

## **Merger Speculation Links AT&T Broadband with AOL Time Warner**

**Eric Paulak**

Shortly after spurning a hostile takeover bid from Comcast, AT&T has reportedly discussed a merger of its broadband unit with AOL Time Warner's cable unit in the United States. While creating the largest cable company in the world, the merger would accelerate the growth of cable modem services. Other cable merger deals will likely follow.

## NEWS ANALYSIS

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### Event

On 25 July 2001, it was reported that AT&T and AOL Time Warner were in talks to merge their cable television assets. Such a combined company would have nearly 29 million cable TV and almost 5 million cable modem subscribers.

### Analysis

The combination of AT&T Broadband and Time Warner Cable would be several times larger than the nearest competitor (Comcast, with 8.4 million subscribers). Gartner believes it highly unlikely, therefore, that U.S. regulators would allow such a merger to take place without very stringent conditions. The first and most important would likely be a full unbundling of the combined company's cable infrastructure.

The Department of Justice made such unbundling a condition for allowing the merger of AOL and Time Warner. As yet, however, no competitor has been able to take any significant advantage of such service. Gartner expects any newly combined company — or a combination of Comcast, Cox or other cable operators with each other or with a media company — to have stringent and specific unbundling requirements similar to those requiring local-exchange carriers to unbundle their copper networks. As a result, instead of just a few companies offering cable modem services, potentially dozens could offer the services in any given U.S. market. This situation would make it more possible for single vendors to pull together better geographic coverage for high-speed remote access services, using cable modems, asymmetric digital subscriber line (ADSL) and possibly wireless solutions. New consumer-oriented Internet service providers or content companies, such as Earthlink, Juno, USA Networks, Viacom and Walt Disney, could also gain an advantage by being able to deliver more of a nationwide high-speed access network.

Until a merger actually occurs, enterprises should continue to use cable modem services with a high-degree of caution because the always-on services create a greater security threat for enterprises. At the same time, and regardless of whether the merger materializes, enterprises with business-to-consumer strategies should continue using or investigating AOL's portal services or its iPlanet hosting service. With more than 33 million Internet customers and 12.7 cable TV customers, it still offers the best on-line access to the most consumers.

**Analytical Source:** Eric Paulak, Enterprise Network Strategies

## REGIONAL HEADQUARTERS

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### **Corporate Headquarters**

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### **European Headquarters**

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### **Asia/Pacific Headquarters**

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### **Japan Headquarters**

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### **Latin America Headquarters**

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509