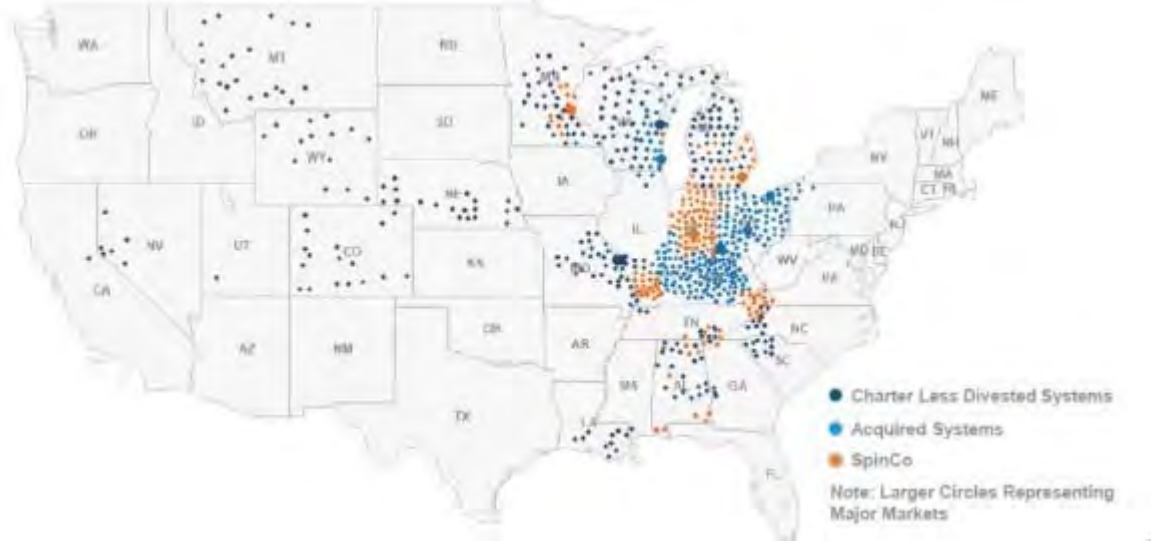
UPDATE: WGAW Says Comcast-Charter Deal Creates A 'Cable Cartel'

By DAVID LIEBERMAN, Financial Editor | Monday April 28, 2014 @ 3:25pm EDT**Tags:** Charter Communications, Comcast, Time Warner Cable

2ND UPDATE, 12:25 PM: The **WGA West** has weighed in on the divestiture plan between **Comcast** and **Charter** — and it isn't mincing words. Here's the guild's just-released statement — judge for yourself: "Today's announcement from Comcast would, in essence, lead to the creation of a three-company cable cartel. Masquerading as subscriber divestitures, the agreement with Charter brings together the three largest cable providers, who account for 38% of cable subscribers and 45% of Internet subscribers. The decision of these three powerful companies to divide markets and share ownership of subscribers through a new publicly traded corporation is unprecedented and adds to the mounting evidence against the Comcast-Time Warner Cable merger."

UPDATED: Looks like Charter will become the cable king of middle America, while Comcast tightens its hold on major markets, in this morning's deal. Comcast will pick up Charter systems in California, New England, Tennessee, Georgia, North Carolina, Texas, Oregon, Washington and Virginia. Meanwhile, Charter will acquire Time Warner Cable franchises in Ohio, Kentucky, Wisconsin, Indiana, and Alabama — and manage others in Michigan, Minnesota, Indiana, Alabama, Eastern Tennessee, Kentucky and Wisconsin that it will partly own in a new Comcast spinoff company. Here's the map the companies released showing holdings for Charter and the new Charter-managed spinoff from Comcast (for now referred to as "SpinCo") after the deal, which CEO Tom Rutledge says will make his company No. 1 in 10 states.



PREVIOUS, 3:18 AM: The terms pretty much match **earlier reports about the companies' discussions**. Assuming the feds approve Comcast's $45B acquisition of Time Warner Cable, the cable giant would: (1) Sell systems with 1.4M TWC subs to Charter, making it the No. 2 operator. (2) Swap with Charter systems that include 1.6M subs. (3) Create a spinoff company with 2.5M subs that would be 33% owned by Charter. "The realignment of key cable markets achieved in these transactions will enable Comcast to fill in our footprint and deliver operational efficiencies and technology improvements," Comcast CEO Brian Roberts says. While the companies didn't put a dollar value on the deals, analysts have estimated it at about $20B. Comcast and Charter will disclose more info later this morning in a call with analysts.

Here's their release:

Philadelphia and Stamford – April 28, 2014 – Comcast Corporation (Nasdaq: CMCSA, CMCSK) and Charter Communications (Nasdaq: CHTR) today announced that the companies have reached an agreement (the "Agreement") on a series of tax-efficient transactions, whereby the combined Comcast-Time Warner Cable entity, following completion of Comcast's previously announced merger with Time Warner Cable, will divest systems resulting in a net reduction of approximately 3.9 million video customers. The divestiture follows through on Comcast's willingness to reduce its post-merger managed subscriber total to less than 30 percent of total national MVPD subscribers, while maintaining the compelling strategic and financial rationale of its proposed merger with Time Warner Cable.

Pursuant to the Agreement, and following the close of the Comcast-Time Warner Cable merger, Charter will acquire approximately 1.4 million existing Time Warner Cable subscribers, increasing Charter's current residential and commercial video customer base from 4.4 million to approximately 5.7 million, and making Charter the second largest cable operator in the United States.[1] Charter and Comcast will also each transfer approximately 1.6 million customers respectively. In addition, Charter, through a tax free reorganization, will form a new holding company (New Charter) that will own 100% of Charter, and acquire an approximate 33 percent stake in a new publicly-traded cable provider to be spun-off by Comcast serving approximately 2.5 million customers ("SpinCo"). Charter will provide management services to SpinCo. In aggregate, today's announced transactions will significantly enhance Charter's scale and improve both companies geographic footprint, driving operational efficiencies for Comcast, Charter and SpinCo.

The Agreement has been approved by the Boards of Directors of both companies and Time Warner Cable's Board has consented to the Agreement as required under the Comcast-Time Warner Cable merger agreement.

The Agreement will be executed via three separate transactions, which are subject to the completion of the proposed Comcast-Time Warner Cable merger:

1. Comcast will divest Time Warner Cable systems serving approximately 1.4 million existing Time Warner Cable customers directly to Charter for cash. Charter expects to fund the purchase with proceeds from debt, and to have approximately a 5 times debt to EBITDA leverage ratio at closing.

2. Comcast and Charter will transfer assets serving approximately 1.6 million existing Time Warner Cable customers and 1.6 million Charter customers in a tax-efficient like kind exchange, improving the geographic presence of both companies, leading to greater operational efficiencies, improved technology deployment and enhanced customer service.

3. Comcast will form and spin off to its shareholders a new, independent, publicly-traded company that will operate systems serving approximately 2.5 million existing Comcast customers. Comcast shareholders, including the former Time Warner Cable shareholders, are expected to own

approximately 67 percent of SpinCo, while New Charter is expected to directly own approximately 33 percent of SpinCo. SpinCo expects to incur leverage of approximately 5 times estimated pro-forma EBITDA, and New Charter will then acquire its interest in SpinCo by issuing New Charter stock to Comcast shareholders (including former Time Warner Cable shareholders). SpinCo's nine-member Board of Directors will include six independent directors and three directors designated by Charter. Comcast will hold no ownership interest in SpinCo (or Charter) and will have no role in managing SpinCo.

The transfer of systems, asset purchase and SpinCo acquisition will be valued at a 7.125 times 2014 EBITDA multiple (as defined by the parties), and Charter will make additional payments to Comcast over time as tax benefits from the asset sale are realized.

As a result of these transactions, following the completion of the merger between Comcast and Time Warner Cable, Comcast's managed residential subscribers will be below 30 percent of the total MVPD subscribers in the United States, and approximately the same market share as Comcast's subscriber base after its completion of both the 2002 AT&T Broadband transaction and the 2006 Adelphia transaction – and Charter's subscriber base will increase by 1.4 million to a total of 5.7 million.

Comcast has reaffirmed that, after taking into account the transactions with Charter, it continues to expect its merger with Time Warner Cable to generate approximately $1.5 billion in operating efficiencies. Comcast shareholders will receive meaningful value with shares in New Charter, as well as new shares in SpinCo. In addition, Comcast intends to use proceeds from these transactions to reduce its debt in a leverage-neutral manner and expand its share buyback program.

"Today's Agreement follows through on our willingness to divest subscribers, while also marking an important step in our merger with Time Warner Cable," said Brian Roberts, Chairman and Chief Executive Officer, Comcast Corporation. "These transactions enable us to deliver meaningful value to our shareholders. The realignment of key cable markets achieved in these transactions will enable Comcast to fill in our footprint and deliver operational efficiencies and technology improvements. We look forward to working with the management teams at Time Warner Cable, Charter and the new entity to close these transactions and ensure a smooth transition for the customers and employees of all companies."

"Charter's new customers will benefit from our philosophy of providing highly valued products, featuring enhanced on-demand, interactive video and increased broadband speeds, all in a simplified package designed to provide better value and service," said Tom Rutledge, President and Chief Executive Officer of Charter Communications. "The transactions announced today will provide Charter with greater scale, growth opportunities and improved geographical rationalization of our cable systems, which in turn will drive value for shareholders and more effective customer service. And through our meaningful ownership in and board representation at SpinCo, we can help it achieve similar market share growth in the markets it serves."

The transactions are subject to a number of conditions, including the closing of the Comcast-Time Warner Cable merger, receipt of Hart-Scott-Rodino, FCC and other required regulatory approvals, Charter shareholder approval, and various other matters.

J.P. Morgan and Paul J. Taubman acted as financial advisors to Comcast and Davis Polk & Wardwell LLP and Willkie Farr & Gallagher LLP are its legal advisors.

Goldman Sachs and LionTree Advisors are serving as lead financial advisors to Charter in connection with this transaction. Guggenheim Securities is also a financial advisor to Charter. BofA Merrill Lynch, Credit Suisse,

and Deutsche Bank Securities Inc. are also financial advisors to Charter, and together with Goldman Sachs, are leading the financing for the transaction. The law firms Wachtell, Lipton, Rosen & Katz and Kirkland & Ellis LLP are also representing Charter

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