a merger of the ownership interests of the parent companies of the companies holding the Franchises of the LFAs. On December **19,** 2001, Comcast Corporation agreed to acquire AT&T Corp.'s AT&T Broadband subsidiary in a transaction initially valued at $72 billion. AT&T Corp. ("AT&T"), AT&T Broadband Corp. ("ATTB"), AT&T Broadband Acquisition Corp., Comcast Acquisition Corp. and Comcast Corporation ("Comcast") have entered into an agreement to merge ATTB and Comcast, as separate entities, under a new parent corporation called AT&T Comcast Corporation ("AT&T Comcast") (the transaction herein referred to as the "Transaction").

The proposed merger and resulting transfer of control will result from the spin-off of ATTB, a holding company for AT&T's broadband division, to AT&T's shareholders, and the subsequent merger of ATTB and Comcast into wholly-owned subsidiaries of AT&T Comcast. After the merger is consummated, existing AT&T shareholders will hold 55 percent of the economic interest and between 57 and 61 percent of the voting interest of AT&T Comcast; existing

Comcast shareholders will hold 39 percent of the economic interest and between 1 and 5 percent of the voting interest of AT&T Comcast; and Brian L. Roberts will directly or indirectly hold approximately 1.5 percent of the economic interest and approximately 33 percent of the voting interest of AT&T Comcast.

AT&T and Comcast represent that the Transaction will also have the following characteristics:

- The existing, indirect wholly-owned subsidiaries of AT&T and Comcast holding the Franchises before the Transaction will continue to hold the Franchises after the Transaction.

- The Transaction will not affect any current obligations under the Franchises. After the Transaction, the fianchise holder in each LFA will be bound by its Franchise obligations in the same manner and to the same extent as before the Transaction.

- AT&T Comcast anticipates retaining most of each fianchise holder's local personnel, including management and technical personnel. Thus, the level of local expertise and experience currently available should not be diminished by the Transaction.

- No changes to each fianchise holder's current service policies and practices are required, planned or anticipated as a result of the Transaction.

The purpose of this report is to provide the LFAs with an understanding of the Transaction, the standard for review, and our analysis and conclusions.

II. THE EVALUATION PROCESS

The LFAs received an FCC Form **394** fiom either AT&T or Comcast, through their subsidiaries (AT&T Broadband and Comcast Cable Communications, Inc. ("Comcast Cable")), on or about March 5, 2002. The Forms **394** lay out the Transaction, as described above and in greater detail below. Since the Transaction would result in a total change of control over the Franchises, the prior approval of the LFAs must be obtained, in accordance with the terms of the Franchises and/or applicable law.

In the process of evaluating the FCC Forms 394, CBG, on behalf of the LFAs, has done the following:

9 Retained Ashpaugh & Sculco, CPAs, PLC ("A&S") to examine AT&T Comcast's financial qualifications, and the proposed merger's impact on services and rates;

9 Issued an initial data request to AT&T Broadband on March **4,** 2002, on behalf of all the Minnesota LFAs, except Gem Lake, which request solicited certain financial information regarding the Transaction (Data Request #1);

9 Issued an initial data request to AT&T Broadband and Comcast Cable on March 15, 2002, on behalf of Gem Lake, the Wisconsin LFAs and the Tennessee LFAs, which request solicited certain financial information regarding the Transaction ("Data Request #2");

9 Drafted and transmitted a letter to AT&T Broadband, on behalf of the Minnesota and Wisconsin LFAs, informing it that the transfer process set forth in Section 617 of the Cable Communications Policy Act of 1984, as amended, 47 U.S.C. § *537,* preempts the transfer process specified in state law;

➢ Reviewed the FCC Forms 394 for completeness and transmitted a notice of incompleteness to both AT&T Broadband and Comcast Cable on March 29,2002, which notice, among other things, informed AT&T Broadband and Comcast Cable that the federal 120-day review period had not begun due to the incompleteness of the information received thus far;

9 Informed AT&T Broadband and Comcast Cable by letters transmitted in March and early April, 2002 (depending on the LFA involved), that the LFAs must be reimbursed for all costs incurred in reviewing the FCC Forms 394, and associated documents, and in preparing a report, recommendation and resolutions or ordinances;

9 Negotiated complete reimbursement of the LFAs' transfer-related expenses with a representative of AT&T Broadband and Comcast Cable;

9 Reviewed AT&T Broadband's and Comcast Cable's responses to Data Request #1 and Data Request #2, and prepared a third data request, dated April 2, 2002, soliciting information on AT&T Comcast's financial, technical, legal, character and managerial qualifications ("Data Request #3");

9 Analyzed AT&T Broadband's and Comcast Cable's response to Data Request **#3;**

➢ Independently researched information about the proposed transaction and arguments raised by AT&T Broadband and Comcast Cable in the course of reviewing the FCC Forms 394;

9 Drafted a letter, dated May 6, 2002, notifying AT&T Broadband and Comcast Cable that the terms of the proposed merger had materially changed and that the company's transfer applications remained incomplete;

➢ For the Minnesota and Wisconsin LFAs and Metropolitan Nashville and Davidson County, prepared a written response to AT&T Broadband's/Comcast Cable's correspondence concerning the incompleteness of the companies' applications;

➢ Evaluated the impact of the Transaction on competition in the delivery of cable service and services and rates, based on information provided by AT&T Broadband, Comcast Cable and A&S, and information obtained through independent research; and

- Assessed AT&T Corncast's financial, technical, legal, managerial and character qualifications, using data furnished by AT&T Broadband, Comcast Cable and A&S, and information obtained through independent research.

All of the documents referenced above are incorporated herein as if a part hereof. Copies of each document are available for review from CBG, except those documents which are protected from disclosure under applicable law.

CBG's conclusions concerning AT&T Comcast's financial, technical, legal, managerial and technical qualifications, and the impact of the proposed merger on competition, subscriber rates and services, are set forth in detail below.

III. APPLICABLE FEDERAL, STATE AND LOCAL LEGAL REQUIREMENTS

The applicable legal requirements for examining a request for approval of the Transaction may be found at the federal, state and local level.

A. Federal Law.

The Cable Communications Policy Act of 1984, as amended, 47 U.S.C. § 521, ***et seq.*** (the "Federal Cable Act"), and the Federal Communications Commission's regulations do not establish substantive standards for approving or rejecting a transfer application. Section 617 of the Federal Cable Act, 47 U.S.C. § 537, and 47 C.F.R. § 76.502, however, contain certain mandatory procedures that the LFAs must follow. In this regard, § 537 requires a local franchising authority to act within 120 days of receipt of a completed FCC Form 394 that includes all information required by the franchising authority's franchise and state and local law. A local franchising authority and a transfer applicant may agree to extend the 120-day deadline provided for in federal law and Federal Communications Commission regulations. Absent an extension of time, if a local fkanchising authority does not act within 120 days, an applicant's transfer request will be deemed approved.

Although federal law is primarily procedural with regard to transfers of ownership and control, the Federal Cable Act does delineate two grounds on which a fkanchising authority may deny a transfer request. *See* 47 U.S.C. § 533(d). First, a transfer application may be denied if the proposed transferee owns or controls another cable system in the franchise area. Second, a local franchising authority may reject a transfer if the proposed transaction would eliminate or reduce competition in the delivery of cable service.

B. State and Local Law.

State and local law typically establish the substantive legal bases for granting or denying a transfer request, and often set forth the applicable standard of review. In many cases, the LFAs' Franchises or an LFA's municipal cable ordinance may delineate specific grounds that may be used, and specific factors that must be considered. In addition, state statutes and court decisions may list criteria that must be considered or may establish standards that must be followed. In some cases, state law may also prescribe additional procedures that must be followed by LFAs.

Tennessee Law — Murfreesboro and Smyrna

Tennessee state statutes do not contain any substantive standards or requirements governing a LFA's analysis of this Transaction. Thus, unless restricted by the terms of a Franchise, LFAs in Tennessee should have broad discretion when it comes to reviewing and acting on a transfer application, provided the LFAs do not act arbitrarily or capriciously. Neither Murfreesboro's nor Smyrna's local ordinances contain any substantive limitation on the LFAs' authority to evaluate, approve or deny a transfer request, although the ordinances do define the types of transactions for which prior approval is required. More specifically, neither Franchise limits the subjects that may be reviewed in connection with a defined transfer or restrict the permissible bases for approval or denial of a transfer application.

Tennessee Law – Metropolitan Government of Nashville and Davidson County

The Metropolitan Nashville analysis incorporates the comments above regarding Tennessee state law requirements. **As** for local law, § 6.08.140 of the Metro Code does not contain any substantive limitation on Metropolitan Nashville's authority to evaluate, approve or deny a transfer request.[1] More specifically, § 6.08.140 does not the limit subjects that may be reviewed in connection with a transfer. Indeed, § 6.08.140(B)(3) specifies that "[f]or the purposes of determining whether it shall consent to a transfer, metropolitan Nashville or its agents may inquire into all financial, technical and legal qualifications of the prospective transferee and such other relevant matters as metropolitan Nashville may reasonably deem necessary to determine whether the transfer is in the public interest and should be approved, denied, or conditioned." Moreover, the Metro Code does not restrict the permissible bases for approval or denial of a transfer application, although it does list specific factors that must be considered. Those factors, however, are not exclusive. They are:

(i) the legal, financial, and technical qualifications of the transferee to operate the system;
(ii) any potential impact of the transfer on subscriber rates or services;
(iii) whether the incumbent franchisee is in compliance with its franchise agreement and Chapter 6.08 of the Metro Code and, if not, the proposed transferee's commitment to cure such noncompliance;
(iv) whether the transferee owns or controls any other cable system in Metropolitan Nashville, and whether operation by the transferee may eliminate or reduce competition in the delivery of cable service in Metropolitan Nashville; and
(v) whether operation by the transferee or approval of the transfer would adversely affect subscribers, Metropolitan Nashville's interest under Chapter 6.08, the franchise agreement, other

1 Chapter 6.08 of the Metro Code does, however, define the types of transactions for which local approval must be sought. *See* § 6.08.020 of the Metro Code, defining the concept of a "transfer."

applicable law, or the public interest, or make it less likely that the future cable-related needs and interests of the community would be satisfied at a reasonable cost.[2]

Minnesota Statutes and Specific Local Franchise Ordinances

Pursuant to Minn. Stat. § 238.083, Subd. 4, local franchising authorities must not unreasonably withhold their consent to a proposed sale or transfer of a Franchise, including a sale or transfer by means of a fundamental corporation change.[3] Stated differently, state law establishes a substantive standard, which requires that LFAs must have a reasonable basis to withhold approval of a proposed sale or transfer of a Franchise. It should be noted that § 238.083 does not limit the issues or qualifications that may be investigated in the context of such an analysis, or otherwise delineate the grounds on which a denial can be based. Thus, unless restricted by the terms of a Franchise, Minnesota LFAs have broad discretion in reviewing this Transaction. None of the Minnesota LFAs' Franchises contain any limitation on the subjects that may be reviewed in connection with an analysis of this Transaction, nor do any of the Franchises contain limitations on permissible bases for the approval or denial of this Transaction. That said, the Franchises for Columbia Heights, the South Washington County Telecommunications Commission and the member cities of the North Metro Telecommunications Commission reiterate that approval of the application at issue in this review cannot be unreasonably withheld.

Aside from the substantive standard discussed above, Minn. Stat. § 238.083 contains certain procedural requirements pertaining to the sale or transfer of cable television franchises. More specifically, § 238.083 states:

> Subd. 2. **Written approval of franchising authority.** A sale or transfer of a franchise, including a sale or transfer by means of a fundamental corporate change, requires the written approval of the franchising authority. The parties to the sale or transfer of a fianchise shall make a written request to the franchising authority for its approval of the sale or transfer. The fianchising authority shall reply in writing within 30 days of the request and shall indicate its approval of the request or its determination that a public hearing is necessary if it determines that a sale or transfer of a franchise may adversely affect the company's subscribers. The fkanchising authority shall conduct a public hearing on the request within 30 days of that determination.
>
> Subd. 3. **Notice of hearing.** Unless otherwise already provided for by local law, notice of the hearing must be given 14 days before the hearing by publishing notice of it once in a newspaper of general circulation in the area being served by the franchise. The notice must contain the date, time, and place of the hearing and must briefly state the substance of the action to be considered by the franchising authority.

2 *See* § 6.08.140(C)(1) of the Metro Code.
3 Minn. Stat. § 238.083, Subd. 1 defines a "fundamental corporate change" as "the sale or transfer of a majority of a corporation's assets; merger, including a parent and its subsidiary corporation; consolidation; or creation of a subsidiary corporation."

Subd. 4. **Approval or denial of transfer request.** Within **30** days after the public hearing, the franchising authority shall approve or deny in writing the sale or transfer request. The approval must not be unreasonably withheld.

The franchise ordinances adopted by the City of Columbia Heights, the South Washington County Telecommunications Commission and the member cities of the North Metro Telecommunications Commission reiterate the same procedural requirements.

In contrast to state law and the Franchises identified above, the transfer provisions of the Federal Cable Act, as amended, provide that:

> A franchising authority shall, if the franchise requires franchising authority approval of a sale or transfer, have 120 days to act upon any request for approval of such sale or transfer. If the fianchising authority fails to render a fmal decision on the request within 120 days, such request shall be deemed granted unless the requesting party and the fianchising authority agree to an extension of time.

47 U.S.C. **§ 537.**

According to the Federal Cable Act, any provision of state or local law, which is "inconsistent" with Title VI (Cable Communications) is deemed to be preempted and superseded. 47 U.S.C. § 556(c). Accordingly, CBG has determined that federal law preempts any provision of state or local law that would require LFAs to meet certain procedural deadlines prior ***to*** rendering a final decision regarding a transfer request. In short, the federal right to a 120-day review period cannot be eviscerated by a failure to meet inconsistent state or local procedural requirements.

AT&T Broadband does not concur that federal law preempts the applicability of the procedural deadlines and steps set for in § **238.083.** That said, AT&T Broadband has agreed not to assert any violation of state procedural steps or timing deadlines, as long as final action is taken on its applications within the 120-day deadline specified in federal law.

Wisconsin Statutes and Specific Local Franchise Ordinances

Pursuant to Wis. Stat. § 66.082(5)(a), Wisconsin LFAs may not withhold approval of this Transaction without "good cause." It should be noted, however, that § 66.082(5)(a) does not limit the issues or qualifications that may be investigated in the context of this Transaction, or otherwise delineate the grounds on which a denial can be based. Thus, unless restricted by the terms of a Franchise, Wisconsin LFAs have broad discretion when it comes to reviewing, approving or denying this Transaction. None of the Wisconsin LFAs' Franchises contain any limitation on the subjects that may be reviewed in connection with this Transaction, nor is there any limitation on the permissible bases for approval or denial of this Transaction.

Aside fiom the substantive standard discussed above, Wis. Stat. § 66.082(5)(a) contains certain procedural requirements pertaining to this Transaction. More specifically, Wis. Stat. § 66.082(5)(a) states:

> A cable operator shall give the municipality that authorized its franchise at least 90 days' advance written notice of the cable operator's intention to transfer ownership or control of a cable television system. During the term of a franchise agreement, a cable operator may not transfer ownership or control of a cable television system without the approval of the municipality that authorized the fianchise. A municipality may not withhold approval of an ownership transfer or a transfer of control without good cause. If a hearing is necessary to determine if a transfer may have an adverse effect, a municipality may schedule a hearing to take place within 45 days after the date on which the municipality receives the notice. If a municipality withholds approval of an ownership transfer or a transfer of control, the municipality shall state its objections to the transfer in writing within 60 days after the date on which the municipality receives the notice.

Wis. Stat. § 66.082(5)(a).

The state's default review period and procedures, however, "may be varied under a written fianchise agreement that is entered into, renewed, extended or modified after May 14, 1992." Wisc. Stat. § 66.082(5)(c). In this regard, the Wisconsin LFAs' Franchises, which have been renewed since 1992, state: "[t]he City shall have such time as is permitted by federal law in which to review a transfer request." Federal law specifies that:

> A franchising authority shall, if the franchise requires franchising authority approval of a sale or transfer, have 120 days to act upon any request for approval of such sale or transfer. If the fianchising authority fails to render a final decision on the request within 120 days, such request shall be deemed granted unless the requesting party and the fianchising authority agree to an extension of time.

47 U.S.C. § *537.*

Thus, pursuant to state and local law, the Wisconsin LFAs have 120 days in which to analyze AT&T's FCC Forms 394 and any materials requested pursuant to or required by the LFAs.

C. Procedural Issues.

The LFAs received AT&T's and Comcast's transfer applications on or about March 5, 2002; If the applications were complete, the 120-day review period provided for in federal law would end on July 3, 2002. **As** indicated in Section II of this Report, CBG has notified both AT&T Broadband and Comcast Cable, on multiple occasions, that AT&T's and Comcast's Forms 394 are incomplete. Accordingly, the 120-day review period never started. Both AT&T Broadband and Comcast Cable have disputed this fact.

What cannot be disputed is the fact that on or about May 6, 2002, CBG received information fiom a public source indicating that AT&T and Comcast had, among other things, significantly changed AT&T Comcast's corporate governance structure. CBG immediately informed AT&T Broadband and Comcast Cable that, at a minimum, the reorganization of the Transaction required notification of the LFAs and extension of the federal review period. In the interest of time, both A&S and CBG began analyzing the new transaction once they were able to obtain AT&T Comcast's amended Form S-4, which was filed with the Securities and Exchange Commission at the end of April 2002.

We should note, however, that it could be argued that the ongoing transfer review proceedings were terminated by the filing of the amended Form S-4 and that new Forms 394 must be filed with the LFAs (thus triggering a new 120-day review period). The LFAs could also argue that the 120-day deadline has not begun on the March 5 transfer applications, since AT&T and Comcast never completed those applications, in accordance with applicable laws, ordinances and agreements. Maintaining either position, though, would expose the LFAs to legal uncertainty and could prejudice their legal rights if a court were to rule that a new Form **394** was not required and/or that the applicable 120-day deadline expired on July 3, 2002, since absent final LFA action within the federal review period, the Transaction will be deemed approved by operation of federal law. CBG therefore believes it would be prudent for the LFAs to act prior to July 3, notwithstanding the fact that: (i) AT&T and Comcast have asked the LFAs to review a transaction that is entirely different than the one described in the FCC Forms 394 and related materials; and (ii) neither company has completed its transfer applications.

IV. STANDARD OF REVIEW

At the time of awarding the original Franchises and in subsequent transfers of the Franchises, the LFAs considered and approved the technical ability, financial capacity, legal qualifications and character of the original and subsequent owners of the cable systems, as well as other appropriate factors. The same considerations apply to the current review. The sources of information used in evaluating these factors included the FCC Form 394, its exhibits, the current Franchises, various FCC rules and regulations regarding cable communications systems, state and federal law, the Internet and various subsequent written and oral responses to requests for documents fiom AT&T Broadband and Comcast Cable.

The LFAs' task in this process is to review the information provided regarding the Transaction and to approve or deny the Transaction. The LFAs have the express right to approve or disapprove this Transaction. The standard of review is that the LFAs' consent shall not be unreasonably withheld. For the purpose of determining whether they will consent to the Transaction, the LFAs must make inquiry into the legal, technical and financial qualifications and other appropriate factors regarding the party acquiring control of the Franchises, in this case AT&T Comcast.

In analyzing the Transaction, the LFAs must consider whether AT&T Comcast meets all of the criteria originally considered in the granting of the Franchises. Note, however, that this analysis is not a comparison between AT&T or Comcast and the new AT&T Comcast. Rather, this analysis is an application of factors to determine whether AT&T Comcast satisfies the applicable standards to the reasonable satisfaction of the LFAs.

The LFAs should focus on the following factors in determining whether to approve or deny the Transaction:

1. **Legal and character qualifications of AT&T Comcast;**

2. **Technical ability of AT&T Comcast and its operational staff;**

3. **Financial stability and qualifications of AT&T Comcast, and the impact of the Transaction on services and rates;**

4. **Managerial qualifications of AT&T Comcast and its subsidiaries;**

5. **Impact on cable service competition; and**

6. **Other appropriate factors, including those required by local law.**

CBG has conducted an extensive review of all relevant materials on behalf of the LFAs. This Report is a "shorthand" synthesis of that review in an attempt to fully inform the LFAs without overwhelming the decision making body with detail and minutia. Obviously, this review extended far beyond the summary of this report, and CBG is available to further expand on this summary should the LFAs have any questions.

V. DESCRIPTION OF TRANSACTION

It is necessary to understand the corporate structuring of the Transaction to determine whether such a structure is lawful, but also to understand the financing (at what level is the money adequate to meet existing and anticipated franchise obligations), and to establish which entity's technical qualifications should be reviewed.

AT&T Comcast Corporation ("AT&T Comcast"), Comcast Corporation ("Comcast") and AT&T Corp. ("AT&T") have entered into an Agreement and Plan of Merger, dated December 19,2001, and amended April 29, 2002 (the "Agreement"): under which Comcast and AT&T have agreed to combine Comcast's and AT&T's broadband businesses. Under the Agreement, AT&T Broadband *Corp.*, a holding company for AT&T's broadband division ("ATTB"), will be spun-off to AT&T's shareholders. Upon completion of the spin-off, both Comcast and ATTB will

4 Counsel for AT&T and Comcast has represented in writing that "in no respect has the structure of the transaction been altered nor have any parties to the transaction changed as a result of the changes" contained in the April 29, 2002, registration statement and the modifications made to the Agreement and Plan of Merger. CBG, however, believes the changes made by AT&T and Comcast alter the structure of the transaction, since, among other things, AT&T Comcast's corporate governance structure was modified.

merge with temporary holding companies (AT&T Broadband Acquisition Company and Comcast Acquisition Company) and become separate, wholly-owned subsidiaries of AT&T Comcast. Upon completion of these mergers, Comcast shareholders will receive one share of the corresponding class of AT&T Comcast stock for each of their shares of Comcast stock, and AT&T shareholders will receive in the aggregate for their shares of ATTB common stock 1.235 billion shares of AT&T Comcast Class A stock, or approximately 0.34 shares of AT&T Comcast for each share of AT&T stock.

The AT&T Comcast transaction will occur in several steps and will be subject to the receipt of the necessary governmental approvals and the satisfaction or (to the extent permissible) waiver of other conditions specified in the Agreement, such as required shareholder approvals.

AT&T will (i) assign and transfer to ATTB all of the assets of AT&T's broadband cable and cable telephony business and (ii) cause ATTB to assume all of the liabilities of AT&T's broadband business (as reflected in the AT&T Broadband Group balance sheet dated as of December 31, 2000 or as otherwise specified in the Separation and Distribution Agreement between AT&T and ATTB) that are not at such time assets or liabilities of AT&T Broadband or an AT&T Broadband Subsidiary.

AT&T will then spin-off ATTB to the shareholders of AT&T. Immediately following this spin-off, Comcast and ATTB will each merge with different, wholly-owned subsidiaries of the newly-created AT&T Comcast Corporation. Specifically, Comcast will merge into Comcast Acquisition Corp., a newly formed, wholly-owned subsidiary of AT&T Comcast, with Comcast surviving. ATTB will merge into AT&T Broadband Acquisition *Corp.,* also a newly-formed, wholly-owned subsidiary of AT&T Comcast, with ATTB. In addition, at the option of AT&T Comcast, AT&T Broadband Holdings, LLC, which will be a wholly-owned subsidiary of AT&T Comcast, will become an intermediate holding company between AT&T Comcast and ATTB. **Appendix A** contains two charts that depict the proposed ownership structure of AT&T Comcast.

Following these steps, AT&T Comcast will be the new public company parent of ATTB and Comcast, both of which will be separate, wholly-owned subsidiaries of AT&T Comcast. As a result, AT&T Comcast will consist of both companies' cable systems, both companies' interests in programming services, as well as other assets owned by the two companies.

The company holding the cable franchise with the LFAs will not change as a result of this Transaction. However, the ultimate controlling parent company of each franchise holder will become AT&T Comcast.

VI. LEGAL OUALIFICATIONS

The legal qualifications standard relates primarily to the analysis of whether AT&T Comcast and its affiliates are duly organized and authorized to own the cable systems and the Franchises via the Transaction. As stated above, the ownership of the Franchises will indirectly rest in AT&T Comcast **as** the ultimate parent of the actual fianchise holder in the **LFA's** respective fianchise areas. We have reviewed this corporate structuring and the necessary transactions related thereto. All necessary corporate entities are or will be duly organized. In this regard, AT&T Comcast itself has already been established and duly incorporated in Pennsylvania. We have also concluded that all of the entities necessary to be qualified to transact business in Minnesota, Tennessee, and Wisconsin are or will be so qualified. As discussed above, those entities are not changing as a result of the Transaction.

The legal analysis of the proposed merger also involves an analysis of whether the overall Transaction itself complies with federal, state and local law. We have reviewed the relevant agreements between AT&T Comcast, AT&T and Comcast, and comments that were filed with the FCC concerning the Transaction. Based upon our review, it is our opinion that the Transaction does not violate Federal, State or local law at this time, although issues concerning horizontal and vertical ownership restrictions may arise in the future. Therefore, the LFAs would not have a reasonable basis to withhold approval of the Transaction based on the above.

VII. TECHNICAL ABILITY

While the technical ability analysis of the Transaction should focus on the technical expertise and experience of AT&T Comcast, our review must focus on a best analysis of ATTB and Comcast (and their subsidiaries), in this case, as those preexisting companies will manifest themselves operationally in the merged entity, since they will remain after the Transaction is consummated and will likely be primarily responsible for day-to-day operations. Our focus on ATTB and Comcast (and their subsidiaries) is also necessitated by the fact that we have been able to obtain little information on AT&T Comcast's technical qualifications, since both AT&T Broadband and Comcast Cable have refused to answer virtually any question related to the eventual operation of AT&T Comcast (proffering the argument that they are prohibited by law fiom doing so). Further, since the answers of both AT&T Broadband and Comcast Cable concerning further inquiry into AT&T Comcast's qualifications seem to imply that, at least for the time being, the local or regional technical staffs with which the **LFAs** are familiar will stay relatively unchanged, conclusions regarding the technical performance of the systems affected by the Transaction can be drawn fiom experience with the current technical support systems.

As opposed to the usual transfer of ownership in which a different corporate culture will emerge with one company selling its .systems to a different company, this Transaction will retain significant elements of the previous owners, AT&T Broadband and Comcast. Some of the systems involved in this analysis were AT&T Broadband systems and some were Comcast systems. Although AT&T Comcast had reported in responses to inquiries that it plans to ultimately consolidate corporate functions, AT&T Comcast was vague (to say the least) as to what such a consolidation would entail, and what effect it would have on the LFAs. Therefore, it is impossible at this time to determine which parts of the original corporate cultures of ATTB and Comcast will prevail in the new merged company, although it is clear that Mr. Brian L. Roberts (fi-om Comcast) and Mr. C. Michael Armstrong (from AT&T) will have powerful and prominent roles in the merged company.

Both AT&T Broadband and Comcast were able to operate cable systems prior to the Transaction. Each of the LFAs served by both of the original companies has had issues with the performances of both ATTB and Comcast at the local level. Such things **as** telephone answering response times and commitments for institutional networks are of concern. Additionally, significant concerns relative to the ongoing maintenance and technological development of the local networks remain, especially in light of A&S's financial analysis, which follows in this Report.

Although grave concerns exist as to AT&T Comcast's ability to financially support adequate technical performance in the local Franchise territories should the Transaction take place, for the purpose solely of the technical analytical piece of this Report, and assuming adequate resources were available to AT&T Comcast and the local systems (which we do not), the overall technical ability of the predecessor companies (which were already approved in the context of prior transfers of ownership and control), **and** the presumed technical ability of the successor merged entity (assuming keeping most of the existing technical support in place) requires an analytical conclusion that there would be no reasonable basis for the LFAs to withhold approval of the merger based solely on the technical qualifications of AT&T Comcast, as speculative as that basis must be.

VIII. FINANCIAL STABILITY AND OTHER FINANCIAL ISSUES

A. Background, Issues, and Problems.

The financial stability factor in this case relates to whether AT&T Comcast has the financial resources available or committed, now and in the future, to enable ATTB and Comcast to operate their systems in accordance with applicable laws, standards, franchise ordinances and agreements. Financial stability also pertains to whether the Transaction, as presented, is reasonable and economically viable. Other financial issues to be considered are the Transaction's impact on rates and .services, including (but not limited to) the availability of programming services, the quality of customer service and maintenance and repair practices. In addition, the LFAs should consider whether AT&T Broadband and Comcast will have sufficient cash flow after the Transaction to meet Franchise obligations, including, by way of example and not limitation, franchise fee payments and PEG support payments.

A&S has reviewed the financial data AT&T and Comcast submitted in their transfer applications and in response to written and oral data requests. In addition, A&S has analyzed publicly filed documents concerning the Transaction that were available fi-om the websites of the Securities and Exchange Commission, the Federal Communications Commission, Comcast Corporation and AT&T Corporation as of May 13, 2002. A&S's findings concerning AT&T Comcast's financial fitness, and the problems and risks posed by the Transaction are contained in a report dated May 24, 2002 (the "A&S Report"). For your convenience, we have attached the A&S Report as **Appendix B** to this Report and incorporated it herein.

According *to* A&S, AT&T Comcast will inherit approximately $32.7 billion of debt once the Transaction is consummated -- $12.2 billion of Comcast debt, $19.3 billion of AT&T Broadband debt, plus additional debt associated with the merger.' Over $16 billion of the foregoing debt will mature by the year 2006, which means that it must be repaid or refinanced over the next few years. At the same time, A&S believes that AT&T Comcast will continue to make capital expenditures in excess of $4.0 billion per year, while suffering a cash flow deficit of over $3.5 billion a year through 2006. The need to fund maturing debt and capital expenditures, as well as cash flow for day-to-day operations, will increase AT&T Corncast's debt by at least $3.0 billion annually for three to five years following the Transaction. A&S believes this could result in a debt load of $40.0 billion. As a result, revenue deficits could continue into the future for an indeterminate period of time. The exact amount and duration of the revenue deficits that will occur are unknown, since AT&T Comcast has not performed any future operating projections (*i.e.*, cash flows, revenues and expenses).

This is significant because it shows that AT&T Comcast, Comcast and AT&T do not truly know or understand all the ramifications of the Transaction. In this regard, AT&T Comcast cannot prove that: (i) the short-term cash flow deficits discussed above are insignificant in light of anticipated cash flows and debt loads; (ii) long-term cash flow makes the Transaction economically viable; or (iii) the "synergies" and "efficiencies" cited in various documents are realistic.[6]

Given the level of debt and revenue shortfalls predicted by A&S, it is likely that AT&T Comcast will need to increase revenues (through rate increases), decrease expenses (*e.g.*, by terminating customer service representatives and repair/maintenance technicians, eliminating programming services, further consolidating customer service or implementing other cost-cutting measures) and/or reduce capital expenditures for facilities and equipment. Indeed, according to the A&S Report, AT&T Comcast's Amended Form **S-4** suggests that AT&T Broadband, Comcast and/or AT&T Comcast may make take such steps to address cash flow concerns.[7] A&S is also concerned that AT&T Broadband is guaranteeing the debt of its subsidiaries and unconsolidated joint ventures.[8] As of December 31, 2001, the amount of this debt is $1.463 billion. The risks associated with guaranteeing the debt of joint ventures and subsidiaries are highlighted by

5 ***See*** A&S Report at 1.
6 ***See*** A&S Report at **2-3.**
7 *Id.* at **2.**
8 *Id.* at 6.

Adelphia's financial problems, which are attributable to loan guarantees made to Rigas family partnerships.'

An additional problem noted in the A&S Report is that certain agreements between AT&T Broadband and AT&T will survive the Transaction. A&S believes two of those agreements – the Master Facilities Agreement and the First Amended and Restated Local Network Connectivity Services Agreement – may inhibit AT&T Comcast's ability to generate additional cash flow by hindering the company's ability to effectively compete against AT&T in various telecommunications service markets. This is because, under the foregoing contracts, AT&T Comcast, through its AT&T Broadband subsidiary, will have to: (i) lease certain network elements and management and operational services from AT&T for a specified period of time; (ii) allow AT&T to use its existing fiber facilities; and (iii) construct and lease to AT&T new fiber facilities in the areas served by AT&T Broadband's cable systems. As a result, AT&T may be able to offer certain telecommunications services for less than AT&T Comcast, which means AT&T Comcast may lose existing customers (and revenues), and future revenue opportunities."

Finally, the A&S Report concludes that the six synergies and efficiencies relied upon by AT&T Comcast to support the Transaction are not reasonable. The bases for A&S conclusion are: (i) there are no supporting analyses or documentation for the claimed synergies and efficiencies; (ii) the disclaimers made by AT&T Comcast's expert mean the synergies and efficiencies quantified are suspect; and (iii) the synergies and efficiencies identified are based on experiences from prior acquisitions, and not on the facts surrounding the Transaction." Thus, the fundamental rationales for the Transaction are in doubt.

In light of the problems and concerns identified above, the A&S Report opines that:

> "[t]he fi-anchises served by Comcast will go from a company currently touted as being the strongest financial position of any of the cable multiple system operators . . . to a company, AT&T Comcast, with a large amount of debt and significant shortages in cash flow. Franchises currently served by AT&T Broadband will go from a company with significant debt and shortages in cash flow to a company with even more debt and greater shortages of cash flow."[12]

Consequently, A&S does not believe that the Transaction will be beneficial to any of the LFAs, at least through 2006, and possibly beyond.[13]

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9 ***See**, e.g.*, Ventura County Star (May 22,2002) (http://www.insidevc.com/vcs/business/ar0,l375,VCS_128_I169695,00.html).
10 ***See*** the A&S Report at ***6-7.***
11 *Id.* at 7-8.
12 *Id.* at 3-4.
13 *Id.* at 12.

B. Non-Beneficial vs. Detrimental Impacts of the Transaction.

It is the opinion of CBG that the **LFAs** have a reasonable basis to withhold approval of the Transaction based on the conclusion of **A&S** that the Transaction would *not be beneficial* to any of the **LFAs,** at least through 2006, and possibly beyond. However, after reviewing the **A&S** Report, CBG was concerned that its substance pointed to even more serious ramifications of the Transaction. In particular, the A&S Report implies that not only is the Transaction *not beneficial* to the **LFAs** and by extension to subscribers, but the Transaction may even cause *ham* ***or*** *detriment* to the **LFAs** and subscribers. **So** as not to read into the A&S Report a conclusion that was not there, and to allow **A&S** an opportunity to clearly and succinctly respond to specific areas of concern of CBG, we requested a further response from **A&S** as to whether the Transaction may also be detrimental to subscribers and the **LFAs** that represent them.

Is this just saying the same thing a different way? No. Simply stated, it is possible for something to be "not beneficial" to an entity, but still not be "detrimental." In other words, if the Transaction would simply not do the subscribers any good, but would not harm them either, a somewhat lower public policy threshold of concern is presented to the policy makers of the LFAs. Therefore, CBG presented **A&S** with a list of specific concerns often expressed by our clients, the **LFAs.** CBG limited its specific concerns to important components of the delivery of cable services to constituents within the **LFAs** by the incumbent cable operator. These concerns are all valid **LFA** considerations in the analysis of any proposed Transaction, such as in this case. CBG posed specific questions to **A&S** regarding the Transaction's financial impact on such things as subscriber system maintenance, institutional network system maintenance, customer service, PEG support, fianchise compliance, proposed or future system upgrades, and future technological improvement.

In each case, CBG asked **A&S** to respond using one of five *(5)* succinct levels of response as to whether the Transaction would have a *detrimental impact* on a specific area of concern. Immediately following is the exact text of the inquiry to **A&S** with the A&S response in bold type:

> We have received your report in the merger of AT&T and Comcast. I have reviewed the report and sincerely appreciate the quality of your work and the depth of your analysis. While we will include your entire report as a part of our analysis, I would appreciate your focusing your expertise and knowledge as a result of your analysis to advise my clients in response to specific questions which I **know** are of concern to them.
>
> Since the policy makers are not for the most part trained in the sophisticated financial analysis that you offer, if is helpful in their consideration to focus on specific questions answered by you based on your review, analysis and expertise.

Please respond as specifically as possible ("Yes" or "No" are certainly acceptable responses--we can use your full report to further understand your short responses to this inquiry).

As a start, I would appreciate an attempt at limiting your responses to the following:

Yes, and probably significantly
Yes, and possibly significantly
Yes, but just moderately
Yes, but only slightly
No

Please feel free to include, however, any explanatory information you believe is necessary for you to explain any answers you believe need explanation beyond your report **we** already have. However, at this point in the review, brevity is a virtue. Please feel free to respond within the text of this email, or simply list the number of the question and your response, and we can put it together upon receiving your response. I would appreciate your response as soon as possible so that we can meet the deadlines for our clients.

Questions:

Will the merger of AT&T Broadband *Corp*. and Comcast Corporation have a detrimental impact on:

1. the availability of funds (capital and operating) for ongoing maintenance of the local subscriber networks;

   Response: Yes, and possibly significantly

2. the availability of funds (capital and operating) for ongoing maintenance of the local institutional networks;

   Response: Yes, and possibly significantly

3. the availability of funds (capital and operating) for upgrades and future technical improvements of the local subscriber networks;

   Response: Yes, and possibly significantly

4. the availability of capital funds for initial construction, upgrade, and future technical improvement of the local institutional networks;

Response: Yes, and possibly significantly

5. the availability of funds for capital support of public, educational and government access as required by the local franchise agreements;

Response: Yes, and possibly significantly

6. the availability of funds for the hiring and training of customer service staff;

Response: Yes, and possibly significantly

7. the availability of funds for the upgrade and improvement of call centers and company telephone response systems;

Response: Yes, and possibly significantly

8. the availability of funds for implementation, maintenance and future technical improvement of Emergency Alert Systems;

Response: Yes, and possibly significantly – to the extent supported by the cable operator

9. the availability of operating funds to support and provide adequate personnel to test the subscriber network and institutional networks .for technical problems and compliance with applicable technical and performance standards; and

Response: Yes, and possibly significantly

10. the availability for funds to support increased and improved service offerings on the local cable systems.

Response: Yes, and possibly significantly

11. Would the proposed merger likely result in the further consolidation of customer service functions?

Response: Yes, and probably significantly. In order to achieve the synergies claimed by Comcast **as** associated with this transaction, these types **of** consolidations would need to occur.

12. Would the proposed transaction cause an upward pressure on rates?

    Response: Yes, but just moderately. AT&T Comcast will be limited in the amount rates can increase due to competitive pressures and the subscriber's ability to pay. As discussed in the report, rates may be increased by revenue may not increase.

The Franchise of the Metropolitan Government of Nashville and Davidson County, Tennessee includes a requirement that a determination be made as to:

13. Whether operation by the transferee or approval of the transfer would adversely affect subscribers, metropolitan Nashville's interest under this chapter [6.08], the fianchise agreement, other applicable law, or the public interest, or make it less likely that the future cable-related needs and interests of the community would be satisfied at a reasonable cost.

    Response: As discussed in the report, Comcast will be in a less favorable financial position from the merger. So the response to #13 would be Yes.

Thank you again for your consideration of our concerns and questions.

Tom Creighton

C. Conclusion as to Financial Considerations.

Never in the over 35 years of combined experience of representing municipalities in cable communications issues have the principals of CBG been presented with such a negative financial report related to a proposed transfer of ownership or control.

At virtually every turn, the LFAs are confronted with legitimate, significant concerns regarding the financial viability or reasonableness of the Transaction as it relates to local cable systems. It is the conclusion of CBG, based upon the financial analysis of A&S, that the Transaction is neither viable nor reasonable. In addition, as indicated above, AT&T Comcast is not financially qualified to own or operate the cable systems in the LFAs' communities, or to control ATTB and Comcast (and their subsidiaries) and the Franchises. It is also evident that the Transaction will detrimentally affect services, system maintenance and repair, customer service, the integration of technical improvements, and the ability of Comcast Cable and AT&T Broadband to meet Franchise commitments. Moreover, the Transaction would likely cause a moderate increase in rates.

CBG is under no delusions regarding the significance of its findings. The Transaction, as described in the Forms 394 and other documents, would encompass over forty percent (40%) of the cable subscribers in the country. The sheer magnitude of the numbers involved in the Transaction could lead a lay person to the conclusion that there must surely be adequate resources available to meet any particular obligation. However, the financial analysis conducted by A&S illustrates that as to virtually every issue that is a legitimate concern of the LFAs, the results of the Transaction would not only be detrimental to the LFAs and subscribers, but "possibly significantly" detrimental.

It is therefore CBG's conclusion that individual LFAs have numerous and significant bases on which to withhold approval of this Transaction.

Accordingly, CBG recommends that the LFAs adopt a resolution or ordinance, as appropriate, withholding their consent to the Transaction

IX. IMPACT OF THE PROPOSED TRANSACTION ON COMPETITION

As indicated in Section III of this Report, Section 613(d) of the Federal Cable Act, 47 U.S.C. § 533(d), permits the LFAs to consider whether the Transaction "may eliminate or reduce competition in the delivery of cable service" in their respective fianchise area(s). If a local fianchising authority determines that the Transaction will, in fact, eliminate or reduce competition, it may withhold approval of AT&T's and Comcast's transfer applications.

CBG reviewed AT&T's and Comcast's FCC Forms 394 (including the exhibits thereto), AT&T Comcast's Forms S-4, AT&T's and Comcast's Applications and Public Interest Statement, and certain .materials provided in response to our data requests, as well as publicly available information, to determine whether the Transaction would have a negative impact on cable service competition in any of the LFAs' fianchise areas. In the course of our review, we found that:

- With minor exceptions, unrelated to our analysis, Comcast Cable and AT&T Broadband do not presently own cable systems or otherwise provide cable service in the same fianchise areas.[14] Stated differently, AT&T Broadband and Comcast Cable are not currently competing head-to-head to provide cable service in the LFAs' fianchise areas;
- AT&T Broadband and Comcast Cable did not have any pre-merger plans to provide cable service in the same market;[15] and
- there are no non-compete or other agreements between Comcast Cable and AT&T Broadband "that will adversely affect subscribers or services in the LFAs'

14 ***See*** Applications and Public Interest Statement, Description of Transactions, Public Interest Showing and Related Demonstrations, at pp. 5 (February **28,2002).**
15 ***See*** Applications and Public Interest Statement, Description of Transactions, Public Interest Showing and Related Demonstrations, at pp. ***66*** (February 28, 2002).

communities."[16] We interpret this to mean that AT&T Broadband and Comcast Cable have not entered into any agreement that expressly prohibits them fiom directly competing against each other in the same market."

Based on the foregoing, CBG does not believe that the Transaction, as described in AT&T's and Comcast's FCC Forms **394,** will immediately reduce or eliminate competition in the delivery of cable service in the LFAs' franchise areas. In addition, we have not uncovered any credible, concrete or compelling evidence that suggests the Transaction (in and of itself) would have the effect of reducing or eliminating cable service competition in the future. Cable operators have historically not overbuilt each other's cable systems, and we have no reason to believe that this practice will ever change (regardless of whether the Transaction is approved or denied), since there is no major economic impetus to do so. In general, cable operators have been most interested in making investments that preserve and enhance the value of their existing systems (*e.g.*, performing network upgrades), as opposed to incurring massive costs to compete against an entrenched cable service provider in a new market (where a solid return on investment is not guaranteed, and highly speculative).

Competitive overbuilders, such as WideOpenWest, currently face a number of hurdles when entering a market already occupied by an incumbent cable operator. Many of those hurdles are financial in nature and are attributable to the fixed start-up costs associated with the construction of a state-of-the-art cable system." Other hurdles include obtaining access to desirable programming (which is often owned by the competitor or its subsidiaries or affiliates), the ability to sell advertising on incomplete systems that may cover only a small geographic area and reach very few subscribers, and successfully convincing a competitor's subscribers to change service providers. While it is true that the aforementioned barriers to market entry would not be reduced or eliminated by the Transaction, we have not discovered, in the time available for this review, any unbiased data which definitively shows that the ATTB/Comcast merger would, in and of itself, significantly or materially worsen the present competitive environment.

In this regard, the Transaction will not directly affect the large capital expenditures required to build a cable system fi-om scratch or the need for competitors to effectively market and price their services. Further, AT&T Comcast would only have an attributable interest in twenty-four national and regional video programming networks, out of **374** programming services currently

16 ***See*** AT&T Broadband's April 12,2002, Response to Question #7 in CBG's April 2,2002, Request for Information, and Comcast's April 12,2002, Response ***to*** Question #5 in CBG's April 2,2002 Request for Information.

17 Under the terms ***of*** the proposed merger, AT&T Broadband and Comcast will remain separate entities. Thus, they could, in theory, each decide to provide cable service in the same franchise area. Such a scenario, however, is extremely unlikely.

18 ***See, e.g., Duopolistic Competition in Cable Television,*** 7 Yale J. on Reg. at ***68*** ("[i]n almost all cases, cable operators are unanimous in their assessment that overbuilds do not work as a result of the large capital requirements needed up front and the necessity of cornering at least 40 percent of the market once the system is built in order to obtain a return on that investment.")

offered by a variety of sources.[19] This means the Transaction should not appreciably contribute to content discrimination against competitive overbuilders and other cable service providers. 0868
Moreover, A&S has concluded that the Transaction would not increase the merged company's advertising leverage. **As** A&S points out in its report:

> we do not believe that AT&T Comcast would be able to command more revenue fiom advertisers simply because it has a higher number of subscribers. The rates for advertising are driven by the number of viewers of a particular program. The combined company's total number of viewers will not change because of the merger. It is conceivable that AT&T Comcast may be achieve some operating efficiencies in managing this side of its business, but it is not appropriate to attribute additional revenue to this specifically from the merger.

A&S Report at 11-12.

As importantly, the Transaction would not alter the fact that selling advertising on new or incomplete systems with few subscribers will always be more difficult than selling advertising on a mature cable system with a large embedded customer base. Likewise, the Transaction would not change the fact that AT&T Broadband and Comcast already participate in an advertising sales effort that is national in scope. More specifically, Comcast and AT&T Broadband are part of the consortium of cable operators that own National Cable Communications, Inc. ('WCC"), a company that sells national advertising on as many as 37 cable television networks.[20] Both AT&T Broadband and Comcast have pre-existing exclusive agreements with NCC for all national advertising. Given this arrangement, it is evident that the companies established a coordinated, national advertising network long before the Transaction. It is also evident that the Transaction will not strengthen the existing network, since subscriber viewership, which drives advertising, will not change as a result of the proposed merger.[21]

Based on the foregoing, we do not believe that 47 U.S.C. § 533(d) provides a rational basis for withholding approval of the Transaction.

X. AT&T COMCAST CORPORATION'S MANAGERIAL QUALIFICATIONS

Pursuant to the terms of the Transaction, AT&T Comcast will have an atypical governance arrangement. **According** to an amended Form S-4 filed with the Securities and Exchange Commission on April 29, 2002:

> [t]he term of the AT&T Comcast Board upon completion of the AT&T Comcast transaction will not expire until the 2004 annual meeting of AT&T Comcast

19 *See* **Applications and Public Interest Statement, Description** of **Transactions, Public Interest** Showing **and Related Demonstrations, at pp.** 70 **(February 28,2002).**
20 *See* A&S **Report at** 11.
21 *Id.*

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> shareholders. Since AT&T Comcast shareholders will not have the right to call special meetings of shareholders or act by written consent and AT&T Comcast directors will be able to be removed only for cause, AT&T Comcast shareholders will not be able to replace the initial AT&T Comcast Board members prior to that meeting. After the 2004 annual meeting of AT&T Comcast shareholders, AT&T Comcast directors will be elected annually. Even then, however, it will be difficult for an AT&T Comcast shareholder, other than Sural LLC or a successor entity controlled by Brian L. Roberts, to elect a slate of directors of its own choosing to the AT&T Comcast Board. Brian L. Roberts, through his control of Sural LLC or a successor entity, will hold a 33 1/3% nondilutable voting interest in AT&T Comcast stock. In addition, AT&T Comcast will adopt a shareholder rights plan upon completion of the AT&T Comcast transaction that will prevent any holder of AT&T Comcast stock, other than any holder of AT&T Comcast Class B common stock or any of such holder's affiliates, fiom acquiring AT&T Comcast stock representing more than 10% of AT&T Comcast's voting power without the approval of the AT&T Comcast Board. In addition to the governance arrangements relating to the AT&T Comcast Board, Comcast and AT&T have agreed to a number of governance arrangements which will make it difficult to replace the senior management of AT&T Comcast. Upon completion of the AT&T Comcast transaction, C. Michael Armstrong, Chairman of the Board and CEO of AT&T, will be the Chairman of the Board of AT&T Comcast and Brian L. Roberts, President of Comcast, will be the CEO and President of AT&T Comcast. After the 2005 annual meeting of AT&T Comcast shareholders, Brian **L.** Roberts will also be the Chairman of the Board of AT&T Comcast. Prior to the sixth anniversary of the 2004 annual meeting of AT&T Comcast shareholders, unless Brian L. Roberts ceases to be Chairman of the Board or CEO of AT&T Comcast prior to such time, the Chairman of the Board and CEO of AT&T Comcast will be able to be removed only with the approval of at least 75% of the entire AT&T Comcast Board. This supermajority removal requirement will make it unlikely that C. Michael Armstrong or Brian L. Roberts will be removed from their management positions.

Amendment No. 2 to Form S-4, Chapt. 1 at pp. 31-32.

After the Transaction is consummated, AT&T Comcast will have an Office of the Chairman comprised of the Chairman of the Board (C. Michael Armstrong) and the CEO (Brian L. Roberts) from the completion of the merger until the earlier to occur of (i) the 2005 annual meeting of AT&T Comcast shareholders (at which Mr. Armstrong will step down) and (ii) 'the date on which C. Michael Armstrong ceases to be the Chairman of the Board. The Office of the Chairman will be AT&T Corncast's principal executive deliberative body with responsibility for corporate strategy, policy and direction, governmental affairs and other significant matters.[22]

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22 *See* Amendment No. **2 to** Form **S-4** at **Ch. VIII, pp. 1-2 (April** 29, 2002).

Under AT&T Comcast's initial management structure, as described above, the Board of Directors, Chairman of the Board and Chief Executive Officer will have little or no accountability for the decisions they make. This is significant because, as indicated above, the Board and the Office of the Chairman would be making important decisions concerning local cable systems. In light of the economics of the Transaction, which are discussed in the A&S Report, and given the fact that the Board and Office of the Chairman may act with impunity, it is likely that those decisions may include reductions in capital expenditures, decreases in expenses and/or revenue increasing measures.[23] Such reductions, decreases and revenue increasing measures may, among other things, result in higher service rates and detrimentally impact service quality, customer service and AT&T Broadband's and Comcast Cable's ability to ensure that local fi-anchise commitments are satisfied. At this point, however, it is not possible to ascertain with certainty what types of decisions will be made at the ultimate parent company, since AT&T Broadband and Comcast have refixed to provide such information.[24] In addition, many AT&T Comcast Board members and officers have not yet been selected, so it is not possible to research their record, and to determine whether it is likely that they will take actions which are inconsistent with fi-anchise obligations, subscriber interests and/or the public interest.

AT&T Broadband and Comcast Cable have indicated that the Transaction will not immediately result in any operational or managerial changes at the local fianchise level. At the same time, however, AT&T Broadband and Comcast Cable have admitted that they do not know if there will be any changes to existing management structures as a result of the Transaction. Assuming changes in management are made, the impact of such changes is unknown at this time, since the companies have not stated what types of decisions, if any, would be made at the local level after the Transaction is completed. We should also note that AT&T Broadband and Comcast Cable never furnished any information describing what decisions will be made at the regional or direct parent level (*e.g.*, ATTB and Comcast, as opposed to AT&T Comcast), even though such information was requested by CBG. Thus, it is unclear how AT&T Comcast will function, fiom a decision-making standpoint, after the Transaction, except for the fact that the Office of the Chairman will be primarily responsible for corporate strategy, policy and direction, governmental affairs and other significant matters. Within the Office of the Chairman, Brian Roberts will have day-to-day authority over the operations of AT&T Comcast.[25]

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23 ***See*** A&S Report at 2.

24 According to A&S, budgets and major expenditures will be controlled by upper management, and revenues "collected locally [will be] . . . 'swept' into a central banking facility and managed for the whole company . . ." ***See*** A&S Report at 1. We are not certain, however, what specific decisions will be made by upper management at AT&T Corncast, as opposed to upper management at ATTB and Comcast. It is also possible that certain decisions could be made at a regional level, since **"the** resources or working capital for day-to-day expenses and payroll" are maintained at that level. **See** A&S Report at 1.

25 ***See*** AT&T Broadband's April 12,2002, Response to Question #35 in CBG's April 2,2002, Request for Information, and Comcast's April 12,2002, Response to Question #27 in CBG's April 2, 2002 Request for Information.

Given the uncertainties surrounding who will be making decisions about the LFAs' systems, and precisely what decisions will be made at local, regional, direct parent and indirect parent levels after the Transaction is completed, it would be appropriate to require AT&T Comcast and Comcast or AT&T Comcast and ATTB to affirmatively guarantee that they: (i) will not interfere, directly or indirectly, with a franchise holder's ability to comply with its fianchise obligations, and applicable laws and regulations; or (ii) will cause the franchise holder to comply with its franchise commitments and applicable laws and regulations at all times. It would also be advisable to have the local franchise holder re-affi its understanding of and obligation to comply with franchise requirements. If such a guarantee and reaffirmation are obtained, we do not believe AT&T Comcast's management and governance scheme provides a reasonable basis for withholding approval of the Transaction.

XI. AT&T COMCAST CORPORATION'S CHARACTER QUALIFICATIONS

As part of our review, we evaluated whether AT&T Comcast, and its management, have the requisite character to control the cable systems in the LFAs' franchise areas. The primary purposes of evaluating a transfer applicant's character are to ascertain whether it is likely that the applicant, through its officers and directors, will defraud a local franchising authority or subscribers, or renege on its franchise obligations. To the best of our knowledge, neither AT&T Comcast nor its officers or directors have engaged in any activities that would call their character into question. This conclusion is based on the fact that:

- AT&T Comcast is a new entity, without any operational record;
- For the last ten years, none of the directors of AT&T or Comcast who may become directors or officers of AT&T Comcast have been convicted in a criminal proceeding of fi-aud, embezzlement, tax evasion, bribery, extortion, obstruction of justice, false/misleading advertising, perjury, antitrust violations, violations of FCC regulations or the Communications Act of **1934,** or conspiracy to commit any of the foregoing offenses; and
- No current AT&T Comcast officer or director has ever been fined or otherwise sanctioned by a local franchising authority, the FCC or a state agency or commission for failure to comply with the requirements of a cable television franchise.[26]

Based on our findings and the representations contained in AT&T's and Comcast's application materials, CBG does not believe there are any character issues that provide a reasonable basis for withholding consent to the Transaction.

XII. OTHER RELEVANT FACTORS

26 ***See*** AT&T Broadband's April 12,2002, Response to Question #11 and #12 **in** CBG's April 2,2002, Request for Information, and Comcast's April 12,2002, Response **to** Question #9 and #10 in CBG's April 2,2002 Request for Information.

Other relevant factors which have been reviewed and considered for the purpose of determining whether to approve or deny the proposed merger are:

- The Transaction would not cause any changes to the Franchises or any memoranda of understanding between specific LFAs and the local fi-anchise holder;
- Local franchise holders would continue to be bound by the Franchises and any applicable memoranda of understanding after the Transaction is consummated;
- The Transaction would not affect any licenses or authorizations necessary for local franchise holders to operate and maintain the cable systems in the LFAs' fianchise areas;
- The Transaction would not violate any restrictions on cable system ownership;
- After the Transaction, individual fianchise holders would remain obligated to comply with all federal, state and local laws pertaining to discrimination, equal opportunity employment and affirmative action; and
- All use of the public rights-of-way in the LFAs' communities will continue to be subject to all lawful and applicable licensing and franchising requirements that may apply.[27]

It is CBG's opinion that none of the foregoing factors provide a reasonable basis for withholding consent to the Transaction.

XIII. CONCLUSION

As a result of the above analysis, we have concluded that the LFAs should not approve the Transaction, even as modified in April 2002. AT&T Comcast is not financially qualified to control the Franchises or ATTB and Comcast (and their subsidiaries). In addition, it is clear that the Transaction, if approved, would detrimentally impact (and possibly significantly) network repair and maintenance, future technical improvements, customer service, the availability of funds to support increased and improved service offerings, and the ability of Comcast Cable and AT&T Broadband to meet their franchise obligations. At the same time, the Transaction would likely cause AT&T Broadband and Comcast Cable to raise rates. Accordingly, the Transaction would adversely affect subscribers, and the LFAs' interests under their Franchises.

27 *See generally* AT&T **Broadband's April 12,2002, Response to CBG's April 2,2002, Request for Information, and Comcast's April 12,2002, Response to CBG's April 2,2002 Request for Information.**

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Exhibit 35

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REVIEW
OF THE
PROPOSED MERGER
OF
AT&T BROADBAND, INC.
AND
COMCAST CORPORATION
TO FORM
AT&T COMCAST CORPORATION

Prepared by

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May 24,2002

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Ashpaugh & Sculco, CPAs, PLC ("A&S") were engaged to perform a financial review of the proposed merger of Comcast Corporation ("Comcast") and AT&T Broadband ("ATT-B"), a wholly owned subsidiary of AT&T Corporation, to form AT&T Comcast. For this project, A&S has reviewed the publicly filed documents associated with this transaction available from the websites of the Securities and Exchange Commission's ("SEC"), the Federal Communications Commission ("FCC"), Comcast Corporation and AT&T Corporation as of May 13, 2002. In addition, we have reviewed responses to information requests submitted to Comcast and ATT-B.

The requests for information submitted to Comcast and ATT-B for each of the local franchise authorities ("LFAs") requested information concerning the local impacts of the proposed merger. After discussion with representatives of Comcast, the focus of the review was changed to the effects of the transaction on the parent companies, and Comcast provided responses to the requests on that basis.

The LFA's agreed to this approach because the companies explained that the financial management of Comcast, ATT-B and AT&T Comcast occurs or will occur at the upper levels of the companies. Cash collected locally is "swept" into a central banking facility and managed for the whole company, budgets and major expenditures are controlled by upper management. The local franchises have no financial resources to draw upon. For example, the resources or working capital for day-to-day expenses and payroll is maintained at the regional level. Similarly, there is no debt at the local or regional level, because all debt and financing is done at the parent level. The financial decisions and resources of the companies are concentrated at upper management and, as such, the analysis of the financial aspects of the proposed merger should be at the parent level. This makes the financial position of and decisions made by the parent key to the financial ability of the local system to operate.

While our analysis has thus been conducted at the parent level, the focus of the LFA's review continues to be on the financial implications of the proposed merger on the local systems, including capital expenditures, franchise commitments and moneys due the LFAs. As will be explained below, the anticipated shortages of cash and working capital may increase certain risks for LFA's. For example, these shortages could impact the local franchisee's ability to implement or complete construction and to initiate and offer new and additional services in some or all LFAs.

SUMMARY

The merged company will start operation with approximately $32.7 billion of debt: $12.2 billion of Comcast and $19.3 billion of ATT-B, plus additional debt associated with the transaction.[1] In excess of $16 billion of this debt will mature by 2006.[2,3] For 2001, ATT-B and Comcast had a combined cash flow deficit of over $4.0 billion. The capital expenditures of ATT-B and Comcast are budgeted in total to be $5.6 billion for 2002.[4] Based on our review of

1 Amended S-4, p. III-4, filed April 29,2002 with the Securities and Exchange Commission.
Amended S-4, p. XII-101 for AT&T Broadband.
3 SEC Form 10-K of Comcast Cable Communications, Inc. for the fiscal year ended December 31,2001, p.40.
4 Amended S-4, p. 1-37.

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historical information publicly available and on statements of Comcast and ATT-B regarding future operations, we believe that capital expenditures of AT&T Comcast will continue to exceed $4.0 billion per year.' We also believe the merged entity will have a cash flow deficit in excess of $3.5 billion annually for at least the first few years. The combination of the need to fund maturing debt, fund capital expenditures and fund cash flow will require the level of debt of AT&T Comcast to increase in excess of $3.0 billion annually for the first 3 to 5 years. This could result in a significant debt load in excess of $40.0 billion. These deficits may well continue into the future. We do not know, and Comcast and ATT-B have repeatedly told us in this process that they have not done projections of future operations (cash flows, revenues and expenses). Assuming an annual interest rate of 6.0%, an additional $3.0 billion in debt would increase interest expense $180 million per year and decrease cash flow and net income in the same manner. Since Comcast and ATT-B claim that they are unable to provide projections, they are also unable to show that (a) the short-term deficits are insignificant in light of reasonably expected cash flows; (b) that the long term cash flows are likely to justify this transaction, or (c) that, as will be addressed below, the "synergies" and "efficiencies" associated with this transaction are reasonable.

Operationally, AT&T Comcast may need to make decisions to reduce these impacts, such as to increase revenues, decrease expenses, or to reduce capital expenditures, or some combination. This creates a risk that the parent would be forced to reduce capital support to the local franchisee resulting in a reduction in the quality of existing services and customer service, and slowing or reducing the roll-out of new services. There are statements in the Amended S-4 that it may make such reductions in order to address its cash flow concerns and lack of funding for capital expenditures, and the company has not provided me with any data that contradicts these disclosures. Each of these cost-cutting decisions has other impacts. Competitively, AT&T Comcast may not be able to raise the price of its products and services without eroding revenues further, i.e., the revenues gained by an increase in price may be more than offset by the loss in sales and subscribers. Decreasing expenses may also impact the new company's operations, resulting in loss of revenues and subscribers, and reductions in certain expenses may be prevented by contract or may themselves create additional expenses. One example of this would be the payment of termination costs arising from reductions in workforce. Reducing capital expenditures may impact future growth in revenue by preventing the offering of new services, such as digital and video-on-demand, or may impact future expenses by not allowing reductions achieved through increased efficiencies. Reducing capital expenditures would likely lengthen the amount of time needed to complete the rebuild of the ATT-B systems and limit the build-out of existing cable systems, thus impacting AT&T Comcast's ability to turn this around within 5 years or longer. Technologically, AT&T Comcast will continue to need available funds to be able to add and upgrade equipment to provide new and enhanced services and to continue to expand its other lines of business, such as programming content. As stated in the

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We have requested projected information for the first 5 years of operation of the merged entity, but neither ATT-B nor Comcast would provide any such information. The declaration of Robert S. Pick, Senior Vice President, Corporate Development, Comcast Corporation, filed with the Federal Communications Commission and dated February 27,2002 estimates savings of 5% to 7% on capital expenditures quantified as $200 to $300 million annually, which calculates to $4.0 billion of anticipated capital expenditures before the projected savings.

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following excerpt from pages 25 and 26 of Comcast Corporation's 10-K filed March 29, 2002 for the period ended December 31, 2001, only $225 million of the budgeted $1.5 billion of capital expenditures for 2002 relate to upgrading and rebuilding systems. Comcast has need for continuing capital expenditures within its current operations even after its own upgrade and rebuild is complete.

> Cable
>
> We expect our 2002 cable capital expenditures will include approximately $225 million for the upgrading and rebuilding of certain of our cable communications systems, approximately $625 million for the deployment of cable modems, digital converters and new service offerings, and approximately $450 million for recurring capital projects.
>
> The amount of our capital expenditures for years subsequent to 2002 will depend on numerous factors, some of which are beyond our control including:
>
> o competition,
>
> o cable system capacity of newly acquired systems, and
>
> o the timing and rate of deployment of new services.
>
> Commerce
>
> During 2002, we expect to incur approximately $175 million of capital expenditures for QVC, primarily for the upgrading of QVC's warehousing facilities, distribution facilities and information systems. Capital expenditures in QVC's international operations represent nearly 50% of QVC's total capital expenditures.
>
> Affiliation Agreements
>
> Certain of our content subsidiaries and QVC enter into multi-year affiliation agreements with various cable and satellite system operators for carriage of their respective programming. In connection with these affiliation agreements, we generally pay a fee to the cable or satellite operator based upon the number of subscribers. During 2002, we expect to incur $200 million to $300 million related to these affiliation agreements.

Based on the limited information available, it is not possible to state that this merger will be beneficial to any of the existing franchises. For the period through 2006, AT&T Comcast will continue to have a shortage of cash and be annually increasing its level of debt. This will leave the merged company with a significant debt load that will impact its financial decisions for the following years. Since we have not been provided any projected data, the length of impact of this debt is unknown. Our firm also had the opportunity to review certain information pursuant to confidentiality agreements that prevent us from revealing the data. We can say, however, that the data was relevant to our analysis, and is consistent with our conclusion as to the financial problems presented by this transaction. The franchises currently served by Comcast will go from a company currently touted as being in the strongest financial position of any of the cable multiple system operators ("MSOs") to a company, AT&T Comcast, with a large amount of debt and significant shortages in cash flow. Franchises currently served by AT&T Broadband will go fiom a company with significant debt and shortages in cash flow to a company with even more debt and greater shortages in cash flow.

DISCUSSION

We have relied on information provided by AT&T Broadband and Comcast. Our analysis has focused on the actual results of operations for the years ended December 31, 1999, 2000 and 2001 as shown on the publicly available balance sheets, income and cash flow statements of ATT-B and Comcast and the pro forma balance sheet and income statement of AT&T Comcast. This financial information is attached to this report.

An integral component of these financial statements are the notes that disclose the detail of debt, property and equipment and other matters. This information has been utilized to project the maturing of debt and estimate other financial components discussed above. Additionally, the details of this transaction as explained in the filings with the SEC and FCC have been reviewed.

The financial information of Comcast for the years ended December 31, 2001 shows increases in revenues with increases in expenses at a faster rate. This has resulted in increased income, although operating income before depreciation and amortization as a percentage **of** revenues has declined fiom 45.73% in 1999 to 40.04% in 2001. Comcast's cash flow statements show decreases in cash for 2000 and 2001, principally due to capital expenditures. During this period, Comcast has increased its debt by approximately $2.0 billion. Statements in the Amended S-4 and other filings indicate Comcast will have significant. capital expenditures in 2002 and a shortfall in cash.

Similarly, ATT-B has had a significant shortage of cash in 1999,2000 and 2001. This has been funded by its parent company, AT&T. Statements in the S-4 show that it will continue in 2002. On a combined basis (Comcast and ATT-B), the S-4 identifies a cash shortfall of $4.452 billion for 2001. **As** stated in the S-4:

> Historically, AT&T Broadband Group's capital expenditures have significantly exceeded its net cash provided by operations. For the year ended December 31, 2001, AT&T Broadband Group's capital expenditures exceeded its net cash provided by operations by $3.5 billion. In addition, for the year ended December 31, 2001, Comcast's capital expenditures exceeded its net cash provided by operating activities by $952 million.
>
> After completion of the AT&T Comcast transaction, AT&T and Comcast expect that for some period of time AT&T Comcast's capital expenditures will exceed, perhaps significantly, its net cash provided by operating activities. This may require AT&T Comcast to obtain additional financing. AT&T Comcast may not be able to obtain or to obtain on favorable terms the capital necessary to fund the substantial capital expenditures described above that are required by its strategy and business plan. A failure to obtain necessary capital or to obtain necessary capital on favorable terms could have a material adverse effect on AT&T

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Comcast and result in the delay, change or abandonment of AT&T Comcast's development or expansion plans.[6]

Comcast's 10-K shows significant growth in high-speed Internet revenues. However, even with this growth, this only represents 5.74% of year 2001 total revenues. The major portion of. Comcast revenues is from video services, 83.38%. While Comcast's financial information shows growth in video revenues over the prior year, this needs to be tempered with the fact that Comcast acquired large numbers of new subscribers in 2001 through the following transactions: acquisition of the Baltimore system in June with 112,000 subscribers, 585,000 subscribers from systems acquired from ATT-B in April, and a system swap with Adelphia in January that gained approximately 4,000 subscribers. In December 2000, Comcast exchanged systems with ATT-B gaining approximately 70,000 subscribers. Normally, we try to evaluate the growth in the number of subscribers and the growth in revenue per subscriber. However, this information was not available fiom public sources and not provided by Comcast. Since the growth figures of Comcast do not show clear year-to-year trends because of the changes from acquisitions, it is not possible to determine the growth rates for subscribers and revenue per subscriber. While it seems reasonable to assume that Comcast will continue to experience growth in high-speed internet within the existing Comcast franchises, there is no data to support what the rate of growth will be. Concerning the ATT-B franchises, Comcast's management clearly anticipates the requirement to spend additional capital to provide these types of services over the ATT-B systems.

Likewise, we do not have this information for ATT-B. ATT-B, formerly TCI, was purchased by AT&T Corporation and consolidated into AT&T's financial information in March 1999 as a separately identified business segment. In June 2000, AT&T acquired MediaOne, which was rolled into the ATT-B operating results. As a result of these acquisitions plus additional transactions involving individual systems over the **2** years, year-to-year comparisons at this high level do not yield information that can be used to project future growth.

Announced operating results of Comcast and ATT-B for the first quarter of 2002 reportedly shows mixed results. Comcast has told the investment community that its first quarter results from video are its best ever, with increases in high-speed Internet revenues.[7] However, ATT-B has reported a reduction of approximately 179,000 subscribers fiom the prior year and a margin of operating income before income taxes, depreciation and amortizations and interest expense of only 19% of revenues.' This is significantly below the margin of the Comcast of **35%** to 40%. Assuming average revenue per subscriber of $40 per month, this reduction in subscribers means an annual reduction in revenues of approximately $86 million. The first quarter results seem to indicate that the combined results of Comcast and ATT-B may mirror the 2001 results of a significant shortfall in cash flow, since both Comcast and ATT-B seem committed to their announced levels of capital expenditures, and negative reported income.

6 Amended S-4, p. **1-38.**
7 Transcript of May 1,2002 "First Quarter Earnings Release Conference Call" of Comcast Corporation filed **with** the **SEC** under Rule **425** on **May** 2,2002.
8 April 24,2002 News Release of AT&T.

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ADDITIONAL CONCERNS

This discussion addresses additional concerns noted during our review of the proposed merger.

ATT-B Subsidiary Guarantees. First, as disclosed in its financials, ATT-B has guarantees of debt of subsidiaries and unconsolidated joint ventures in the amount of $1.463 billion at December 31, 2001.[9] AT&T Comcast assumes responsibility for these guarantees with the merger. While ATT-B discounts its liability, the cable television market has had failures and financial troubles, such as the current problems with Adelphia. Such an occurrence with these subsidiaries and unconsolidated joint ventures would add additional financial pressures to AT&T Comcast.

Agreements between AT&T-B and AT&T. The following identifies agreements between ATT-B and affiliated companies of AT&T Corporation that survive the proposed merger.

Master Carrier Agreement.'' This agreement reflects the rates, terms and conditions on which AT&T's business services group will provide voice, data and Internet services to AT&T Broadband, including both wholesale services (those used as a component in AT&T Broadband's services to its customers) and "administrative" services (for internal AT&T Broadband usage). Pricing is market based, with provisions defining an ongoing process to ensure that the prices remain competitive.

First Amended and Restated Local Network Connectivity Services Agreement.[11] This agreement reflects the rates, terms' and conditions on which AT&T's business services group will provide certain local network connectivity services to AT&T Broadband €or use in providing local telephone services to AT&T Broadband's subscribers. This agreement consists of two parts:

- a capital lease from AT&T's business services group to AT&T Broadband of certain network switching and transport assets to be used exclusively by AT&T Broadband for a term of up to ten years, commencing January 1, 2001 for initial assets leased under the agreement; and
- an operating agreement for the provision of local network connectivity, management and operational services in support of AT&T Broadband's local cable telephone services, with a minimum term of five years commencing January 1, 2001.

Master Facilities Agreement.'' This agreement permits AT&T or any of its subsidiaries to use existing fiber facilities owned or leased by AT&T Broadband or its controlled affiliates, together with related services. In addition, AT&T Broadband will construct and lease to AT&T new fiber facilities in the areas served by AT&T Broadband's cable systems for use in providing telecommunications services. The term of the build-out period will expire on January 8, 2012. Subject to certain termination rights specified in this agreement, the term of AT&T's right to use facilities leased under

[9] Amended S-4, **p.** XII- **111.**
[10] Amended S-4, **p.** V-28.
[11] Ibid.
[12] Wid

this agreement will expire on January 8, 2028, renewable at AT&T's option for successive 20-year terms in perpetuity.

The merged company will be a competitor of AT&T Corporation and carrying these agreements forward into the new company may disadvantage AT&T Comcast in competitive situations. For example, the Local Network Connectivity Services Agreement ("LNS") allows ATT-B to use AT&T facilities in providing local telephone service, while AT&T maintains ownership and control of the facilities and equipment. However, AT&T will also be offering local telephone service. While we do not have the specific cost information of the LNS because it was deemed confidential, AT&T's rights under the LNS may put AT&T Comcast in a non-competitive situation where AT&T can offer services at less cost than AT&T Comcast. Since we have concluded that AT&T Comcast will have need of additional cash flow, any limitation on the new company's ability to enter new markets and offer new services raises concerns.

We have similar concerns with the Master Facilities Agreement ("MFA"). The MFA allows AT&T unfettered access to the rights-of-way under contract to and used by ATT-B "in perpetuity" or as long as AT&T so desires. Again, ATT-B and AT&T will be competitors. Use of and access to rights-of-way is a major competitive advantage and a very valuable commodity. As with the LNS, we are concerned that the rights granted to AT&T under the MFA could reduce AT&T Comcast's ability to enter new markets and its ability to compete with AT&T. In addition, in most cases, local franchising authorities ("LFAs") do not have franchise agreements with AT&T for use of the public right-of-way ("PROW'). It is conceivable that AT&T Comcast would be in a position of compensating the LFAs for use of the PROW, while AT&T may be offering the same or similar service in the same location and not compensating the LFAs. Of course, this would be less of a concern from a strict financial standpoint if the cost of using the PROW was passed on to AT&T on some reasonable basis. It is nonetheless of concern to local franchising authorities, to the extent that the MFA is being used to avoid franchisee fees, avoid franchising requirements, or to the extent it violates local franchise agreements.

It has been highly publicized that a benefit of this merger will be the ability of AT&T Comcast to offer a competitive alternative to the local telephone provider and generate additional revenues from telephone service, However, fourteen MediaOne switches were transferred out of AT&T Broadband Group in 2001 and are not part of the AT&T Broadband Group today.[13] As such, AT&T Comcast will only have access to this equipment if it falls under the LNS and, if so, at the rates and charges of the LNS. Once more, we are concerned about the competitive impact this will have on AT&T Comcast.

CONCERNING THE DECLARATION OF ROBERT S. PICK

Mr. Pick is Senior Vice President, Corporate Development, at Comcast Corporation. Mr. Pick filed a declaration dated February 27,2002 with the FCC setting forth:

> "the major categories of synergies and efficiencies.that my staff and I identified in the course of evaluating and negotiating the Merger. These benefits will stem

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[13] Amended S-4, Schedule **6.27.**

> from a number of sources and include the following: (i) accelerated telephony roll-out; (ii) new product development and launch; (iii) programming cost savings; (iv) capital expenditure efficiencies; (v) operating efficiencies; and (vi) national advertising sales."[14]

The following addresses each of the six so-called synergies and efficiencies identified and quantified by Mr. Pick in the order presented in his declaration. Before doing so, however, we note that Mr. Pick did not provide any supporting analyses or documentation for his declaration, repeatedly limited his analysis as "based on my experience in evaluating prior acquisitions" and provided the following disclaimers at the end of each section:

- As noted above, this projection depends upon the accuracy of the due diligence data Comcast has received, as well as the actual financial and operational performance of cable telephony in the marketplace.[15]
- This estimate depends, of course, upon the actual performance of various new products in ongoing trials and, if launched, in the marketplace, as well as broader economic trends.[16]
- Achieving these savings will depend upon a number of factors, including the actual terms of specific programming contracts, .broader trends in programming prices, and the dynamics of individual negotiations between AT&T Comcast and the sellers of video programming.[17]
- Achieving these savings will depend upon a number of factors, including broader trends in prices for capital items and the dynamics of individual negotiations between AT&T Comcast and the sellers of these products.'*
- Achieving these savings will. depend upon a number of factors, including the cost and operational structures at the cable division level and the continued competitive impact of DBS and other competitors.[19]
- This estimate depends upon numerous factors, including trends in the broader economy and advertising sales.[20]

For these reasons, Mr. Pick's Declaration cannot be taken at face value, particularly given the failure of Comcast and ATT-B to provide supporting data and Comcast's insistence that it has no data from which it can make projections of operations.

Accelerated Telephony Roll-out

As noted above in the discussion of Additional Concerns, AT&T Comcast may not be in a competitive position regarding local telephone service. Mr. Pick explains that "AT&T Broadband has devoted significant resources to developing, deploying and marketing cable telephony over the last several years", but it appears from the documents and information

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14 Declaration of Robert Pick, filed with the Federal Communications Commission dated February 2,2002, p.2.
15 Ibid, p. 6.
16 Ibid, p. 7.
17 Ibid, p. 9.
18 Ibid, p. 10.
19 Ibid, p. 11.
20 Ibid, p. 13.

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provided the majority of telephone assets will continue to reside within AT&T and not be transferred to AT&T Comcast. A&S does not have and was not provided information on personnel, so we do not know if "AT&T Broadband's extensive experience and expertise to accelerate the roll-out of cable telephony" will continue to reside within AT&T or be transferred to AT&T Comcast. As such, the "churn-reduction" benefits and quantification of "an additional $600 to $800 million in EBITDA[21] annually" are suspect.

New Product Development and Launch

Mr. Pick estimates "the value to AT&T Comcast of developing these new products should be between $100 and $200 million in EBITDA a year within three years."[22] Comcast is an owner and a major participant in Cable Labs. In recent discussions over the last several months, Brian L. Roberts, President, Comcast Corporation, has repeatedly referred to developments of Cable Labs in developing new services, such as digital, video-on-demand ("VOD") and voice over Internet protocol ("VoIP"). While the merger will provide a larger subscriber base to support this type of research and development, it is difficult to specifically associate additional revenue generation with this merger. Obviously, Comcast is developing these sources of additional revenue now and would pursue them absent the merger. Accordingly, the basis for Mr. Pick's claim of additional EBITDA from these sources is unclear.

Programming Cost Savings

Mr. Pick estimates annual savings to AT&T Comcast of $250 to $450 million from reductions in programming costs for the combined entity. This quantification does not seem reasonable based on our experience.

A&S has been reviewing cable television rate filings of cable operators since 1993.[23] The cost of programming for the Basic Services Tier and the second tier of service, labeled as the Cable Programming Service Tier by the FCC, has been provided as components of these rate filings. In some cases, the costs of the individual channels have been identified. From these reviews, there has been little fluctuation in the per subscriber rates between cable providers and some of the difference has related to different timing of contracts. We agree that there exist volume discounts in some programming contracts, but it has been our experience that the increases in these discounts with increasing volume become very small as the number of subscribers approaches 10 million. In addition, A&S has specifically examined the programming costs of Comcast and of AT&T Broadband; we do not agree that savings of the magnitude represented by Mr. Pick are possible under the existing agreements.

Nor do we believe that AT&T Comcast will be in a position to negotiate better rates for programming as a result of the merger. Such an argument ignores two things. First, many of these contracts are for multiple years and will survive the merger. AT&T Corncast's ability to negotiate better rates will not be known until the contracts are renewed. And second, our experience is that size has not mattered in the price of programming. We have reviewed rates of small cable systems that are consistent with rates of large systems. In some cases, the major

[21] EBITDA is earnings (operating income) before interest, income taxes, depreciation and amortizations.
[22] Declaration of Robert Pick, p. 7.
[23] More specifically, Mr. Ashpaugh has reviewed these filings while he was with prior employers since A&S was only formed December 1, 1999. Mr. Ashpaugh has been working in cable rate matters since 1993.

difference related to a volume discount, which decreased markedly or disappeared as the number of subscribers approached 10 million.[24]

It should also be noted that Comcast owns programming content that it places on its own systems, such as E!, Outdoor Channel, Golf Channel, and QVC, and has stated that it. anticipates adding this programming on the ATT-B systems. ATT-B has ownership of programming content through its 25% interest in Time Warner Entertainment, commonly referred to as TWE. Obviously, any decrease in the cost of its own content to affiliates will reflect negatively on the earnings of the content provider and ultimately the parent company or the owners.

Capital Expenditure Efficiencies

Mr. Pick quantifies this savings as $200 to $300 million annually to AT&T Comcast. First, it appears that Mr. Pick has quantified this component incorrectly. He states that there will be a 5% to **7%** savings, resulting in the $200 to $300 million annually. **A** major component of the capital expenditures of Comcast and ATT-B relate to construction within their respective systems. A large component of the cost of construction, however, is labor, which is usually specific to the region and its local economy and not the size of the company. Thus, the single largest component of the new company's capital expenditures will be unaffected by the merger.

In addition, as discussed above, A&S has reviewed cost information associated with cable rate filings since 1993. **A** cost component of these equipment rate filings is the cost of converters, analog and digital, referred to by Mr. Pick as set-top boxes. We have reviewed the costs of such equipment, and concluded that Comcast and ATT-B have little, if any difference, in the costs of like equipment. Based on that, I do not agree that any savings in capital expenditures could be of this scale. In addition, the companies are already so large that any reductions in cost through volume purchases are unlikely to be substantial.

Operating Efficiencies

Mr. Pick estimates the impact of this to be $200 to $300 million annually on AT&T Comcast's EBITDA after one to three years.[25] Mr. Pick states "AT&T Comcast should be able to decrease the aggregate amount of overhead currently spent by AT&T Broadband and Comcast for corporate services, such as corporate management, corporate development, strategic development, treasury, accounting, tax, and in-house legal services. Currently all of these functions are performed separately by or for both companies."[26] ATT-B is part of a larger company. As disclosed in the footnotes to the financial statements in the Amended S-4,

> AT&T allocates general corporate overhead expenses, including finance, legal, marketing, use of the AT&T brand, planning and strategy and human resources to AT&T Broadband Group, as well as costs for AT&T employees who directly support the activities of the AT&T Broadband Group. Charges for such services amounted to $146, $159 and $120 for the years ended December 31, 2001 and

[24] It should be noted that specific cost infomation for programming has been requested to be confidential by several cable providers including Comcast and **ATT-B. As** such, **we** can only generally discuss this issue.
[25] Declaration of Robert Pick, p. 11.
[26] Ibid, p. 11.

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> 2000 and for the ten months ended December 31, 1999, respectively. These amounts are included in selling, general and administrative expenses in the accompanying combined statements of operations and were determined based on methodology described in note 1.[27] (Amounts shown are in millions.)

As such, we acknowledge that there would be a reduction of $146 million in ATT-B's expenses for 2001. On the other hand, while Comcast's costs for these functions could be spread over a larger base, they will not be decreased. In fact, arguments have been made by experts in **the** industry evaluating this merger that Comcast will have to add significant numbers of additional staff including attorneys and other professionals.[28] Additionally, as part of this merger, C. Michael Armstrong, Chairman and Chief Executive Officer, AT&T Corporation leaves AT&T to become Chairman of the Board of AT&T Comcast. Mr. Armstrong's compensation was in excess of $10.6 million in 2001.[29] This amount plus the costs of any other executive personnel transferring from AT&T or hired would need to be offset against the reductions. For these reasons, we do not believe Mr. Pick's quantification of the impact of the operating efficiencies gained from the merger is reasonable.

National Advertising Sales

Mr. Pick estimates AT&T Comcast "will be able to achieve $100 to $200 million in increase EBITDA annually from the sale of national advertising within one to three years after the Merger."[30] I disagree with Mr. Pick. Comcast and ATT-B participate in national advertising and generate significant revenues from such advertising. Comcast and ATT-B are part of the consortium of cable owners of National Cable Communications, Inc., commonly referred to in the industry as NCC.[31] When Comcast records advertising on its books, it labels it "National Advertising NCC". ATT-B, formerly as TCI, has owned a portion of NCC for many years and was the first MSO (multiple system operator) owner, through its affiliate, AT&T Media Services. While AT&T Media Services sells regional advertising for all of the ATT-B systems, NCC has **an** exclusive contract for all national advertising. It is our understanding that NCC also has such an exclusive contract with Comcast. NCC's purpose is to sell national advertising on cable networks. For example, according to it's website, NCC has the capability to insert ads directly onto a number of cable networks and lists links to **37** cable networks on its website. The cable industry has taken advantage of opportunities in national advertising for many years. Associating increases in national advertising revenues as a benefit of this merger does not seem appropriate. The November 19, 2001 article "NCC's New–Business Push Pays Off' in the Multichannel News touts NCC's ability to capture national advertising and its plans to expand its push in 2002.

In addition, we do not believe that AT&T Comcast would be able to command more revenue fiom advertisers simply because it has a higher number of subscribers. The rates for advertising are driven by the number of viewers of **a** particular program. The combined

[27] Amended S-4, **p.** XII-123.
[28] May 6,2002 Broadcasting & Cable "More than it can swallow? **Turning** AT&T Broadband around may be harder **than** Comcast expects" by John **M.** Higgins.
[29] Amended S-4, **p.** XIV-24.
[30] Declaration of Robert Pick, **p.** 12.
[31] See "About NCC" at its website www.spotcable.com/asp/abo/default.asp.

company's total number of viewers will not change because of the merger. It is conceivable that AT&T Comcast may be achieve some operating efficiencies in managing this side of its business, but it is not appropriate to attribute additional revenue to this specifically from the merger.

CONCLUSION

The proposed merger will increase the pressures on local systems to control cash. Comcast and ATT-B centrally manage cash within their respective companies, "sweeping" local deposits to individual locations that manage the cash within each company. The need to fund maturing debt, provide operating funds (working capital) and fund capital expenditures will require AT&T Comcast to increase the amount of debt annually through at least 2006. This could result in a significant debt load in excess of $40.0 billion. Without substantial increases in revenues, this level of debt will jeopardize the ability of the combined company to meet on-going franchise obligations. Even if AT&T Comcast is able to complete the required upgrade and rebuilding of systems in the short term, its ability to properly maintain systems and conduct future upgrades is in question.

Therefore, in evaluating this merger from a financial perspective, we do not see this merger as beneficial to any of the existing franchises, at least for the period through 2006, and possibly beyond. The franchises currently served by Comcast will go from a company currently touted as being in the strongest financial position of any of the cable multiple system operators ("MSOs") to a company, AT&T Comcast, with a large amount of debt and significant shortages in cash flow. Franchises currently served by AT&T Broadband will go from a company with significant debt and shortages in cash flow to company with even more debt and greater shortages in cash flow.

Comcast has stated that, once the AT&T-B systems have been rebuilt or upgraded to the same level as its own systems, AT&T Comcast's capital needs will decrease, revenues will increase, and cash flow will increase leading to a reduction in debt. We simply cannot evaluate that claim based on the information provided by the companies. If they have done any quantitative analysis of this issue, they have not made it available, and thus any conclusions we could draw on that point would be purely speculative. Indeed, we can only conclude that any such claims are mere speculation. Therefore, although we have no basis for saying that the debt load of AT&T Comcast will increase after 2006, neither can we say when it will decrease.

ATTACHMENTS

1. Balance Sheets of AT&T Broadband, Inc., Comcast Corporation & Pro Forma AT&T Comcast Corporation at December 31,2001.
2. Income Statements of AT&T Broadband, Inc., Comcast Corporation & Pro Forma AT&T Comcast Corporation for the Year Ended December 31,2001.
3. Income Statements of AT&T Broadband, Inc.
4. Statements of Cash Flow of AT&T Broadband, Inc.
5. Comparative Income Statements of Comcast Corporation for the Years Ended December 31, 1999,2000 and 2001.
6. Statement of Cash Flow of Comcast Corporation for the Year Ended December 31, 2001.
7. Comcast Corporation Summary of Results of Operations for the Years Ended December 31,1999,2000 and 2001.

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Exhibit 36

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BREAKING NEWS STORY

Cable Stocks Sink Thursday

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By Mike Farrell
Multichannel News
6/6/2002 9:51:00 PM

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Uncertainty surrounding the future of Adelphia Communications Corp., coupled with leverage concerns, continued to sock the rest of the cable industry Thursday, with eight of the nine publicly traded MSOs posting new 52-week lows.

On the day, only tiny Mediacom Communications Corp. managed to stay above water, closing at $9.91 each, just 13 cents above its 51-week low of $9.78 per share.

Adelphia -- which has been in a free-Fall since disclosing billions of dollars in off-balance-sheet debt March 27 -- hit an all-time low Thursday of 60 cents per share before rallying slightly to close at 66 cents. The stock was delisted from the NASDAQ stock exchange Monday.

Charter Communications Inc. -- which has been hammered recently because of investor concerns about its heavy debt load -- dropped to $5.31 per share Thursday before closing at $5.50. It was the lowest point for Charter stock since it went public in November 1999.

Cablevision Systems Corp. hit another four-year-low -- $16.08 per share Thursday, its lowest point since Oct. 17, 1997 -- and it closed at $16.22.

Other big losers included AT&T Corp. ($11.40 per share, a 10-year low for the stock); Comcast Corp. ($25.17, a three-year low); Insight Communications Co. Inc. ($13.86, an 18-month low); Cox Communications Inc. ($31.22, a three-year low); and AOL Time Warner Inc. ($16.21, a three year low).

'Cable is basically the opposite of the Visa card -- it's everywhere you don't want to be in the market,' Banc of America Securities LLC analyst Doug Shapiro said.

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'It's highly leveraged, and people are scared of leverage; it's a long-duration asset, meaning that the residual benefits to equity holders are years out; and it's loosely associated with telecom,' he added. 'On top of all that, you have to lump the Adelphia problems. It's a pretty insidious combination, and the irony is that the fundamentals of the business are probably as good as they've ever been.'

While cable stocks have been under pressure all year -- the sector is down more than 40 percent since Jan. 2 -- the declines have rarely been large single-day drops. With the exception of Adelphia, the declines in the other cable issues have been small and gradual.

And unlike other major declines in the past, the most recent falloff hasn't been driven by a single event, but a more general issue – accounting concerns and high debt.

The decline in AOL Time Warner stock was certainly fueled by rumors that chief operating officer Bob Pittman was being wooed by The Walt Disney Co. to succeed chairman Michael Eisner -- denied by both companies.

Also adding pressure to the stock were regulatory filings that showed that vice chairman Ted Turner had registered to sell about 254,000 shares of stock. Earlier in the week, board member James Barksdale registered 425,000 shares for sale.

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SUPPLEMENTAL REPORT
OF SPECIAL COUNSEL FOR CABLE TELEVISION

RESPONSIVE COMMENTS TO JUNE 12,2002 RESPONSE TO AT&T COMCAST CORPORATION TRANSFER SUPPLEMENTAL QUESTIONNAIRE

June 14,2002

By letter dated May 29,2002 from William M. Marticorena to F. Kent Leacock, the applicants to the FCC Form **394** relating to the merger of AT&T Broadband with Comcast Corporation (the "Merger") were requested to respond in writing to a document entitled "AT&T Comcast Corporation Transfer Supplemental Questionnaire" (the "Supplemental Questionnaire"). By letter dated June 12,2002 from F. Kent Leacock to William M. Marticorena, the Applicants to the FCC Form 394 responded in writing to the Supplemental Questionnaire (the "Response"). (Exhibit 1.) The franchising authorities have requested that Rutan & Tucker, LLP ("R&T") comment upon the Response to assist the legislative bodies in deciding to grant, deny, or conditionally grant consent to the Merger. The following constitute our comments upon the Response.

The Supplemental Questionnaire focused upon numerous recent revelations regarding the business practices allegedly committed by Adelphia Communications Corporation ("Adelphia") which have, either individually or collectively, resulted in the financial implosion of Adelphia and, in all likelihood, its ultimate bankruptcy as soon as next week. The Adelphia situation has become even more perilous in recent days. The filing for Chapter 11 bankruptcy protection by Century Communications Corporation, a subsidiary of Adelphia which owns cable systems in Puerto Rico, has caused many financial analysts to predict imminent bankruptcy filings for additional Adelphia subsidiaries as well as the parent entity. (Exhibit **2.)** Adelphia's catastrophes have not only resulted in financial ruin for its creditors, shareholders, local franchising authorities, and potentially subscribers, but has also called into question numerous accounting practices utilized by Adelphia, and perhaps other cable operators, which have the result of inflating revenues and depressing expenses thus calling into question the financial credibility of financial barometers long used by both Wall Street analysts and cable operators to measure financial performance. (Exhibit 3.) Subscribers may be soon directly affected as programming distributors withhold programming channels based upon Adelphia's unwillingness or inability to pay current obligations. (Exhibit 4.) The Adelphia fallout has adversely affected the stock prices of numerous cable operators given the market's perceived concerns about the financial viability of cable properties and the accounting practices utilized to equate subscribers to financial performance. Cable operators are becoming increasing public in their chant that "We are not Adelphia" in an attempt to dissuade market perception that Adelphia's practice are systemic to the entire cable industry. (Exhibit **5.)**

The Supplemental Questionnaire attempted to isolate some of the specific problems and practices which have led to Adelphia's downfall and seeks information and assurances that the Merger is not subject to the same "snakepits". The Supplemental Questionnaire asks questions in the following three general areas:

(1) Questions relating to internal/external controls of conflicts of interest and/or self dealings between and among AT&T Comcast Corporation ("AT&T Corncast"), or any related entity thereof, and/or any officer, director, or five percent or greater shareholder, or any related entity thereof;

(2) Questions relating to incurrence of debt by AT&T Comcast; and

(3) Questions relating to "off-balance-sheet" borrowings.

AT&T Comcast was asked, through a number of general and specific questions, to indicate what protections, if any, exist to preclude the type of "self dealings" that apparently existed between Adelphia and its controlling shareholders. In substance, AT&T Comcast indicated that the following protective devises and structures will preclude similar episodes of conflicts of interest and self dealing:

(i) Appointment of independent outside directors that will constitute a majority of the board;

(ii) Utilization of an independent auditing committee;

(iii) Material transactions with Brian L. Roberts or any of his associates or permitted transferees must be approved by AT&T Comcast disinterested directors;

(iv) Compensation arrangements between Brian L. Roberts or any of his associates on the one hand and AT&T Comcast or any of its subsidiaries on the other hand will require the approval of the disinterested directors of the compensation committee of the AT&T Comcast board;

(v) The exemplary history of Comcast Corporation ("Comcast") in relation to self dealing and conflicts of interest including the following:

(a) Corncast's board contains a majority of independent outside directors;

(b) Active audit committee including utilization of internal audit group;

(c) Annual Director certification that he or she is in compliance with all conflicts of interest laws and knows of no incidents of self dealing or conflicts of interest;

(d) Material decisions reviewed and improved by finance committee consisting of senior management;

(e) Creation and enforcement of "Comcast Ethics Code"; and

(f) "Open door" management policy.

The quality and quantity of the self dealings and conflicts of interest which have allegedly occurred between the Rigas family and Adelphia are extraordinary and do not, based upon currently known facts, appear to be pervasive throughout the cable industry. Most cable companies are run by management attempting to serve the best interest of their shareholders given the economic limitations imposed by their own business deals and practices. Although the recent revelations regarding the incestuous environment in which Adelphia's management operated is truly disheartening, it should not be imputed to other cable operators absent the availability of credible evidence. In this case, no such evidence exist based upon the historic practices of either AT&T Corp. ("AT&T") or Comcast. Although it is unclear whether the type of structural protections proposed by AT&T Comcast, including review of all decisions involving conflicts of interest or potential conflicts of interest by disinterested directors, is sufficient to solve the problem, it is probably the best that can be expected under the circumstances. Ultimately, most forms of structural protections can be bypassed based upon blatant defiance of organizational rules and the creation of an "outlaw" environment where management and directors tolerate circumventions or even violations of the organization's conflict of interest rules and principles. It is probably safe to assume that Enron Corporation and Adelphia possess a code of ethics, at least on paper. However, in our opinion, the combination of the history of Comcast, and its senior management and controlling shareholders, in conjunction with the structural protections which will hopefully exist subsequent to the closing of the Merger is sufficient to eliminate, at least at this point in time, concerns relating to potential conflicts of interest between AT&T Comcast, on the one hand, and its officers, directors, and controlling shareholders, on the other.

In relation to the questions concerning the level of debt to be incurred by AT&T Comcast both at closing and subsequent thereto, AT&T Comcast's responses do not, unfortunately, provide the same degree of comfort. In response to both general specific questions relating to the level of debt to be incurred by AT&T Comcast upon closing of the Merger and subsequent thereto, AT&T Comcast indicates, in substance as follows:

(i) Starting debt of AT&T Comcast is expected to be approximately $30.8 billion;

(ii) Based upon the use of a debt-to-cash flow ratio, a common indicator of cable operator performance, AT&T Comcast will possess a debt-to-cash flow ratio ("Leverage Ratio") lower than all but two of the major MSOs; and

(iii) Comcast has historically de-leveraged its balance sheet through public offerings, liquidation of non-strategic investments, and further de-leveraging possible by way of an additional $1.1 billion in public equity financing and the divestiture of AT&T Corncast's 25% interest Time Warner Entertainment which, based upon a "consensus of analysts" can be expected to produce net after-tax proceeds of between $6 to $7 billion.

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The fact that the "starting" debt of AT&T Comcast will be $30.8 billion is only the first step in the analysis. What we have consistently seen throughout the last several years is that cable operators have vastly increased their debt burden subsequent to the closing of the "mega-merger" which created that entity based upon subsequent high-priced acquisitions, debt restructuring, operating deficits, and capital expenditure demands. To only look at debt as of the closing of the Merger would be to blindfold yourself to the reality of the business practices of the cable industry and potentially allow an "Adelphia-like" situation to germinate since there are no current limitations upon the ability of a franchisee or its parent operating entity to expand its debt load subsequent to approval of a transfer or change of control. In fact, the financial due diligence report of Ashpaugh and Sculco CPAs, PLC dated May 24, 2002 (the "A&S Report") predicts, with reasoned analysis, a total debt load in excess of $40 billion within the first three to five years subsequent to the closing of the Merger based upon projected capital improvements, demonstrated cash flow deficits, and the requirement and the restructuring of relative short-term debt. Thus, the "starting" level of debt appears to substantially understate the ultimate debt load of AT&T Comcast within the next three-five years.

AT&T Comcast argues that its "starting" debt load is reasonable given the common industry matrix of debt-to-cash flow ratio. According to a spreadsheet provided by AT&T Comcast in its Response, the Leverage Ratio of total debt and convertible debt to EBITDA will be as of December 31, 2002, 4.7x. Only AOL Time Warner and Cox Communications, Inc. possesses a lower Leverage Ratio with Charter Communications, Mediacom LLC, Adelphia, Insight Communications, and Cablevision Systems, in that order, possessing far higher Leverage Ratios. However, in doing its Leverage Ratio calculation, AT&T Comcast has apparently included $500 million in annual "synergies". Although not indicated in its mathematical presentation, the Leverage Ratio would obviously be materially higher if the proposed synergies were not realized in whole or in part. The fact that AT&T Comcast relied upon projected synergies to justify its debt level is particularly troubling for two reasons.

First, the synergies are merely projected and thus extremely speculative as to their attainment. In reality, most if not all of the past "Mega-Mergers" have projected significant synergies including the TCI-AT&T Merger. In reality, few of those "Mega-Mergers" have produced significant synergies and cost savings. As has been previously discussed in detail, the TCI-AT&T Merger produced <u>negative synergies</u> in that the operating margins for AT&T Broadband have significantly decreased since the TCI-AT&T Merger. The A&S Report persuasively questions the viability of these synergies and certainly provides grounds to believe, with grounds to becoming particularly compelling in light of the historic experience, that said <u>Synergies may not occur</u>. (A&S Report, pp. 8-12.)

Second, and perhaps even more alarming, reliance upon efficiency synergies create a significant concern regarding reductions in quality of service since synergies often translate into employee reductions, office closures, and other cost savings devices which often produce <u>negative value to subscribers</u> as telephone wait times become longer, customer service offices become more remote, billing practices become more entangled, and management accessibility becomes more limited. It would be foolhardy to presume that synergies produced solely by cost reductions will be beneficial or even neutral to subscribers. Rather, the history of the cable business demonstrate that as cable operators strain to improve operating margins, rebuilds tend to get delayed, maintenance tends to be deferred, employees tend to be reduced, and subscribers tend to wait longer, programming lineups become thinner, and subscribers tend to pay more for less as a result of operating synergies.

AT&T Comcast's statement that the potential of balance de-leverage exists based upon (i) the sale of existing non-strategic cable properties to third parties; (ii) a public equity offering; and (iii) the sale of its 25% interest in Time Warner Entertainment ("TWE") to third parties is speculative and non-assuring in several ways. First, there is no assurance that sale proceeds from the sale of existing cable systems or a future properties, including the TWE interest, will be utilized to reduce debt. In fact, it has been widely reported in the press that AT&T intends to utilize the proceeds of the sale of cable systems to Bresnen Broadband Holdings for **$735** million to acquire other cable properties so as to reduce AT&T's tax liability. (Exhibit ***6.)*** The history of the cable industry in general, and AT&T in particular, does not leave one to believe that non-strategic divestitures will result in balance sheet de-leveraging. TCI had leverage problems prior to the TCI-AT&T Merger and now AT&T possesses even greater leverage concerns. Second, a public equity offering is highly unlikely in the short term based upon the condition of the stock market in general and the cable stocks in particular. Third, reliance upon a TWE transaction is extremely problematic given the fact that AT&T and AOL Time Warner have been unable for a long period of time to reach agreement regarding the disposition of this asset. Likewise, it is questionable whether a sale, even if it occurred, would produce the after-tax proceeds target indicated by AT&T Comcast given the decline in the value of cable stocks in general and **AOL** Time Warner in particular. Once again, to the extent that AT&T Comcast proposes to make some definitive commitment regarding balance sheet de-leveraging as a condition of approval, such a commitment can at least be analyzed within some relevant financial structure. However, to simply indicate that future asset sales <u>might be used</u> for balance sheet de-leveraging constitutes nothing more than an exercise in pure speculation.

It is important to note that AT&T Comcast was asked whether it would agree to some form of covenant limiting its ability to incur debt beyond that which exists at closing of the Merger without the further consent of the legislative bodies. AT&T Comcast has indicated that "such an agreement is neither necessary nor appropriate for the reasons stated above." Quite frankly, none of the reasons stated by AT&T make such an agreement "neither necessary nor appropriate" but rather tends to demonstrate the necessity of such a requirement as a mitigating condition to any approval.

Finally, AT&T Comcast was asked, in substance, whether or not Comcast **has** engaged in "off-balance-sheet" borrowing similar to that utilized by Enron and Adelphia and, if not, what protections and guaranties exists to reasonably guaranty that said practices will not be utilized in the future. In the Response, AT&T Comcast states:

(i) Neither Comcast nor any affiliated entity have engaged in "off-balance-sheet" borrowings within the last 10 years;

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(ii) The various controls which exist to preclude self dealing and conflict of interest transactions should prevent off-balance-sheet borrowings in the future; and

(iii) AT&T Comcast will comply with all provisions of state law and rules and regulations of the SEC.

"Off-balance-sheet borrowing may or may not constitute prohibited conflicts of interest and thus may or may not be controlled by the various conflict of interest structural devices created by AT&T Comcast. Certainly, off-balance-sheet borrowing which tends to perpetuate the financial interest of any individual officer, director, or shareholder will likely be prohibited. On the other hand, off-balance-sheet borrowing which simply represents an approved corporate strategy would seemingly pass muster with AT&T Comcast conflict of interest guidelines. However, given the current marketplace perception of "off-balance-sheet" borrowing, such practices, even approved by management and the board of directors, could have devastating financial consequences for AT&T Comcast down the road. Second, AT&T Corncast's assurance that "it will comply with all provisions of state laws and rules and regulations of the SEC," likewise provides less of a complete assurance since "off-balance-sheet" borrowing tactics may or may not be unlawful depending upon the circumstances and the nature of the contingency obligation. Presumably, major accounting firms such as Anderson and Deloitte & Touche have approved such practices in the case of Enron and Adelphia. Once again, the issue before the legislative bodies is the financial capability and viability of AT&T Comcast and its minimum compliance, or lack thereof, with applicable accounting and securities disclosure laws constitutes only a <u>portion</u> of that analysis.

In conclusion, AT&T Comcast has adequately responded that reasonable structural protections will exist to preclude conflicts of interest and self dealings which could affect the financial viability of AT&T Comcast. On the other hand, legitimate and significant concerns exist regarding the level of debt which will be incurred by AT&T Comcast upon closing of the Merger and thereafter, whether incurred in a traditional or "off-balance-sheet" matrix, and that said debt level continues to provide grounds to question its financial capability and the potential significant negative impact of the merger upon subscriber rates and services.

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Exhibit 1

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AT&T Broadband 0809

P.O. Box 5147
San Ramon, CA 94583

June 12,2002

<u>VIA FACSIMILE AND OVERNIGHT MAIL</u>

William M. Marticorena, Esq.
Rutan and Tucker, LLP
611 Anton Boulevard, 14th Floor
Costa Mesa, California 92626

Re: City of Berkeley, California; City of Richmond, California; City of Santa Cruz, California; Contra Costa County, California; and the County of Santa Cruz, California (the "Franchising Communities"); Supplemental Questionnaire Relating to AT&T BroadbandComcast Corporation Merger (the "Supplemental Questionnaire")

Dear Mr. Marticorena:

We are writing in response to your letter dated May 29, 2002 on behalf of the Franchising Communities regarding the Supplemental Questionnaire.

As you know, federal and state laws limit the scope of review and information a local franchise authority ("LFA") may require as part of the change of control approval process. Beyond the information required by the FCC Form 394 application, franchise or applicable local law, an LFA may only request "such additional information as may be reasonably necessary to determine the qualifications of the proposed transferee." A federal court has recently confirmed that a cable operator need not answer any requests for information that are outside this scope or are otherwise unreasonable, and such refusal may not be used as a basis for denying consent to an FCC Form 394 application.

Notwithstanding the foregoing but reserving all rights, in an effort to accommodate any reasonable and lawful need for information that the Franchising Communities may have, we provide, for informational purposes only, the attached responses to the Supplemental Questionnaire, Your questions are restated followed by our response in boldface type. By responding, the companies do not waive any arguments regarding the relevance of such information or the Franchising Communities' authority to make such requests. In addition, we note that we do not believe there is any legal basis for your arbitrarily imposed 10 day period to respond to the Supplemental Questionnaire.

EXHIBIT 1

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We hope you find the attached information helpful. We look forward to working with you and the Franchising Communities to successfully complete the review of our FCC Form **394** application. **As** always, please feel free to contact us with any additional questions or concerns.

Sincerely,

F. Kent Leacock / lap

F. Kent Leacock
Vice President
Franchising & Government Affairs
Bay Area Markets

Attachments

AT&T COMCAST CORPORATION SUPPLEMENTAL QUESTIONNAIRE

A. QUESTIONS RELATING TO INTERNAL/EXTERNAL CONTROLS OF CONFLICTS OF INTEREST AND/OR SELF-DEALTNGS BETWEEN AND AMONG AT&T COMCAST CORPORATION, OR ANY RELATED ENTITY THEREOF, AND/OR ANY OFFICER, DIRECTOR, OR 5% OR GREATER SHAREHOLDER, OR ANY RELATED ENTITY THEREOF.

(1) Describe, in detail, any and all procedures which are currently in place, or which will be in place as of the date of closing of the Merger, which are designed and/or intended to prevent and/or minimize the ability of any officer, director, or 5% or greater shareholder of AT&T Comcast Corporation to engage in acts or omissions with AT&T Comcast Corporation which constitute Self-Dealing Transactions or Conflicts of Interest.

Response: AT&T Comcast Corporation ("AT&T Corncast") will utilize an appropriate system **of** internal checks and balances, including the appointment **of** independent, outside directors that will constitute a majority **of** the Board and the utilization of an independent auditing committee, to prevent self-dealing and conflicts of interest. Moreover, as described in Exhibit **7** of the **FCC** Form **394** Application, AT&T Comcast has agreed that, except as described in the next sentence, after the completion **of** the AT&T Comcast transaction neither it nor any **of** its subsidiaries will enter into any material transaction with Brian **L.** Roberts or any of his associates or any permitted transferee unless such transaction is approved by AT&T Corncast's disinterested directors. Compensation arrangements between Brian **L.** Roberts or any **of** his associates **on** the one hand and AT&T Comcast or any **of** its subsidiaries **on** the other hand will require the approval **of** the disinterested directors of the compensation committee of the AT&T Comcast Board.

In addition, specific examples **of** Comcast's methods are illustrative. First and foremost, over the 40-year history of Comcast, Ralph Roberts and the management of Comcast have demonstrated their personal integrity, which is part of the company culture that will continue in AT&T Comcast. Second, Comcast **has a** Board **of** Directors with a majority **of** independent, outside directors. The Board of Directors has a very active audit committee and utilizes **an** internal audit group that reports to the committee. In connection with preparation of Comcast's annual report and proxy statement, each director certifies that he or she **is in** compliance with all conflict of interest laws and knows **of no** incident of self-dealing or conflict **of** interest by himself **or** herself **or** an officer or director. Third, all major decisions are reviewed and approved by a finance Committee consisting of senior management, Fourth, Comcast has an Ethics Code which **is** made a part **of** the basic training received **by** every employee and with which employees certify compliance every year. Finally, Comcast has an open door policy that encourages any employee to approach management at any level with all concerns they may have.

(2) Do any of the documents relating to the Merger, including but not limited to the APM, any shareholder agreement, or any other form of agreement, sanction or allow any Conflict of Interest or Self-Dealing Transaction between any officer, director, or shareholder of AT&T Comcast Corporation, or any related entity, and AT&T Comcast Corporation, or any related entity, which would otherwise be barred or prohibited pursuant to applicable law in the absence of said provision.

Response: None of the documents relating to the Merger sanction or allow any conflict of interest or self-dealing transaction between any officer, director, or shareholder of AT&T Comcast, or any related entity, and AT&T Comcast, **or** any related entity, which would otherwise be barred or prohibited pursuant to applicable law.

(3) Subsequent to the closing of the Merger, would an officer, director, or shareholder of more than five percent ***(5%)*** of the outstanding shares of AT&T Comcast be prohibited from acquiring, for his/her own account, cable systems which, at least in theory, could have been acquired by AT&T Comcast Corporation?

Response: Generally, any such transaction would not be allowed, as it would be a violation of the Ethics Code, which prohibits such conflict of interest transactions. Such an acquisition would also violate the non-compete provisions **of** the employment agreement each officer is required to execute.

(4) Are there any arrangements, written, oral or otherwise, either currently in existence or contemplated to exist subsequent to the closing of the Merger, by which AT&T Corncast Corporation, or any entity affiliated therewith, may or will perform services for any officer, director, or shareholder of more than five percent (5%) of the outstanding shares of AT&T Comcast Corporation, or vice-versa.

Response: This question is extraordinarily broad **as** drafted, particularly in the failure to define "services." This response excludes ***de minimus*** "services" such as the provision **of** cable service to an individual's home. There are **no** arrangements, written, oral or otherwise, either currently in existence or contemplated to exist subsequent **to** the closing of the Merger by which AT&T Comcast, or any entity affiliated therewith, may or will perform services for any officer, director, or shareholder of **more** than five percent **of** the outstanding shares of AT&T Comcast, or vice-versa, except the services that the officers and directors will provide as a result **of** holding such positions.

B. QUESTIONS RELATING TO INCURRENCE OF DEBT BY AT&T/COMCAST CORPORATION.

(1) **As** of the date of closing of the Merger, please describe in dollars how much total debt will be incurred and carried by AT&T Comcast Corporation, or any direct or indirect subsidiary thereof.

Response: Comcast has advised that the starting debt of AT&T Comcast is expected to be approximately **$30.8** billion. See, for example, Brian **L.** Roberts press conference held **12/20/01,** as well as statements of Comcast representatives made at Bear Stearns presentation **3/4/02;** Banc of America Securities Conference **5/1/02;** and Deutsche Bank Media Conference **6/4/02.** Copies of each of these presentations and announcements have been posted **on** the Comcast web site at www.cmcsk.com.

(2) As of the date of closing of the Merger, what will be the debt-to-equity ratio of AT&T Comcast Corporation? Said debt-to-equity ratio should be stated as **a** function of both book equity and market capitalization equity.

Response: Debt to cash flow ratio is the common industry metric for measuring the financial strength of a cable operator. Please see the attached chart (source: Merrill Lynch & **Co.)** showing AT&T Comcast's debt to cash flow ratio. It should be noted that even without any major reduction in debt from the above-stated level, the company's debt to cash flow ratio would be lower than all **but two** of the major MSOs.

(3) What assurances, if any, can the Applicant provide to the Franchising Authorities that either the absolute amount of debt and/or the debt-to-equity ratio will not be materially increased subsequent to the closing of the Merger?

Response: The record shows the ability of the company to de-leverage its balance sheet through the sale of some of its non-strategic investments which have either already occurred this year, are in the process of occurring or which are likely to occur in the future.' Specifically, **on** May **21,** Comcast liquidated **$541** million of AT&T stock which it held from a prior transaction, and there is a pending sale of cable systems by AT&T to Bresnan Broadband Holdings for **$735** million that was publicly announced **on** April ***5,* 2002.** In addition, Comcast management has repeatedly stated that it will be selling an additional **$1.1** billion in public equity stakes in the coming year **to** further reduce its debt balances. Finally, AT&T and Comcast have publicly stated that they do not view the interest in Time Warner Entertainment ("TWE") as a long-term investment and are committed to divesting the asset **as** quickly **as** can be efficiently accomplished. Indeed, the companies advised the FCC in a public filing that the process of attempting to sell the interest is already underway? Richard Parsons, chief executive officer of AOL Time Warner, has been widely quoted **in** recent months as saying that his company, too, is committed to completing such a transaction as **soon** as reasonably possible? The effect **of** the first three items reduces the company's starting .debt balance **to** approximately **$28.4** billion, The consensus of analysts who have issued reports **on**

1 The pro forma balance sheet of the combined company contains $23.7 billion in investments. S-4 at III-4.

2 See, Public Interest Statement **filed** on behalf of AT&T Corp. and Comcast Corporation with the Federal Communications Commission on February **28,2002.**

3 Reuters, May 2, 2002.

this merger is that the company can expect ***to*** realize from a sale of the **TWE** interest, net, after-tax proceeds of between **$6** to **7** billion. If accurate, this would lower the company's debt to approximately **$22** billion and **a** debt to cash **flow** ratio well below current industry averages.

(4) Would the Applicant agree in an appropriately worded Transfer Agreement to limit the amount of debt which it carries on a going forward basis subsequent to the closing of the Merger to an amount not to exceed 105% of the amount of debt carried as of the date of closing of the Merger?

Response: Such an agreement is neither necessary nor appropriate for the reasons stated above.

(5) Would the Applicant agree, as part of an appropriately worded Transfer Agreement, not to increase the debt-to-equity ratio on a going forward basis subsequent to the closing of the Merger to a level in excess of that which existed as of the date of closing of the Merger?

Response: Such an agreement **is** neither necessary nor appropriate for the reasons stated above.

C. OUESTIONS RELATING TO "OFF-BALANCE SHEET" BORROWINGS.

(1) Has Corncast Corporation, or any affiliated entity, engaged in the past ten (10) years in "Off-Balance Sheet" borrowings whereby obligations were incurred by an entity related to or controlled by Comcast Corporation, or any officer, director, or controlling shareholder or group of shareholders, which obligation(s) could, pursuant to any contingency regardless of its remoteness or lack thereof, become the obligation of Comcast Corporation?

Response: **No** such borrowings have occurred.

(2) What assurances, if any, can be provided by the Applicant to the Franchising Authorities that sufficient internal/external controls exist within AT&T Comcast Corporation to prevent the type of "Off-Balance Sheet" borrowings which have apparently been utilized by entities affiliated with Enron Corporation and entities affiliated with Adelphia Communications Corporation? Please describe, in detail, said internal/external controls or limitations and whether or not the Applicant is willing to covenant, as a condition of transfer approval, to the creation and/or continuation of said controls and limitations subsequent to the closing of the Merger.

Response: The response to Question A.l. answers this question. Applicant **is** not willing to covenant, as a condition **of** transfer approval, to the creation and/or continuation of said controls and limitations subsequent **to the** closing **of** the Merger. Applicant, however, is in compliance and AT&T Corncast will **comply** with all provisions of state law and rules and regulations **of** the **SEC,** which governmental agencies have jurisdiction over these matters.

Summary Credit Statistics of Selected Cable Companies
Consolidated Results * Source Merrill Lynch & Co.
(Dollars in Billions)

	AT&T Comcast As of 12/31/02 With Synergies	AOL Time Warner	Cox Comm.	Cablevision Systems	Adelphia Comm. (Ex-ABIZ)	Charter Comm.	Insight Comm	Mediacom LLC
Ratings								
Senior	Baa2/BBB [1]	Baaa2/BBB	Baa2/BBB	Ba2/BB+	B2/B+	B3/B+	B3/B-	Caa1/B+
Financials [2]								
Subscribers	22.0	12.8	6.2	3.0	5.8	7.0	1.3	1.6
2001E EBITDA	$6.5 [3]	$9.3	$1.6	$0.8	$1.4	$1.8	$0.3	$0.3
Total Debt & Convertible Debt	$30.8	$29.6	$5.2	$5.4	$11.6	$16.3	$2.5	$2.8
Leverage Ratio								
Total Debt & Convertible/EBITDA	4.7 x	3.2x	3.3 x	6.5 x	8.0 x	8.9x	8.0x	8.5 x

(1) currently under review
(2) Pro forma for all announced transactions
(3) Based on 2002E EBITDA Includes $500 million in synergies

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Exhibit 2

Marticorena, Bill

From: Michael J. Friedman [michaeljfriedman@compuserve.com]
Sent: Thursday, June 13,2002 10:02 AM
To: SCAN Listserve
Subject: SCAN NATOA Adelphia Sinks on Bankruptcy Concerns

Remember....today (June 13) is the last day to register for the June 20 SCAN NATOA Conference in Ontario. Registration info at http://www.scannatoa.org/calendar.html

===

New York Times
http://www.nytimes.com/reuters/business/business-media-adelphia.html?pagewanted=print&position=top

June 12, 2002
Adelphia Sinks on Bankruptcy Concerns
By REUTERS

Filed at 4:43 p.m. ET

NEW YORK (Reuters) - Adelphia Communications Corp.'s (ADELA.PK) bond prices have sunk to less than half their face value, as investors believe the embattled cable TV provider may have fewer assets to distribute in a bankruptcy.

Adelphia shares on Wednesday also tumbled to an all-time low, as analysts warned the No. 6 U.S. cable TV operator could file for bankruptcy protection by Monday.

Adelphia shares, which three years ago peaked at $87, closed Wednesday at 12 cents, down 9 cents. Its bonds have lost nearly one-third of their value this week.

The declines came after the company, which is based in Coudersport, Pennsylvania, said on Monday it overstated cash flow by nearly 15 percent for each of the last two years -- by $210 million in 2001 and $160 million in 2000. Adelphia was already the subject of three federal probes.

Adelphia's bonds fell 1 cent to 2 cents on the dollar on Wednesday. Its 10.875 percent notes maturing in 2010 were bid at 45.5 cents on the dollar, yielding 28.13 percent.

``The bond prices mean bankruptcy is imminent,'' said Kevin Kuzio, a high-yield analyst at KDP Investment Advisors in Montpelier, Vermont. ``There is an element of fear and huge uncertainty with respect to the company's financials.''

``RHOLE NEW BALLGAME''

Adelphia, which over the weekend fired accountant Deloitte & Touche LLP, is under investigation by the U.S. Securities and Exchange Commission and two federal grand juries after disclosing off-balance-sheet loans, estimated by analysts at over $3 billion, to the fcunding Rigas family and others.

It has been delisted by the Nasdaq stock market, has defaulted on $7 billion of bank loans ard is expected to miss $44.7 million of interest and dividend payments due Saturday, when a 30-day grace period expires.

Adelphia on Monday also cut its revenue estimates for 2000 and 2001, and trimmed its reported subscriber count by 47,000 to 5.76 million. It said prior management's disclosures were ''unreliable,'' and said current management, led by interim Chief Executive Erland Kailbourne, intends to fix that.

``You have a whole new ballgame,'' said Diane Keefe, who runs the Pax World High-Yield Fund and sold her Adelphia bonds on Monday and Tuesday. ``Adelphia essentially wiped out $2 billion of asset value off its books by falsifying cash flow and capital expenditures quarter after quarter.''

EXHIBIT 2 64

An Adelphia spokesman, who asked not to be identified, sai on Wednesday "the company's public filings speak for themselves."

In the last month, founder John Rigas resigned as chief executive, his son, Timothy, resigned as chief financial officer and John Rigas' son-in-law, Peter Venetis, quit Adelphia's board under pressure from other directors.

Adelphia's ``distressed'' bonds trade below where Kmart Corp.'s (KM.N) bonds traded when Kmart, then the No. 2 U.S. discount retailer, sought bankruptcy protection in January.

Bonds of billionaire Paul Allen's Charter Communications Corp. (CHTR.O), the No. 4 U.S. cable TV operator, have fallen several cents on the dollar in the last week, hurt because it is in the same sector as Adelphia, traders said.

CONTROLLING OWN DESTINY

Adelphia is trying to sell systems covering nearly half its reported subscribers. Even if it succeeds, Kuzio said bond investors wonder how much cash Adelphia could generate after a bankruptcy, which analysts said could drag on for three years.

Adelphia, he said, would have more control over its destiny by seeking bankruptcy protection itself.

"Once the (30-day) grace period is over, any three senior noteholders can put the company in bankruptcy involuntarily," he said. "A voluntary bankruptcy would leave Adelphia in control to create its own recovery plan.''

Adelphia's Century Communications unit, which the company bought in 1999 for about $5 billion, voluntarily sought bankruptcy protection on Monday.

Keefe, whose fund practices "socially responsible" investing, held of€ on selling Adelphia bonds despite a report on Friday suggesting Adelphia had inflated its results and kept two sets of accounting books. The senior bonds traded around 74 cents on the dollar before the report.

``Adelphia was making itself out to be more ethical than other cable companies by not offering pornography, and we look for bonds of companies that improve and preserve quality of life," she said. "I thought it was my role as a corporate governance activist to help get. the Rigas family out and try to preserve the value of the business for my shareholders.''

Monday's filing changed that.

``Now I realize the company's financial disclosures made the business look much healthier than it actually was,'' she said, ''The investment merits weren't there any longer.''

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Exhibit 3

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BUSINESS

Adelphia's Chapter 11 cloud

By DAVID ROBINSON
News Business Reporter
6111/2002

News file photo
Leonard Tow, who just a few weeks ago suggested he wanted to head the new Adelphia board, resigned as a director Monday.

One of Adelphia Communications Corp.'s main operating units filed for Bankruptcy Court protection Monday in what some analysts believe is the first of a series of filings that ultimately will leave the entire company in Chapter 11.

Adelphia said Century filed for bankruptcy to protect its 50 percent stake in a joint venture that owns cable systems in Puerto Rico against foreclosure by its partner, ML Media Partners. ML had notified Century that it plans to seize management control of Century's interest in the joint venture this morning unless Adelphia bought out ML's stake for $275 million by the end of Monday.

"Our belief is that the other operating subsidiaries, and eventually the parent company, will file as well," said Kevin Kuzio, a bond analyst at KDP Investment Advisors in Burlington, Vt.

"I would expect it's going to bring all the others down," he said. "I expect they'll all be filed by this time next week."

The filing came on the same day that Adelphia detailed a new series of financial maneuverings that pumped up its sales and cash flow.

The revelations came as Adelphia dismissed Deloitte & Touche as its auditor and its largest outside shareholder, Leonard Tow, resigned from Adelphia's board, citing the company's unreliable financial data and "the ongoing serial disclosures of wrongdoing."

Together, the developments heightened the financial crisis swirling around Adelphia, which is in default on $7 billion in bank debt and faces a Saturday deadline to make a $45 million interest payment that it first missed in mid-May.

When Adelphia acquired Century in 1999 for about $4.96 billion, it was the cable company's biggest purchase and gave it an additional 1.6 million subscribers, including control of the prized Los Angeles cable system.

The latest disclosures show that Adelphia's financial misstatements are more extensive than it has previously indicated and include a series of maneuverings

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EXHIBIT 3

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that were designed to inflate the company's revenues and make its cash flow appear more robust than it really was.

The company disclosed that it has 47,250 fewer subscribers than it had reported. Earlier published reports had put that figure as high as 500,000.

"The attempt of all of this is to say, "We haven't been credible in the past, but you can believe us now,' " said Ronald J. Huefner, a University at Buffalo accounting professor. "You want to try to move fast to try to re-establish some degree of credibility with investors and lenders."

Tow forgoes earlier gain

That, however, wasn't enough for Tow, who became the company's biggest outside shareholder after he sold Century cable to Adelphia.

Just 2½ weeks after winning two seats on the Adelphia board and a little more than a week after suggesting that he become Adelphia's chairman, Tow resigned as a director along with Scott Schneider.

"Revelations of the unreliability of corporate data, as well as the ongoing serial disclosures of wrongdoing, have made it impossible to contribute meaningfully to the process" of stabilizing the company financially, Tow and Schneider said in a letter to Erland E. Kailbourne, interim chief executive officer.

Kailbourne, in a statement, said he was "disappointed" that Tow and Schneider decided to resign and not "help Adelphia resolve the challenges it faces."

The additional revelations and upheaval at the company would make it harder to persuade its lenders and bondholders to stave off bankruptcy by lining up new financing or raising cash by selling off some of its cable systems, said Todd Bernier, an analyst at Morningstar Inc. in Chicago.

"There's just no way they're going to be able to refinance any of this stuff," he said. Adelphia did not elaborate on its reasons for dismissing Deloitte & Touche as its auditor, but sources said the company was unhappy that the accounting firm had failed to warn its audit committee about the founding Rigas family's self-dealing and questionable accounting practices.

But the accounting firm, which has come under fire for its role as Adelphia's auditor'as details of the company's financial irregularities were disclosed, indicated that it was embroiled in a dispute with Adelphia's current management over its suspended audit of the firm's 2001 financial statements.

Deloitte & Touche, in a statement, said it had suspended its audit of Adelphia's financial statements May 14, when it informed the company that it would not resume work on it until an independent investigation was done on certain matters, including whether Adelphia employees were involved in illegal activity.

Adelphia's new management, which took over after the Rigas family gave up control of the company in mid-May, asked Deloitte & Touche to resume the audit as recently as June 3. But the accounting firm said it refused because the independent investigation had not been completed and little information had been provided to auditors about the probe or its conclusions.

Investigations under way

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The Securities and Exchange Commission is investigating $3.1 billion in loans the company guaranteed to Rigas family partnerships, while grand juries in New York and Pennsylvania are conducting their own probes. The SEC also is looking at Deloitte & Touche's audits of Adelphia and the Rigas partnerships.

Because of the company's ongoing investigation, Adelphia restated its financial results for 2000 and 2001, reducing its sales last year by $70 million and by $60 million in 2000. The company cut its earnings before interest, taxes, depreciation and amortization for 2001 by $210 million and by $160 million for 2000, according to a filing with the Securities and Exchange Commission.

"The two measures that people use to evaluate these companies - cash flow and subscribers - seem to both be inaccurate," said Van Greenfield, a managing member of Blue River LLC, a holder of Adelphia preferred stock. "I just can't see how anyone with an objective position would want to put money into this company."

The restated financial statements mean that Adelphia's subscribers generate less revenue and cash flow than the company previously had reported. That could reduce the price that a buyer would be willing to pay as Adelphia tries to sell some of its cable systems to pay down its debt, analysts said.

Inflated figures described

Adelphia said the company had inflated its sales and cash flow several ways:

• The company, for at least *two* years, crafted agreements with the two main manufacturers of the converter boxes used by digital cable *N* subscribers. Adelphia paid an extra $26 for each set-top box and got the same amount back from the vendors for "marketing support" services that, for the most part, were never provided.

Adelphia improperly boosted its cash flow by using the fees it received from the vendors to reduce operating expenses, while booking the payments for the boxes as capital spending, the company said. That improper accounting treatment inflated Adelphia's cash flow by $54 million last year and $37 million in 2000.

• The company also failed to write-down the value of some securities it had received from interactive cable service providers as payment for carrying their pro-
gramming on its systems. That inflated Adelphia's revenues and cash flow by $52 million last year and $28 million in 2000.

• The company also based its payments to cable-TV programming providers on an estimated number of subscribers who would be charged for the service annually over the life of a contract, rather than the actual number at the end of each year. Basing those payments on actual subscribers reduced cash flow by about $42 million in 2001 and $23 million in 2000.

• Adelphia booked some labor costs, such as reconnecting disconnected subscribers and operating customer service centers, as assets rather than expenses, inflating cash flow by about $40 million during each of the last two years.

• The company also is reviewing some dealings among its bankrupt

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telecommunications subsidiary, Adelphia Business Solutions, and certain Rigas family partnerships that may have increased Adelphia's cash flow by $18 million last year and $19 million in 2000.

e-mail: drobinson@buffnews.com

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TOP

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Exhibit 4

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BUFFALO

BUSINESS

Adelphia risks losing channels, pay-per-view

By FRED O. WILLIAMS
News Business Reporter
6/6/2002

Cash-starved Adelphia Communications has delayed payments to program distributors, who could yank some of their channels and withhold future pay-per-view programs, according to Moody's Investors Service.

The bond-rating agency downgraded most classes of Adelphia debt Wednesday and called a bankruptcy filing "imminent."

The cable television company is nearly out of cash and faces a deadline to meet debt obligations June 15, Moody's said.

Because of late payments, "certain programming companies have placed (Adelphia) on a cash-in-advance status," said Russell Solomon, senior vice president of Moody's corporate finance group. He wouldn't name the programming companies.

The status impairs Adelphia's ability to bring viewers "high-profile sports events" that aren't supported by advertising, he said. It could also lead to channels being pulled for nonpayment.

However, Saturday's Mike Tyson-Lennox Lewis boxing match isn't threatened by the financial problems, Adelphia said.

"We're taking orders for it now," Regional General Manager Thomas Haywood said of the pay-per-view event. "We actually paid in advance. . . . We have a contract signed."

Showtime Event Television, distributor of the program, confirmed that Adelphia will carry the event. Donovan Gordon, senior vice president for affiliate sales and marketing, wouldn't comment on the terms of the deal.

Cable systems usually take a 45 percent to 50 percent share of the sales from a pay-per-view program, according to one industry expert.

Adelphia is giving a $5 discount for advance purchases of the $54.95 program, Haywood said. The bout is boosting sales of Adelphia's digital cable service, which is necessary to order and view the program, he said.

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EXHIBIT 4

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As for other cable channels going dark, programmers would lose ad revenue if they pulled their signal from Adelphia's systems, Haywood said. "It doesn't make sense for them to do that," he said.

The cable television company is in default with bank lenders and faces the end of a grace period June 15 to make a $45 million interest payment to note holders.

Unless Adelphia raises new capital, banks that hold about $7 billion in loans will probably demand repayment by the 15th, to block interest payments to less-senior creditors, Solomon said.

But Adelphia's efforts to sell assets are hampered by buyers' fear that they'll inherit some of the company's liability from shareholder lawsuits, Moody's said.

Company spokeswoman Karen Chrosniak wouldn't comment.

With 5.8 million subscribers, Adelphia generates enough cash *to* cover its operating expenses, but not enough to pay interest on debts, Solomon said.

"At some point, someone's going to make them pay interest," he said.

Wednesday, attention focused on Salomon Smith Barney, a major underwriter for Adelphia and a unit of its largest lender, Citigroup. Salomon is feeling the heat in a Securities and Exchange Commission investigation that **is** looking into Adelphia's tangled finances, according to the Wall Street Journal.

The Citigroup unit's involvement in selling over $2 billion in Adelphia shares within the past eight months is probably one reason the bank has refrained from calling in Adelphia's debts and triggering bankruptcy, financial sources said.

"Why would you push a company over a cliff if you know it could create more problems for you?" said a source in the financial community who is familiar with the situation.

Salomon helped arrange capital infusions for Adelphia totaling $2.5 billion this past January and in November 2001. The Rigas family bought at least $600 million of the offerings, according to the Wall Street Journal, secretly using loans backed by Adelphia.

Citigroup can't prevent Adelphia from being pushed into bankruptcy by itself, said Solomon at Moody's Investor Service.

Because of cross-default provisions within lending agreements, "all it takes is one group to (declare default) and everybody else falls in," he said. In an analysis, Moody's listed 15 classes of bonds and notes with varying claims on Adelphia's assets.

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- **AT&T may buy out share of Adelphia**
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Exhibit 5

0918
Thursday,

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BREAKING NEWS STORY

Mediacorn Joins 'We're Not Adelphia' Pack

Printer-Friendly version

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By Mike Farrell
Multichannel News
6/13/2002 4:32:00 PM

Mediacom Communications Corp. became the third MSO in four days to release a statement outlining its accounting practices in greater detail in an effort to distance itself from the scandal surrounding Adelphia Communications Corp.

Mediacom is the third MSO to do so this week -- Cablevision Systems Corp. issued its statement Monday and Insight Communications Co. Inc. held a conference call with analysts Wednesday.

In its statement, Mediacom said that unlike Adelphia, it does not capitalize costs associated with reconnecting subscribers, it does not receive marketing-support payments from equipment vendors, it has appropriately written down any decline in value of its equity investments, it has no off-balance-sheet debt and it has no special relationships with insiders.

The operator also said its total subscriber count is lower than its actual number of customers because it counts bulk subscribers by taking the total amount of revenue from bulk accounts and dividing it by the average price of limited and expanded-basic service in those systems.

Moreover, Mediacom said it does not count customers who take data service only as video customers and it counts as one customer subscribers who have multiple set-top boxes in their homes.

Mediacom said all of its subsidiaries are wholly owned except for one in which chairman Rocco Commisso has a 1 percent interest. The MSO added that Commisso's interest translates into an attributed equity interest in fewer than 500 subscribers.

The additional information had little effect on Mediacom's stock, which has declined about 34 percent since the Adelphia scandal broke March 27. The stock closed at $8.71 per share Thursday, down 27 cents.

EXHIBIT 5

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Exhibit 6

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AT&T may buy out share of Adelphia

By FRED O. WILLIAMS
News Business Reporter
6/4/2002

AT&T Corp.'s cable business is considering a bid for Adelphia's two-thirds share of the Western New York cable system and adjoining territory, according to a source in the financial community.

The potential deal - which had been the subject of rumors before - was also reported Monday by the trade journal Multichannel News.

Representatives of Adelphia Communications and AT&T Broadband, AT&T's Denver-based cable unit, refused to comment Monday. The two companies jointly own a partnership called Parnassos that includes Western New York's system.

Financial analysts said the rumored buyout could fill a need for both companies.

"It's a natural situation," said Robert Berzins, a bond analyst at Lehman Brothers. "If you're a joint partner, you already know a lot about the systems."

The Parnassos partnership has about 500,000 subscribers spread through Ohio, northern Pennsylvania and Western New York, with AT&T owning a one-third share.

AT&T hasn't made a formal bid for the system, or for Adelphia's stake in another shared system in Southern California, a source said.

For AT&T, completing a deal for Parnassos would offset a tax bill the company will owe on its planned sale of $735 million in other assets, Berzins said.

"They have to reinvest that money in other cable systems this year or else they'll have to pay taxes on it," Berzins said.

Reports put the likely price of Adelphia's share of the Parnassos system at about $780 million, or $2,500 per subscriber.

Adelphia, which has defaulted on bonds and bank loans, needs to raise cash or face probable bankruptcy. Its stock was bumped from the Nasdaq National

EXHIBIT 6

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Market on Monday after the company failed to file year-end financial statements. The shares now trade on the unregulated Over-the-counter market, where they were quoted Monday at 79 cents a share.

The Western New York system isn't on Adelphia's previously announced list of four systems it is willing to sell. However, that list was announced before the Rigas family gave up control of the company to a group of directors.

One stumbling block to the Parnassos deal is that it could attract regulatory scrutiny from the Federal Communications Commission because of AT&T's pending merger with Comcast Corp., the financial source said. The planned merger would create a cable giant with 22.3 million subscribers, compared to 12.7 million for the next-largest company AOL Time-Warner. AT&T is said to be unwilling to risk any deal that jeopardizes the sale to Comcast.

If both deals went through, Western New York's system would eventually become part of the merger-swollen Comcast.

AT&T forerunner Tele-Communications Inc. owned a majority share of Buffalo's cable system until Adelphia bought a majority stake in 1998.

Leonard Tow, a member of Adelphia's board and a major shareholder, had no comment on AT&T's interest in the system, a representative said.

Tow publicly criticized Adelphia last week for what he called rushing to sell assets. But after meeting with other Adelphia directors on Saturday, Tow is said to be trying to present a unified public front with the company and its interim Chief Executive Erland Kailbourne. His claim for a third seat on the board - having been granted two - has moved to the back burner, a source close to the matter said.

Adelphia's talks reportedly fell through last week to sell systems in Los Angeles to Paul Allen, head of Charter Communications.

Monday's delisting of stock means note holders could require Adelphia to buy back $1.4 billion in debts within 40 days. But analysts called such a scenario unlikely, since it would trigger a bankruptcy proceeding in which the noteholders would receive less than their full investment.

"The company has no ability to pay $1.4 billion immediately," said Kevin Kuzio, a bond analyst at KDP Investment Advisors in Vermont.

Adelphia's hopes of avoiding bankruptcy are pinned to its major lenders, analysts said. Banks that are first in line to be repaid by Adelphia appear to be granting the company an undefined amount of time to raise money through asset sales. However, the number of potential bankruptcy trip-wires means that Chapter 11 is still likely.

To keep Adelphia operating, the bank group could make additional loans, on the condition that the money not be used to make other interest payments.

"That sets the company up for a possible bankruptcy filing somewhere down the road, but allows them to operate smoothly in the near term," Kuzio said.

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