Westinghouse To Buy CBS

$5.4 Billion Merger Would Create Top Station Owner

8/2/95

By Paul Farhi
Washington Post Staff Writer

Another day, another network.

CBS Inc. yesterday became the second broadcast network owner in as many days to agree to a buyout, announcing that Westinghouse Electric Corp. would pay $5.4 billion for the home of David Letterman and "60 Minutes."

Though smaller than Walt Disney Co.'s stunning $19 billion buyout of Capital Cities/ABC Inc. on Monday, Westinghouse's widely anticipated purchase of CBS would nonetheless create the nation's largest broadcast station owner.

By combining Westinghouse's Group W broadcasting division with CBS's stations, the new company would operate 15 TV stations and 39 radio stations, collectively reaching about 35 percent of all American households. It would give Pittsburgh-based Westinghouse, whose core businesses in such fields as nuclear power and defense electronics have limited futures, wider entree into the glamorous field of commercial TV.

The potential downside to the deal, however, is that Westinghouse is buying the third-rated of the Big Three networks and would have to add to its already heavy load of debt. And unlike Disney-ABC, Westinghouse would have little programming to distribute through its newly owned network.

"We intend to restore CBS to its historic position as number one, and we will take aggressive steps to do that," said a confident Michael H. Jordan, the Westinghouse chief executive who will oversee the newly named Westinghouse-CBS Inc.

Before that can happen, however, shareholders and regulators must approve the agreement.

See CBS, A32, Col. 1

CBS, From A1

In addition, Westinghouse will need a major assist from Washington to swallow CBS whole. Federal law, designed to ensure diversity of media ownership, bars ownership of more than 12 TV stations, and those stations collectively may not reach more than 25 percent of U.S. households.

However, both the Disney and Westinghouse deals come as the House is about to vote on a bill that would permit a company to own stations reaching up to 35 percent of households. If President Clinton vetoes the bill, as threatened, Jordan said Westinghouse will seek temporary waivers from the Federal Communications Commission to operate the stations, and eventually would sell some stations to come into compliance with the limits.

A more immediate concern for Westinghouse is that new bidders could still emerge to upset the buyout, much as CBS's plans to merge with the home shopping network QVC Inc. were scuttled last summer by a third-party bid for QVC.

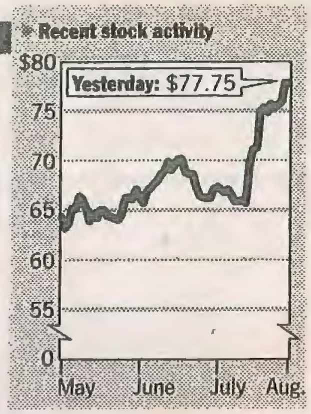
The networks' ability to distribute programs to mass audiences makes them attractive targets for Hollywood studios seeking to lock in distribution of their wares—that was essentially Disney's rationale for buying Cap Cities/ABC and led to renewed speculation yesterday about a possible sale of General Electric Co.'s NBC network.

Indeed, studio owners such as Ted Turner's Turner Broadcasting Co., Viacom Inc. and Seagram Co.'s MCA Inc. all have been rumored as suitors for CBS, though none has come forward so far.

Asked about new bids at a news conference yesterday, CBS Chairman Laurence A. Tisch responded, "I have

THE COMPANIES IN PROFILE

CBS



■ **Headquarters:** New York

■ **1994 sales:** $3.71 billion

■ **Chairman and CEO:** Laurence A. Tisch, 72

■ **Employees:** 6,400

■ **TV stations:** KCBS-TV, Los Angeles; WBBM-TV, Chicago; WCAU-TV, Philadelphia; WCBS-TV, New York; WCCO-TV, Minneapolis-St. Paul; WCIX-TV, Miami-Ft. Lauderdale; WFRV-TV, Green Bay-Appleton, Wis.

■ **Radio stations:** 21 stations, including WARW-FM, Washington, D.C.; WBBM-AM/FM, Chicago; KCBS-AM/KRQR-FM, San Francisco; WCBS-AM/FM, New York

WESTINGHOUSE

■ **Headquarters:** Pittsburgh

■ **1994 sales:** $8.85 billion

■ **Chairman and CEO:** Michael H. Jordan, 59

■ **Employees:** 84,400

■ **Business segments:** Electronic systems; environmental services; power generation; energy systems; mobile refrigeration units; broadcasting (eight TV stations, 18 radio stations); office furniture.

■ **Largest single customer:** U.S. government

SOURCES: Bloomberg Business News, Hoover's Handbook of American Business

THE WASHINGTON POST

given my love to Mr. Jordan and I don't change my mind for a phone call . . . I think [this deal] will happen as announced."

But Wall Street isn't convinced. "This is not a lock-up deal by any stretch of the imagination," said analyst John Reidy of Smith Barney Inc. He noted that CBS has agreed to pay Westinghouse about $125 million if CBS accepts another, higher offer, hardly an insurmountable barrier to a motivated buyer.

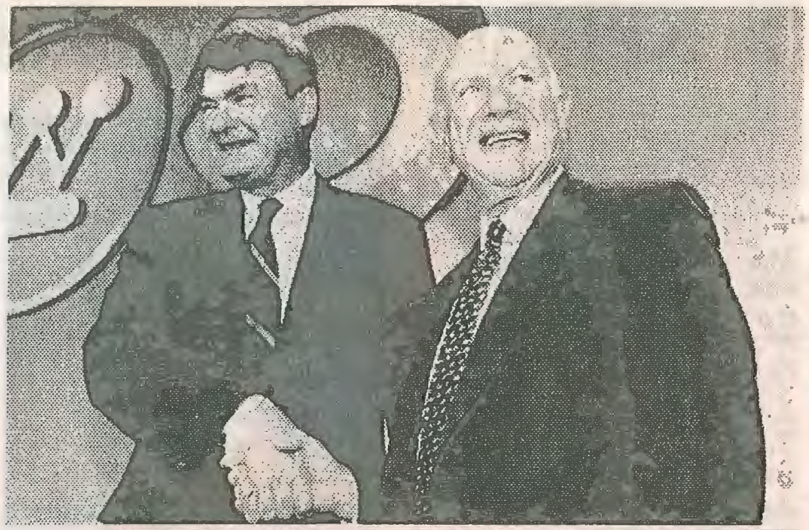
Moreover, several people said yesterday there is ample time for a new offer to emerge, given that it will take at least six months to obtain regulatory approvals and close the deal.

The timing of the CBS announcement was more than coincidental. Disney's announcement Monday removed one would-be bidder from any CBS auction, leading Tisch to conclude that his best hope remained with Westinghouse, one industry executive close to CBS said. This source said Tisch discussed a CBS sale with Disney Chairman Michael D. Eisner at an executive retreat in Idaho two weeks ago, but Eisner came away convinced that ABC was a better fit for his company.

CBS shares closed unchanged at $77.75 by day's end on the New York Stock Exchange, while Westinghouse rose $1.25 to close at $14.875 a share on the exchange.

Under terms of the deal, Westinghouse would pay CBS shareholders $81 per share in cash for their stock, or about $4.99 billion, plus an additional $300 million to $400 million depending on when the deal closes. If completed, the deal is likely to end Tisch's eight-year stewardship of CBS. A billionaire investor, Tisch took control of the company after buying nearly one-fourth of CBS's stock through his family-controlled company, Loews Corp.

Tisch essentially oversaw the dismantling of the media conglomerate created by his legendary predecessor, William Paley. Under Tisch, CBS sold its book, magazine and record businesses in the late 1980s, leaving CBS flush with cash but without the diverse sources of revenue generated by media giants such as Time Warner Inc., News Corp. and Viacom.



AGENCE FRANCE-PRESSE

Westinghouse Chairman Michael H. Jordan, left, and CBS Chairman Laurence A. Tisch shake hands yesterday after announcing the $5.4 billion deal.

"We're going to be stronger broadcasters" after Westinghouse buys CBS, said a CBS executive yesterday. "But the downside is, we're still only a broadcaster."

By most accounts, Tisch will leave CBS—once known as the "Tiffany network"—in disarray. In the prime-time ratings period, the network dropped to third last season after holding the No. 1 position for the three previous years. While advertising revenue has been strong for all broadcasters, CBS is considered most vulnerable to a downturn because its programs appeal more to older viewers, not the younger audiences advertisers prefer.

CBS scored a coup by taking David Letterman's late-night show away from NBC in 1993, but that was a rare bit of good news. The network took a huge financial beating on its four-year contract with Major League Baseball, and then lost the rights to cover NFL games to Rupert Murdoch's Fox network early last year. Murdoch also shocked CBS by wooing a group of CBS affiliates to his network last year.

CBS suffered another public relations black eye in May when it dumped Connie Chung as co-anchor, with Dan Rather, of its anemically rated evening news program.

But the Tisch era has been good for stockholders, including Tisch himself, who controls about 18.5 percent of CBS's shares. In addition to selling back stock to the company since 1987 and receiving dividends, Tisch has easily made back his original investment in CBS, said Smith Barney's Reidy. The Westinghouse buyout will give Tisch a profit on his remaining shares of about $650 million, he estimated.

FOR MORE INFORMATION

To read the text of CBS's annual report, see Digital Ink, The Post's on-line service. To learn about Digital Ink, call 1-800-510-5104, ext. 9000.

9/23/95

Time Warner, TBS Agree On $7.5 Billion Merger

Deal to Create World's Largest Media Company

By Paul Farhi
Washington Post Staff Writer

Time Warner Inc. and Ted Turner's Turner Broadcasting System agreed yesterday to join forces in a $7.5 billion merger, the latest in a string that is transforming ownership and management of the media and entertainment industries.

As the largest media company in the world, Time Warner-Turner would jointly shape images and information that touch virtually every American and a growing portion of the world: news from Cable News Network and Time magazine; movies and TV shows from Warner Bros. and two Turner-owned studios; animated cartoons; and the cable systems and cable networks that deliver them.

If completed, the Time Warner-Turner union would be the third huge merger in seven weeks, following Walt Disney Co.'s $19 billion takeover of Capital Cities/ABC Inc. and Westinghouse Electric Corp.'s $5.4 billion buyout of CBS Inc. this summer.

The Time Warner and Turner merger is arguably the most complex and far-reaching of all of the summer's deals. It brings not just the two companies into alliance, but involves three other big telecommunications firms that now own chunks of TBS and Time Warner.

These include Tele-Communications Inc. (TCI), Time Warner's only larger rival in the cable business and holder of 21 percent of Turner's stock; US West Corp., a Denver-based regional phone company that has a $2.5 billion investment in a Time Warner partnership;

See MERGER, A16, Col. 1

MERGER, From A1

and Seagram Co., the new owner of the MCA entertainment conglomerate that also owns almost 15 percent of Time Warner.

Yesterday, the deal already was being challenged. US West filed suit to block it on grounds of breach of contract, while two consumer organizations argued to the Justice Department that it would concentrate an already concentrated industry and raise prices.

"We fear that . . . [the linked ownership] will thwart the development and expansion of widespread communications competition, and will lead to higher cable and telephone prices," the Consumers Union and Consumer Federation of America said in a joint letter to Anne K. Bingaman, the Justice Department's top antitrust attorney.

Time Warner Chairman Gerald M. Levin said yesterday that cable TV rates would not rise "irresponsibly" as a result of the merger, nor would the deal harm the large and growing telecommunications market.

Because of this chain of overlapping ownership, antitrust regulators in Washington are likely to look closely at how this merger affects not only the marketplace but the marketplace of ideas, industry analysts said.

Officials of the Federal Trade Commission and the Justice Department—the two overseers of antitrust law—will meet next week to decide which agency will review the merger.

"We have to ask ourselves not just if it passes muster in an economic antitrust case but if it passes muster in First Amendment terms," said a senior official, who asked to remain anonymous. "It may fall on the safe side of the line in the market, but [the government] might challenge it" if it presents too much control over public opinion and speech.

A Time Warner executive said yesterday his company did not expect major problems from Washington.

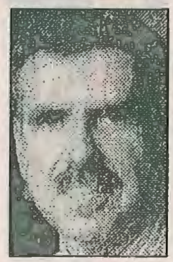
Investors appeared to like the deal. Time Warner stock rose 87½ cents to close at $40.62½. Turner A stock was up 12½ cents to close at $28.87½, while TCI's was up 12½ cents to close at $18.75.

Levin and Turner, who would become vice chairman of Time Warner, hailed the companies' agreement in New York yesterday with much the

PLAYERS IN THE DEAL

A combined Time Warner-Turner company would have had revenue of just over $18.7 billion last year. Here is what each brings to the proposed merger.

TIME WARNER



Levin

- **Headquarters:** New York
- **Chairman and CEO:** Gerald M. Levin
- **Operations include:**

Publishing: Time, People, Sports Illustrated, Fortune and other magazines; Book-of-the-Month Club; Little, Brown and Co. and Warner Books

Music: Warner Bros. Records, Atlantic Recording Corp., Elektra Entertainment

Programming: Warner Bros. films; Warner Bros. Television; WB television network.

Cable: Nation's second-largest cable TV system group with about 11 million subscribers. Owns 18 percent stake in Turner Broadcasting System.

- **1994 earnings:** Lost $91 million
- **1994 revenue:** $15.91 billion

TURNER BROADCASTING

Turner

- **Headquarters:** Atlanta
- **Chairman and president:** Ted Turner *(will become vice chairman of Time Warner*
- **Operations include:**

Cable Networks: TBS Superstation, Cable News Network, CNN Headline News, CNN International, Cartoon Network, Turner Classic Movies, Turner Network Television.

Entertainment: Castle Rock Entertainment, Hanna-Barbera Cartoons Inc., New Line Cinema, Turner Entertainment Co.

Sports: Atlanta Hawks basketball, Atlanta Braves baseball, Goodwill Games, World Championship Wrestling

- **1994 earnings:** $21 million
- **1994 revenue:** $2.81 billion

VESTED INTERESTS

- **US West:** Holds a $2.5 billion stake in Time Warner's entertainment division and is challenging the merger, saying it presents a conflict of interest.
- **Tele-Communications Inc.:** Owns 21 percent of Turner Broadcasting. CEO John Malone won several key concessions in exchange for his approval of the deal.

SOURCE: News reports

THE WASHINGTON POST

same rhetoric used by executives who crafted the earlier deals. The addition of Turner's programming, they said, would complement Time Warner's existing strengths in production and distribution.

Some analysts questioned that logic. "I'm not anti-merger," said Eli Noam, a Columbia University professor of finance and economics, "but these are basically old-fashioned empire-building deals," driven more by ego than strategic foresight.

"Hollywood is not a factory," he added. "It's a place where reputation, stars, personalities and creativity play important roles. These are things that can't always be controlled."

Turner and Levin appeared relieved, rather than exultant, after weeks of tough negotiations with TCI's powerful chief, John C. Malone, whose company's stake in Turner gave it effective veto power over a deal.

With his wife, Jane Fonda, sitting in attendance at a press conference in New York, Turner noted that his company has long been an underdog among established media giants. During the past 25 years, the flamboyant, outspoken Turner transformed his ownership of a small Atlanta TV station into an international empire that now includes seven cable networks, the Atlanta Braves baseball and Atlanta Hawks basketball teams and the Hanna-Barbera cartoon studio.

"You only live once," Turner said, "and I want to feel like I have some muscle on my bones."

Levin broached the merger to Turner just after news of the Disney-ABC deal broke in early August. Traveling to Turner's ranch in Montana to discuss his proposal, Levin recalled that he was picked up at the airport by Fonda.

"I hope you're not going to make Ted upset," Fonda told him, according to Levin. "I said, 'No, I think he's going to love this.' " By the time dessert was served that night, Turner agreed to the outlines of a merger, Levin said.

Turner and Levin are longtime associates; Time Warner has owned about 18 percent of TBS since 1987, when the cable industry bailed out a faltering TBS.

Turner's personal stock holdings in TBS would be worth about $2.3 billion on paper once TBS shareholders exchanged each TBS share for three-quarters of a share in Time Warner. TCI's rate will be eight-tenths of a share, one of several concessions made to Malone for his agreement to give up his veto over TBS's affairs.

Turner himself would end up owning 10 percent of Time Warner, and TCI would hold 9 percent, although about half of this stake would be placed in a voting trust administered by Levin to satisfy federal rules limiting concentration in the cable TV business. Between them, TCI and Time Warner serve about 42 percent of all households with cable.

Not all investors are happy with the deal. US West, which owns part of a partnership with Time Warner, went to court in Delaware yesterday seeking an injunction to block the merger.

US West has contended for weeks that Time Warner's discussions with Turner breach Time Warner's obligations to its partnership with US West, known as Time Warner Entertainment (TWE). TWE owns Time Warner's cable, HBO and Warner Bros. divisions, and US West said owning Turner now presents Time Warner executives with a conflict of interest.

Levin said yesterday that Time Warner was not legally obligated to seek US West's blessing for the

e Washington Post

TUESDAY, AUGUST 1, 1995 Clip. see over

Disney to Buy CapCities/ABC for $19 Billion

Would Create a Giant In Movies, Television

By Paul Farhi
Washington Post Staff Writer

Walt Disney Co. vaulted to the front ranks of media and entertainment companies yesterday by striking a $19 billion deal to buy CapCities/ABC Inc., owner of the nation's leading TV network.

In one stroke, Disney would become the largest among the handful of global entertainment goliaths, including Time Warner Inc. and Rupert Murdoch's News Corp., which in the last five years have invested in virtually every major corner of the media business.

Negotiated in unusual secrecy over the past eight days, the deal would create a company with annual revenue of $16.5 billion. It would bring together the owner of the world's most popular amusement parks, a major movie studio, the Disney Channel and the film "Pocahontas" with a company that owns 10 TV stations, the ESPN cable network and ABC, which airs the most widely watched entertainment and news programming in America.

"This was the right time and right place to do this," said Disney Chief Executive Michael Eisner, who would preside over the combined company. He added, "I'm optimistic that one [plus] one adds up to four."

The deal has been approved by both companies' boards—CapCities' board voted at about 7 a.m. yesterday. But it still must be approved by shareholders and regulators. Eisner and CapCities Chairman Thomas Murphy predicted yesterday that it would meet little opposition from antitrust regulators, because the two companies have few overlapping businesses.

The deal comes as Congress is preparing to vote on legislation that would loosen restrictions on the number of media operations a single company can own.

See MERGER, A16, Col. 1

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Prices May Vary in Areas Outside Metropolitan Washington (See Box on A2) 25¢

MERGER, From A1

The agreement generated some criticism that it might trigger more buyouts and mergers. "The marketplace is receiving a green light from Congress to consolidate in a manner that is dangerous to the development of multimedia competition," said Gene Kimmelman, co-director of the Consumers Union in Washington.

Wall Street investors and Hollywood executives were caught completely off guard yesterday morning by news of the deal, the second-largest in the United States after the $25 billion buyout of RJR Nabisco in 1989. Most business people have been anticipating the sale of a TV network, but attention has been focused on CBS Inc., which is in talks with Westinghouse Electric Corp. about a $5 billion sale.

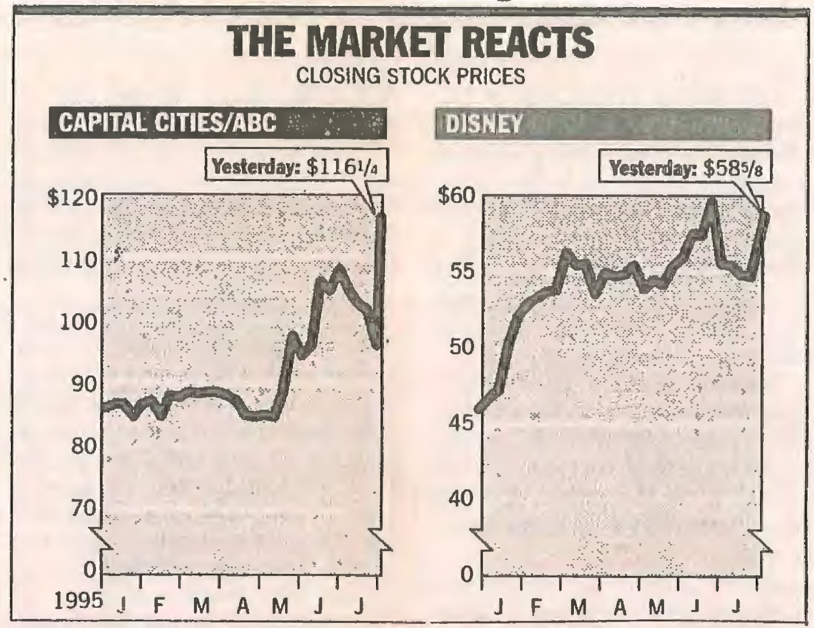
The economic and regulatory forces propelling the CBS-Westinghouse discussions are largely the same as those that led Disney to CapCities—and may yet spur another round of media merger mania.

Dismissed only a few years ago as dinosaurs in a world of ever-expanding information options—cable, satellite and now on-line services—broadcast networks and television stations have become the glittering jewels of the media business. Even though the networks' prime-time share of the national TV audiences has slipped from more than 90 percent to just under 60 percent in the past 15 years, stations affiliated with ABC, NBC and CBS still command the biggest audiences, by far, of any medium.

In a world of splintered attention spans, this relatively large hold on what TV industry people call "eyeballs" has made the networks increasingly valuable to mass-market advertisers. This spring, sponsors spent a record $5.4 billion for air time on the new fall programs carried by the Big Three and Fox.

For major producers such as Disney—which creates "Home Improvement," the top-ranked program, for ABC—owning a network is more important now than ever. An obscure federal regulation that has prevented the networks from creating or owning most of their popular prime-time programs—in effect, from being both producer and distributor of a show—is due to expire in November after 25 years.

The demise of the so-called financial interest and syndication rule will permit the networks to produce and sell programs themselves. This is potentially devastating to Hollywood's long



domination of TV production and the lucrative rerun businesses, leading to months of speculation about other would-be network-studio mergers.

Ted Turner, whose Turner Broadcasting Co. owns three smaller studios, has tried to negotiate deals with CBS and General Electric Co.'s NBC. Meanwhile, since January, major studios such as Time Warner's Warner Bros. and Viacom Inc.'s Paramount have opted to start broadcast mini-networks in hopes of guaranteeing a distribution source for their shows.

Analysts say its unlikely that any new suitors will pop up to upset the Disney-CapCities deal, given the huge price tag attached to it. But one source close to CBS Chairman Laurence Tisch said a CBS-Westinghouse combination may be renegotiated in light of yesterday's news.

"If ever a combination in the media makes sense, this one does," said industry analyst Barry Kaplan of securities firm Goldman Sachs & Co. "This enhances the content of ABC and their cable networks, and with the demise of [the financial rules] Disney has a place" for its programs.

TV viewers won't notice the change of ABC's ownership immediately, according to Eisner and Murphy. Eventually, however, they said more Disney-made children's programs would be on ABC's afternoon and Saturday morning schedules. The programs would be cross-promoted with the Disney cable channel, said Eisner.

As for prime time, many media executives expect Disney to favor Disney-made shows on ABC's schedule. "A Disney program will get a better time period than it normally might," said Steve Sternberg, a broadcast research specialist at BJK&E, a major ad agency.

To complete the deal, Disney would pay $65 per share in cash, or a total of $10 billion, to CapCities' shareholders, plus one share of Disney stock.

Both companies saw their stock soar on the news yesterday, with Disney rising $1.25 to close at $58.62½ per share and CapCities going up $20.12½ to close at $116.25. The news blackout on the deal was such that CapCities shares declined slightly in value in trading on Friday, indicating that there were no early leaks.

Among the happiest CapCities investors yesterday was billionaire Warren Buffett, whose Berkshire Hathaway Corp. owns 13 percent of CapCities. In one day, the value of Buffett's holdings soared from $1.7 billion to about $2.15 billion.

Said Buffett at a news conference yesterday: "I think this deal makes more sense than any deal I've seen, with the possible exception of ABC-Capital Cities," a reference to the 1985 merger that Buffett helped broker between CapCities, a tightly managed group-station owner, and ABC.

The association between Disney and ABC began in the early 1950s when ABC Chairman Leonard Goldenson helped finance Walt Disney's first amusement park, Disneyland. ABC has carried Disney programming every year since 1954, when the network premiered "Disneyland."

FOR MORE INFORMATION

To read the two companies' latest annual reports, see Digital Ink, The Post's on-line service. To learn about Digital Ink, call 1-800-510-5104, ext. 9000.

AN EVEN MIGHTIER MOUSE

Marriage of Entertainment Giants Would Be Second-Largest in U.S. History

WALT DISNEY CO.

- **Headquarters:** Burbank, Calif.
- **Employees:** 65,000
- **1994 sales:** $10.1 billion
- **Chairman, president and CEO:** Michael D. Eisner, 53
- **Theme parks:** Disneyland, Walt Disney World, EuroDisney Resort (39 percent), Tokyo Disneyland (royalty earnings), Epcot Center, Disney-MGM Studios Theme Park.
- **Film, TV, records:** Buena Vista Home Video, Buena Vista Television, The Disney Channel, Hollywood Pictures, Hollywood Records, KCAL-TV, Los Angeles, Miramax Film Corp., Touchstone Pictures, Touchstone Television, Walt Disney Pictures, Walt Disney Records, Walt Disney Television
- **Other interests:** Discover magazine, Disney Adventures magazine, The Disney Stores, Hyperion Press, Mighty Ducks of Anaheim hockey team

©Walt Disney Productions

CAPITAL CITIES/ABC

- **Headquarters:** New York City
- **Employees:** 20,200
- **1994 sales:** $6.4 billion
- **Chairman and CEO:** Thomas S. Murphy, 70
- **Broadcasting:** ABC Television Network; ABC Radio Networks; 21 radio stations, including WMAL-AM/WRQX-FM in the District; 10 television stations, including KABC-TV, Los Angeles, WABC-TV, New York, WLS-TV, Chicago
- **Cable and video group:** ABC Distribution, Arts & Entertainment Network (37.5 percent), DIC Animation City (children's programs), ESPN (80 percent), Lifetime (33.3 percent), Capital Cities/ABC Video Publishing
- **Publishing group:** Fort Worth Star-Telegram, Kansas City Star newspapers and related publications in 13 states, Chilton Publications, Grupo Editorial Expansion, Fairchild Publications (W, Women's Wear Daily) Institutional Investor, International Medical News Group

BY JACKSON DYKMAN—THE WASHINGTON POST

In Idaho, a Chance Meeting and a Huge Deal

Disney, CapCities CEOs Quickly Cemented Merger That Really Was Years in Making

By Mike Mills
Washington Post Staff Writer

Walt Disney Co. Chairman Michael Eisner recalled yesterday that he wasn't feeling particularly sociable at last month's retreat of media moguls in Sun Valley, Idaho, an annual event where the sports of choice are golf, tennis and rearranging the pieces of the entertainment industry.

Eisner had bad memories from last year's event, from which he had to rush home for emergency coronary bypass surgery. This time, the 54-year-old CEO intended to stay only 24 hours, just long enough to give a presentation on his $29 billion company.

But, as Eisner tells it, a chance meeting July 20 along a Sun Valley roadside with billionaire investor Warren Buffett, who owns a 13 percent stake in Capital Cities/ABC Inc., led to yesterday's announcement that Disney will purchase Capital Cities/ABC for $19 billion.

Eisner said he happened upon Buffett while walking to the condominium of the event's sponsor, Herbert Allen of the investment banking firm Allen & Co., to say goodbye.

Eisner asked Buffett, out of the blue, whether Disney might be able to buy Capital Cities/ABC for cash.

"I just spit it out," Eisner said in an interview yesterday.

Buffett suggested that Eisner join him at a picnic with Cap Cities Chairman and CEO

See MEETINGS, A16, Col. 1

MEETINGS, From A1

Tom Murphy. And at the picnic, the multibillion-dollar alliance suddenly came to fruition.

"I said, 'Tom, I think the time is right, now,'" Eisner said yesterday on ABC's "Good Morning America." "Every part of your company is working; every part of our company is working . . . And he simply looked at me and said, 'Okay.'"

What followed were 10 days of negotiating between Disney and Capital Cities/ABC executives. As many as 20 people knew about the talks, Eisner said. But all of them kept the deal a secret. Outside investment advice wasn't sought until Friday, when the details were nearly complete.

The result is the second-largest buyout in U.S. history, one that combines Disney's gold mine of programming—from "Steamboat Willie" in 1928 to this year's "Pocahontas"—with the nationwide distribution of ABC's network of 10 broadcast television stations and 225 affiliates. Worldwide, ABC beams its ESPN cable sports network to 135 countries, allowing Disney to export two types of U.S. entertainment that don't worry foreign governments: sports and childrens' shows.

Yesterday's announcement caught almost everyone by surprise. ABC News anchor Peter Jennings was called in from vacation and told yesterday morning. A surprised Charles Gibson, co-host of "Good Morning America," learned shortly after 7 a.m. that Eisner and Murphy would be guests on his show. No news organizations received any leaks hinting at the talks.

"There was not a whisper. This was a well-kept secret," said Viacom Inc. Chairman Sumner Redstone, who spent time with Murphy and Eisner in Sun Valley. "We had no idea they were in discussion . . . it's hard to believe a deal this big could come together that quickly."

In a way, the deal was 40 years in the making. The two companies' relationship dates back to Oct. 27, 1954, when "Disneyland," a weekly television show, premiered on the ABC television network and ran for 29 seasons under various names. "The Mickey Mouse Club" followed on ABC in 1955. Also that year, ABC invested $500,000 for 34 percent of the Disneyland theme park in Anaheim, Calif., and agreed to guarantee Disney loans up to $4.5 million. The relationship soured by 1960, however, when the two companies ended up in court over the rights to Disney's programs.

In the 1960s, Murphy's Capital Cities, which owned a number of television stations and newspapers and would merge with ABC in 1985, discussed an alliance with Disney. In 1984, soon after joining Disney as chairman and CEO, Eisner met with then-ABC Chairman Leonard Goldenson about buying ABC before Goldenson closed the merger deal with Capital Cities. And sporadic talks between Eisner and Capital Cities/ABC officials took place over the past three years.

Eisner said Disney and Capital Cities/ABC are like a couple that "dated in high school, then each one married somebody else. And you come together 30 years later and you know that it's right."

Murphy echoed the sentiment.

"We knew each other's companies very well," Murphy said. "We admired the assets and management of each company and we thought about putting these two companies together."

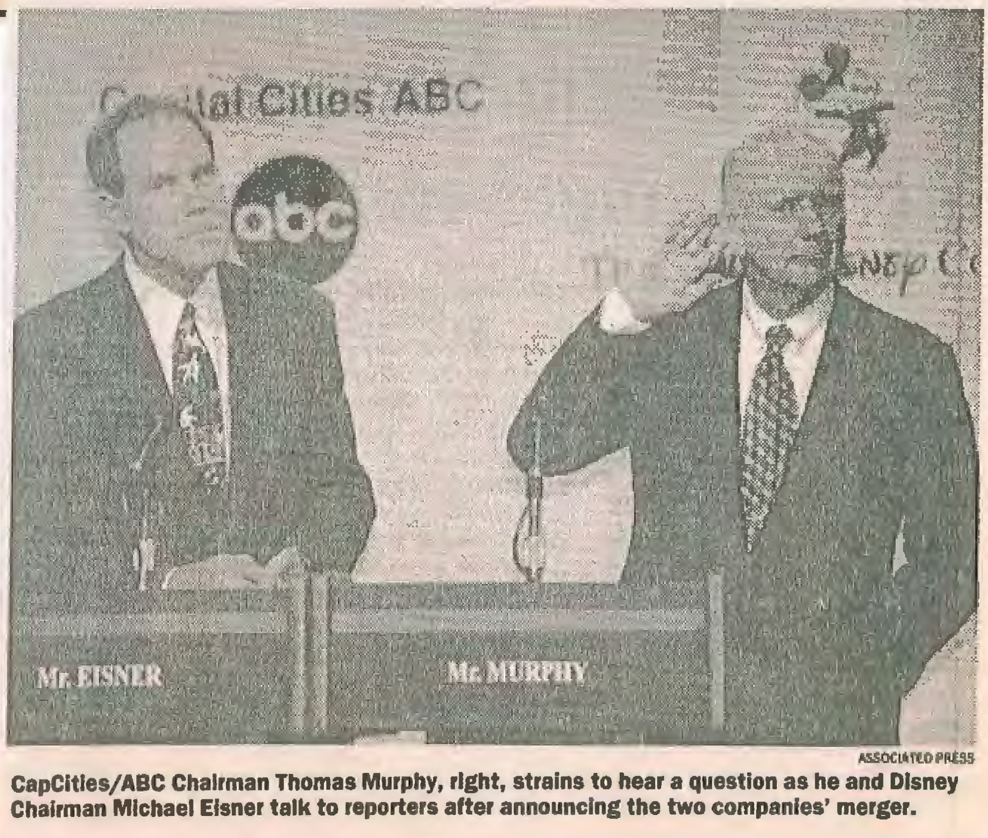
Yet, in all the recent speculation about movie studios marrying distributors of programming "content," few outsiders matched Disney with ABC. Instead, the business press focused on whether Laurence Tisch would sell CBS and whether Seagram CEO Edgar Bronfman Jr. or Westinghouse would buy it.

Disney executives have proven adept at keeping big deals quiet. They negotiated for Virginia farmland for months without even the principal landowners knowing whom they were dealing with.

Murphy and Eisner said the talks went so quickly largely because Disney immediately agreed to Murphy's price for ABC. The talks then shifted to the balance of stock, debt and cash involved.

"It wasn't as if they had to negotiate for months to figure out the value of each company," said analyst Harold Vogel of Cowen & Co. in New York. "The principal partners knew each other's businesses intimately. They didn't have to do a lot of due diligence."

The deal also brings Eisner full circle with Jeffrey Katzenberg, former president of Disney's motion pictures division. In November, Capital Cities/ABC created a new television studio with Dreamworks SKG, an entertainment company formed by Katzenberg, Steven Spielberg and David Geffen.



ASSOCIATED PRESS

CapCities/ABC Chairman Thomas Murphy, right, strains to hear a question as he and Disney Chairman Michael Eisner talk to reporters after announcing the two companies' merger.

8/5/95

House Vote Bars Internet Censorship

Amendment to Communications Bill Seems in Conflict With Senate

By John Schwartz
Washington Post Staff Writer

By 420 to 4, the House yesterday approved an amendment that expressly prohibits Internet censorship by the government.

The "Internet Freedom and Family Empowerment" amendment to the House communications bill appears to conflict directly with an amendment to the Senate version of the same bill.

The Senate amendment, sponsored by Sens. J. James Exon (D-Neb.) and Dan Coats (R-Ind.), is called the "Communications Decency Act" and sets criminal sanctions for obscenity and indecency on-line, enforceable by the Federal Communications Commission. That bill has become a lightning rod for activists, with more than 100,000 signatures collected in an on-line petition drive against the measure.

The House amendment "is a major victory for cyberspace," said Jerry Berman, head of the Center for Democracy and Technology, an on-line civil liberties and policy group. "The Internet may have lost the battle on the Senate side. But what the House indicates is that the Internet and its supporters may win the war."

Both the House and Senate versions of the bill attempt to grapple with the problem of children encountering offensive material on-line. Although there is much dispute over just how prevalent and accessible such material is, the House amendment is based on the principle that technologies are already available to help parents control what children can find on the Internet; it also calls for on-line providers to police their own offerings.

The House amendment, introduced by Reps. Christopher Cox (R-Calif.) and Ron Wyden (D-Ore.), enjoyed support from groups on the political right and left, including the Progress and Freedom Foundation, the American Civil Liberties Union, the Cato Institute and People for the American Way, as well as all of the major commercial on-line services. Although President Clinton has threatened to veto the communications bill, he expressed support for the Cox-Wyden approach in a letter to lawmakers Thursday.

"Virtually everyone in the House shares the objective of protecting children from offensive material on-line," Cox said in an interview, "but relying on regulators and federal police won't work."

"If the government is going to send out an army of censors, that's going to spoil a lot of the Net's promise," Wyden said.

But a separate amendment to the House bill appears to conflict with the Cox-Wyden provision. The House passed changes to federal obscenity laws in an amendment sponsored by Rep. Henry J. Hyde (R-Ill.) that would criminalize some forms of on-line speech. "Just as the House closes the front door on content regulation, this . . . amendment attempts to sneak it in through the back door," said Mike Godwin, staff counsel for the Electronic Frontier Foundation.

Cox said the apparent conflict between the two House amendments could be resolved in conference committee, because "obviously the bill must not be at war with itself."

Sen. Patrick J. Leahy (D-Vt.), who led the unsuccessful opposition to the Exon amendment in the Senate, issued a statement calling the House amendment "a positive step." But Leahy warned that the Cox-Wyden effort "does not resolve the issue of content regulation on the Internet."

"I remained concerned that an exception in the Cox-Wyden amendment leaves room for the Communications Decency Act," Leahy said, referring to a provision of the amendment stating that it is not meant to conflict with the part of the federal law affected by the Exon amendment.

Leahy also warned that the Hyde amendment to the House bill "raises the continued specter of chilling the free speech rights of Internet users in slowing the free flow of information on this wonderful communications medium."

Wyden said that such concerns are valid. "Certainly the picture is not as clear going into conference as Mister Cox and I would like. . . . There is going to be much to debate in the conference."

Washington Post

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Today's Contents: *Page A2*

SATURDAY, AUGUST 5, 1995

Prices May Vary in Areas Outside Metropolitan Washington (See Box on A2)

ouse Approves Phone, Cable Bil

rhaul Would Open Market for Local Calls, Remove TV Rate Cur

By Mike Mills
Washington Post Staff Writer

use of Representatives yester-
ved broad telecommunications
that would lower decades-old
y barriers and allow many
a competitive choice in such
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ne calling and cable TV.

also would remove most fed-
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companies to assemble much
ires of broadcast stations, cable systems and newspapers than are now allowed.

It also contains a provision that could change viewing habits in millions of American homes: TV makers would be required to include special electronic chips in many sets, so that parents could screen out violent programs.

The bill is an ambitious overhauling of a 61-year-old monopoly-based law that critics say hamstrings the United States' $700 billion-a-year communications sector. With competitive constraints removed and new electronic technology racing ahead, Americans can look forward to lower prices and a greater selection of services, they contend.

"We're going to break up two monopolies, one in local telephone service and the other in cable television," said chief sponsor and Commerce Committee Chairman Thomas J. Bliley Jr. (R-Va.). "Consumers are going to have greater choices, better service and they should have lower prices." Competition, not government regulation, he says, is the best way to keep prices down.

President Clinton favors more competition in the industry but contend
the bill deregulates without adeq
protecting consumers. Yesterday,
newed a threat to veto the bill.

The White House says the bill d
tle to ensure that cable and tele
monopolies would in fact be broken
would let cable rates rise out of c
the White House says, and wou
courage formation of huge medi
glomerates.

Many consumer groups also
the bill. "Congress heard the in

See TELECOMMUNICATIONS, A10,

TELECOMMUNICATIONS, From A1

voices loud and clear, but not the consumers," said Debra Berlyn, executive director of the National Association of State Utility Consumer Advocates. The bill "will result in higher telephone rates. Consumers can't afford this bill."

Whatever the effect on consumers, the bill would throw out many of the bedrock rules that govern the communications industry, some of them dating to the 1930s.

It would strip power from Harold H. Greene, a federal judge who has regulated much of the telephone industry since the 1984 breakup of the Bell Telephone System. It would transfer authority he now holds over the Bells to the Federal Communications Commission.

It also would take away from states much of their traditional power over local phone companies and cable TV operators. For example, states no longer would be able to regulate the profits of local phone companies, just the rates they charge their customers.

Lawmakers plan to meet this fall to reconcile differences between the House bill and a similar measure passed by the Senate in June before the legislation is sent to the White House.

Action on the bill began late Thursday night, then was suspended at 1 a.m. Friday after Democrats noisily complained that the measure was being rushed through "under cover of night."

In 7½ hours of action yesterday, administration officials won two key changes to the bill, in amendments sponsored by Rep. Edward J. Markey (D-Mass.).

The final vote was 305-117, meaning President Clinton would have to persuade at least 29 lawmakers to change their votes if his threatened veto is to stand. Assuming that all lawmakers vote on a motion to override a veto, Clinton would need 146 supporters.

One Markey amendment that prevailed would require television set manufacturers to install "v-chips" into every new set they make with screens larger than 13 inches. Broadcasters would be urged, but not required, to rate programs they deem too violent for children and encode them with a rating signal that the chips could read, allowing parents to block out objectionable programs.

As an alternative to the v-chip, broadcasters backed another amendment that would have merely re-

BY RAY LUSTIG—THE WASHINGTON POST

Reps. Thomas J. Bliley Jr. (R-Va.), right, Jack Fields Jr. (R-Tex.), left, and John D. Dingell (D-Mich.) at a news briefing.

quired the government to study television violence. The four major broadcast networks pledged earlier this week to spend $2 million to develop new blocking devices voluntarily, without a rating system.

House Republicans structured the votes on the competing proposals to allow lawmakers to approve Markey's plan, then knock it out of the bill by approving the broadcasters' alternative. But Markey foiled the Republican leadership and broadcasters by offering his amendment a second time as part of a procedural motion. It passed by a vote of 224-199.

"When you debate this bill in the light of day, people vote against special interests," said Greg Simon, domestic policy adviser to Vice President Gore.

Another Markey amendment, which passed by a vote of 228-195, would limit companies from owning TV stations that reach more than 35 percent of the nationwide audience. The current limit is 25 percent, while the original bill would have increased the threshold to 50 percent.

Each of the four major networks, CBS, ABC, NBC and Fox, is at or above the 25 percent threshold. The Walt Disney Co.'s recently announced buyout of Capital Cities/ABC, and Westinghouse Electric Corp.'s deal to buy CBS Inc. would increase those networks' reach. Markey said news of those mergers helped him to win his amendment restricting network reach to 35 percent.

The House defeated two other amendments favored by the administration. One, by Markey, would have retained federal controls on cable television rates. He contends that as passed, the bill would result in cable rates initially rising for most subscribers by at least $5 per month.

The administration also lost on an amendment by Rep. John Conyers Jr. (D-Mich.), which would have given the Justice Department a role in approving requests by the regional Bell companies to enter the long-distance market. Supporters of that amendment contend that with the department involved, the Bells would be less likely to engage in anti-competitive practices.

Most consumers, if they know about the bill at all, learned of it from the millions of dollars worth of advertising that has been spent as part of a battle between the regional Bell companies and the long-distance industry.

The long-distance companies contend that the Bells reached a closed-door deal with the Republican leadership that effectively would preserve the Bells' monopolies over local calling while letting them into long distance.

As debate reopened yesterday morning, lawmakers easily approved a Bliley amendment that codifies the Bells' deal.

House members also approved an amendment that addresses the issue of pornography on the Internet. Offered by Reps. Christopher Cox (R-Calif.) and Ron Wyden (D-Ore.), it would ensure that the federal government had no role in monitoring material on on-line networks. Rather it would encourage on-line service providers to take steps to block obscenity and pornography from appearing on their networks.

Civil liberties and computer rights groups supported the amendment as an alternative to a Senate-passed provision by Sen. J. James Exon (D-Neb.), which would impose criminal penalties on people who transmit obscene material.

As is usual in midsummer, the visitors' gallery was filled with tourists during the debate. But most of those interviewed knew almost nothing about the legislation that sponsors say affects consumers so directly.

Jimmy and Jackie Hodges of Paducah, Ky., watched the action with their 12-year-old son Gabe and pronounced the legislation overwhelming and confusing.

The family is a life-long customer of AT&T long-distance service, lives in a rural area with no cable TV, spends $600 a year on satellite television, and has resisted giving Gabe an e-mail address because of concerns about on-line pornography.

"In general, deregulation is good," Jimmy Hodges said. "But it's very tough for consumers to keep up with all these new changes.

"And it's going to get more complicated. You're not going to be sure who you're paying for what."

FOR MORE INFORMATION

To download a full text of the legislation, see Digital Ink, The Post's on-line service. To learn about Digital Ink, call 1-800-510-5104, ext. 9000.

WHAT THE BILL DOES

The telecommunications bill that was passed by the House would break down decades-old regulatory barriers to allow telephone companies, cable TV companies and broadcasters to compete in each other's businesses. The bill also would remove many controls on cable prices and help parents block violent television programs and pornography on on-line services. The bill would:

- **Open competition in local calling.** State laws guaranteeing the monopolies of local telephone companies would be abolished, allowing long-distance carriers, cable operators and others to offer local phone service. Competition also would emerge in the $14 billion a year market for in-state toll calls, which now is controlled by local phone companies.
- **Free the Bells.** The seven regional Bell companies would gradually be allowed to offer long-distance service. Before offering long-distance, a Bell would have to show the Federal Communications Commission that it faced competition from at least one rival that offered competing service through its own facilities and served both residential and business customers. A Bell company also would be allowed to offer alarm services and to manufacture equipment, after the FCC verifies that it faces local competition.
- **Encourage cable competition.** Phone companies would immediately be allowed to offer video programs, either over their phone lines or through separate cable TV systems.
- **Deregulate cable television prices.** Within 15 months, if the local phone company won permission to offer video programming, cable operators would be able to set their own rates for service, equipment and installation, without federal limits, for all channels other than so-called basic cable (which includes cable carriage of over-the-air shows and government and education channels). Small cable systems would be freed from rate controls immediately.
- **Let broadcasters offer new services.** Stations could use new radio frequency assignments to offer new channels of digital television service or other services such as interactive television or high-speed data transfers. If broadcasters charge fees for any new service, they would have to pay the federal government for use of the airwaves.
- **Block violent TV shows.** TV networks would voluntarily rate their shows for violence and TV set manufacturers would have to install chips in all sets that could detect the ratings and allow parents to screen out violent shows.
- **Loosen broadcast ownership limits.** Television networks could merge and networks could buy cable systems. Individual owners could own more than one TV station in a single community. Another rule barring single companies from owning stations that reach more than 25 percent of the nationwide market would be increased to 35 percent. Limits on radio station ownership would be repealed.
- **Curb pornography in on-line services.** Providers and users of interactive computer services would not be held liable for taking steps to restrict access to "obscene, lewd lascivious, filthy, excessively violent, harassing, or otherwise objectionable" material in on-line services; government may not restrict on-line content.

THE WASHINGTON POST

Clinton May Veto Phone, Cable Legislation

White House Conditions Support on Changes in Key Parts of Telecommunications Reform Bill

8/1/95

By Mike Mills
Washington Post Staff Writer

President Clinton plans to veto a elecommunications reform bill waiting action in the House unless gislators make changes that conmer groups and the long-distance lephone industry favor, adminisation officials said.

The administration today plans to lease a statement opposing the ll, on grounds that it would lead to gher cable television and telenone rates and would foster ineased concentration in the media, e officials said.

"Instead of promoting investment d competition, it promotes mergs and concentration of power. Inead of promoting open access and diversity of content and viewpoints, it would allow fewer people to control greater numbers of television, radio and newspaper outlets in every community," the veto statement says.

It is unclear how much impact the veto threat will have on the bill's prospects before the House, where action is expected Wednesday or Thursday. Many Democrats, including former Energy and Commerce Committee chairman John D. Dingell (D-Mich.), support the bill.

But the threat comes on a day when House Republicans already face discomfort in bringing the bill to the floor before the planned Aug. 4 recess. News Corp. Chairman Rupert Murdoch is scheduled to testify today before a House committee on a book deal that his publishing division, HarperCollins, made with House Speaker Newt Gingrich (R-Ga.). The bill's relaxation of limits on television station ownership would give Murdoch's company more ability to expand its holdings.

The administration singled out eight changes it wants made. Highest on the list are provisions aimed at relaxing ownership restrictions for broadcast television and radio stations.

Among them, the administration objects to one provision that would allow a single owner to acquire television stations that can reach 50 percent of the nation and another

See TELECOMMUNICATIONS, D2, Col. 4

NEWT GINGRICH
. . . book deal due scrutiny

TELECOMMUNICATIONS, From D1

that would repeal bans on one company owning a combination of newspapers, broadcasters and cable operators in the same town.

The statement also objected to allowing regional Bell telephone companies to offer long-distance service without first facing real competitors in their local service monopolies.

The administration said the Justice Department should decide whether the Bells should be allowed into long-distance, a step the bill's sponsors oppose.

The veto statement also said the bill would prematurely deregulate cable television rates in most areas, before cable operators face true competition.

It also cited provisions allowing phone companies to buy out local cable companies in rural areas.

The statement has been eagerly anticipated by such groups as the Consumer Federation of America, Consumers Union and the Competitive Long-Distance Coalition, each of which have had little success in swaying lawmakers toward their view that the House bill is irresponsibly deregulatory.

"This is welcome news for consumers," said Gene Kimmelman, co-director of the Consumers Union's Washington office. "It means the administration stands squarely behind keeping cable rates and telephone rates down and supporting competition in the marketplace."

ART BUCHWALD

Post 8/15/95

The Lonely Antitrust Repairman

With all the giant mergers going on and no one protesting, I think of the lawyer in the antitrust division of the Justice Department as the Maytag man. He keeps sitting by the telephone, but it never rings. He has absolutely nothing to do but cut out paper dolls.

I felt sorry for him, so I went to visit him the other day. He was in his bare office with his feet on the desk. He was tossing rolled-up pieces of paper into a small basketball hoop attached to his wastebasket.

"I'm sorry to bother you," I said.

"You're not disturbing me," he said. "No one ever comes here anymore. It's nice to see a friendly face."

"Tell me what the antitrust department is supposed to do."

"My job is to make sure giant corporations do not have a monopoly on any major American industry. I have to protect competition, so the consumer is not at the mercy of avaricious Wall Street manipulators who will try to corner the market and control prices once they are in charge."

"That sounds like a very important job."

"It would be if the phone ever rang. Every time there is a merger, the giants who make it insist it will create employment, lower prices and allow American companies to compete with Japan."

"Then what?"

"As soon as the paper is signed, they fire half the workers, raise the price on their products and have everything they once made here manufactured in China."

"Why don't you call them on it?"

"I can't. My phone isn't plugged into the wall. Congress passed a law that I am not to interfere with any merger that has been proposed by lobbyists who donate more than $25,000 to a political campaign. That's why the phone never rings."

"I guess for all intents and purposes, your job isn't worth a bowl of clam chowder. Why do they even have an antitrust department at all?"

"It looks good to have one because it makes the people think they are being protected from the money men who want to own America. This month it's been the entertainment conglomerates that want to take over all the facets of the industry—tomorrow it will be the phone companies, and the month after that the computer giants will make a stab to have it all. It's to their advantage to have an antitrust division so they can say we didn't object to their becoming a monopoly."

I said: "This has been very helpful. I am no longer fearful that the cable people will raise my rates or the movie companies will force their own junk films down my throat in the theaters they own, or the TV networks will show garbage they produced on their own networks."

"Why do you think that?"

"Because I know you're here."

Phone Legislation Unleashes Lobbyists and More

8/3/95 By David Segal
Washington Post Staff Writer

As a historic telecommunications bill heads for a vote in the House of Representatives, legislators are being blitzed by one of the noisier and more innovative lobbying campaigns in memory. It has cost millions of dollars, brought thousands of amateur lobbyists to Capitol Hill and made a star of a labrador retriever.

The drive was launched two weeks ago by the nation's long-distance industry, after the House leadership took the unusual step of altering a committee-passed version of the bill, H.R. 1555, to make it friendlier to the industry's chief rival, the seven regional Bell telephone companies.

The long-distance companies, who want the bill defeated or changed, face an uphill battle. The Bells, who rank among the most powerful corporate forces in Congress, have the support of key Republican leaders and are spending heavily on ads to defend the change in the bill, for which they had lobbied.

The anti-regulatory stance of House Speaker Newt Gingrich (R-Ga.) is in sync with the Bells' agenda. Two weeks ago Gingrich attended a Republican fundraiser at the home of Philip Quigley, chairman of Bell company Pacific Telesis Group. Gingrich also has a family tie to the Bell camp, long-distance lobbyists point out—last fall his daughter went to work as a manager at BellSouth's cellular phone division.

Marlin Fitzwater, former press secretary to President Bush and now in charge of the long-distance firms' effort, concedes that his side is likely to lose the House vote. But he says his side's campaign will rally support for a veto that President Clinton has promised.

The fight revolves around language in the bill that is supposed to open to competition the Bells' local calling markets, traditionally a monopoly, in

See LOBBY, A7, Col. 1

LOBBY, From A1

return for letting the Bells into the long-distance business. The long-distance industry says the wording is a sham, and that it would allow the Bells to keep their monopolies while invading the long-distance market. The Bells say the old wording would have kept them out of the long-distance market.

Since the issues are highly technical, at times the campaigns have relied on gimmickry. The long-distance companies sent Monopoly board games to Congress. The Bells countered by sending orange traffic cones to the Hill, their way of saying that the long-distance carriers were creating a detour on the information superhighway.

And there is Godiva, the brown canine who stares incredulously from a diner in a television commercial for the Competitive Long Distance Coalition (CLDC), the lobbying arm of the long-distance companies. It is running the ad several times a day on 100 television stations in the nation's 20 largest markets.

Long-distance companies have bused hundreds of employees wearing company T-shirts to Capitol Hill to get the word out. AT&T Corp. Chairman Robert Allen came to Washington to address a pep rally of his temporary lobbyists at Constitution Hall.

And both sides have spent lavishly on two- and three-page print ads, in an outpouring of public relations dollars not seen since the fictional American couple Harry and Louise were household names in the debate over health care reform. Marc Rosenberg, a Washington Post advertising executive, said that the two sides purchased a total of 14 pages in the first three days of this week, each page costing more than $40,000.

The CLDC has spent something close to $10 million on advertising about H.R. 1555—first to support it, then after last month's changes in the bill, to oppose it, according to Fitzwater, who is spearheading the CLDC efforts. That is a lot of money considering that to sustain the promised veto, Fitzwater needs to win the hearts and minds of just 146 of the 435 lawmakers. So far, that works out to more than $68,000 for each vote.

"Campaigns like these have effects in lots of interesting ways," said Fitzwater. "It gets members and staff to look hard at the issue, and it often gets people to register their concern with their congressman."

On this, the two sides agree.

"I don't think anyone believes that a particular congressman is going to change his or her vote because of an advertisement," said Robert Stewart of San Francisco-based Pacific Telesis, the man leading the Bells' counter-campaign. "The point is to create a backdrop where you start to paint the broad outlines of the message for the opinion leaders in Washington."

Maryland Rep. Constance Morella (R), who said she isn't sure how she'll vote, says they might have saved their money for something else. "It only works in that it makes sure we focus on the bill, but it's not convincing . . . I just wish we could spend that kind of money on something like education, or abuse against women."

Morella is just one of many in Congress who say they have been swamped by mail encouraged by Fitzwater's group, which has set up a phone system to agitate against H.R. 1555. Callers can dial a toll-free number and an operator at Western Union takes down their names and addresses and does the rest.

The system has showered Capitol Hill with thousands of orange telegrams, but has had some misfires.

Missy Hudson, for instance, found out recently that she was trying to lobby herself. A staffer in the home office of Democratic Rep. Tom Bevill of Alabama, Hudson's name appeared on a telegram addressed to her boss, stating that she wanted fair and real competition in the telecommunications industry.

Just one problem, said Hudson: She had nothing to do with the telegram, which was generated by Fitzwater's lobbying operation. "They called and said they'd find out how it happened," said Hudson, "and they apologized."

Maxine Grant, a staff member for Rep. Matthew G. Martinez (D-Calif.), said his office received so many hundreds of nearly identical telegrams that he asked his staff to contact some of those who sent the mail. In calling a random sampling of about 60 names, Grant said, they found that none of the people remembered that they had sent such telegrams.

Fitzwater said he had not heard of such incidents.

The Bells are taking a different tack by inviting businesses and associations to co-sign newspaper ads. Post-Newsweek Cable, a division of The Washington Post Co., is among the co-signers.

Staff writer Mike Mills contributed to this report.

SUPPORT FOR H.R. 1555 KEEPS ON GROWING...

An Open Letter to the United States House of Representatives

The nation's current communications policies restrain competition, discourage technological innovation and stifle economic growth and job creation – all to the disadvantage of American consumers.

... must be changed. It's time

An Open Letter to the United States House of Representatives

The nation's current communications policies restrain competition, discourage technological innovation and stifle economic growth and job creation – all to the disadvantage of American consumers.

These outdated policies must be changed. It's time to free markets and encourage new technologies for the 21st Century.

The **Coalition for Communications Reform Now!** urges the House of Representatives to act now to pass H.R. 1555, The Communications Act of 1995.

COALITION FOR

The Coalition for Communications
Now! urges the House of Representatives to act now to pass H.R. 1555, The Communications Act of 1995.

COALITION FOR COMMUNICATIONS REFORM NOW!

- Access 2000
- AirTouch Communications
- Alliance for Competitive Communications
- American Legislative Exchange Council (ALEC)
- Ameritech
- Bell Atlantic
- BellSouth
- Cablevision Industries
- Cablevision Systems Corp.
- Caucus for Writers, Producers, and Directors
- CBS Inc.
- Citizens for a Sound Economy
- Comcast Corp.
- Cox Enterprises, Inc.
- Edison Electric Institute
- Fox Broadcasting Co.
- GTE
- Motion Picture Association of America
- National Cable Television Association
- National Newspaper Association
- NBC
- Newspaper Association of America
- NYNEX
- Pacific Telesis Group
- Post-Newsweek Cable
- Producers Guild of America
- SBC Communications Inc.
- Southern Company
- Tele-Communications, Inc.
- Time Warner Inc.
- Turner Broadcasting Systems, Inc.
- United States Telephone Association
- U.S. Cable Corp.
- U S WEST
- Utilities Telecommunications Council
- Viacom Inc.
- World Institute on Disability

...AND GROWING!

- AMBOX INC
- Access to Independence
- Acme Petroleum and Fuel Co.
- Adelphia Communications Corp.
- Advanced Electronic Applications, Inc.
- Advanced Integrated Technology, Inc.
- Allied Medical Consultants, Inc.
- Ampro Corporation
- Arise, Inc.
- Armstrong World Industries
- Associated Tax Service, Inc.
- Baruch Defense Marketing, Inc.
- Bessemer City, NC Area Chamber of Commerce
- Bittle & Noye Associates
- Black Data Processing Associates
- Blind San Franciscans, Inc.
- Booth American Co.
- Bren Norris Associates, Inc.
- Bresnan Communications Co.
- Bridgestone/Firestone, Inc.
- BroadBand Technologies, Inc.
- Bureau of Wholesale Sales Representatives
- Capital Creation Company
- HASL's Independent Abilities Center
- Heightened Independence & Progress
- Helix Limited
- Home Builders Association of New Hampshire
- Home Health Care of Mount Vernon, New York
- H.O.P.E.
- Human Relations Commission of Freeport, New York
- Industrial Construction and Maintenance, Inc.
- Inovonics, Inc.
- Insight Communications
- Integrated Network Corp.
- InterMedia Partners
- International Franchise Association (IFA)
- International Home Furnishings Representatives Association
- John Brom Agency
- JW7 Concepts, Inc.
- K.E. Enterprises, Inc.
- Keltronics Corporation
- Kentucky Association of the Deaf
- Key-Four Inc.
- National Multiple Sclerosis Society, Michigan Chapter
- National Women's Conference Committee
- Nationwide Insurance, Reidsville, NC
- Nebraska Association of the Deaf
- Nebraska Senior Citizens Council
- New Hampshire Association of the Deaf
- Newington Senior and Disabled Center
- New Jersey Association of the Deaf, Inc.
- New Mexico Association of the Deaf
- North Dakota Association of the Deaf
- Oklahoma Association of the Deaf
- Ontario Pipe Supply, Inc.
- Organization for Consumer Justice
- Pacific West Enterprises
- Phoenix Staffing & Consulting
- Poteat, Inc.
- Printing Industries of America
- Raytel Inc./Metal Flex Hosing Inc.
- Reidsville, NC Chamber of Commerce
- Restor Industries, Inc.
- RPM Pizza, Inc.
- Satellite Broadcasting and Communications Association

...AND GROWING!

- AMBOX INC
- Access to Independence
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- Adelphia Communications Corp.
- Advanced Electronic Applications, Inc.
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- Booth American Co.
- Bren Norris Associates, Inc.
- Bresnan Communications Co.
- Bridgestone/Firestone, Inc.
- BroadBand Technologies, Inc.
- Bureau of Wholesale Sales Representatives
- Capital Creation Company
- Carolina Sound Communications, Inc.
- Central and South West Corp.
- Chase Advanced Technologies, Inc.
- Cherryville, NC Chamber of Commerce
- Chrysler Minority Dealers Association
- Coalition of Citizens with Disabilities in Illinois
- Connecticut Association of the Deaf
- Conrad Grundlehner, Inc.
- Consortium for Citizens with Disabilities Task Force on Communications Access
- CorporateCom
- CTE, Inc.
- Curative Rehabilitation Center
- Deion Associates & Strategies, Inc.
- DeYoung Manufacturing, Inc.
- Dimco-Gray Company
- HASL's Independent Abilities Center
- Heightened Independence & Progress
- Helix Limited
- Home Builders Association of New Hampshire
- Home Health Care of Mount Vernon, New York
- H.O.P.E.
- Human Relations Commission of Freeport, New York
- Industrial Construction and Maintenance, Inc.
- Inovonics, Inc.
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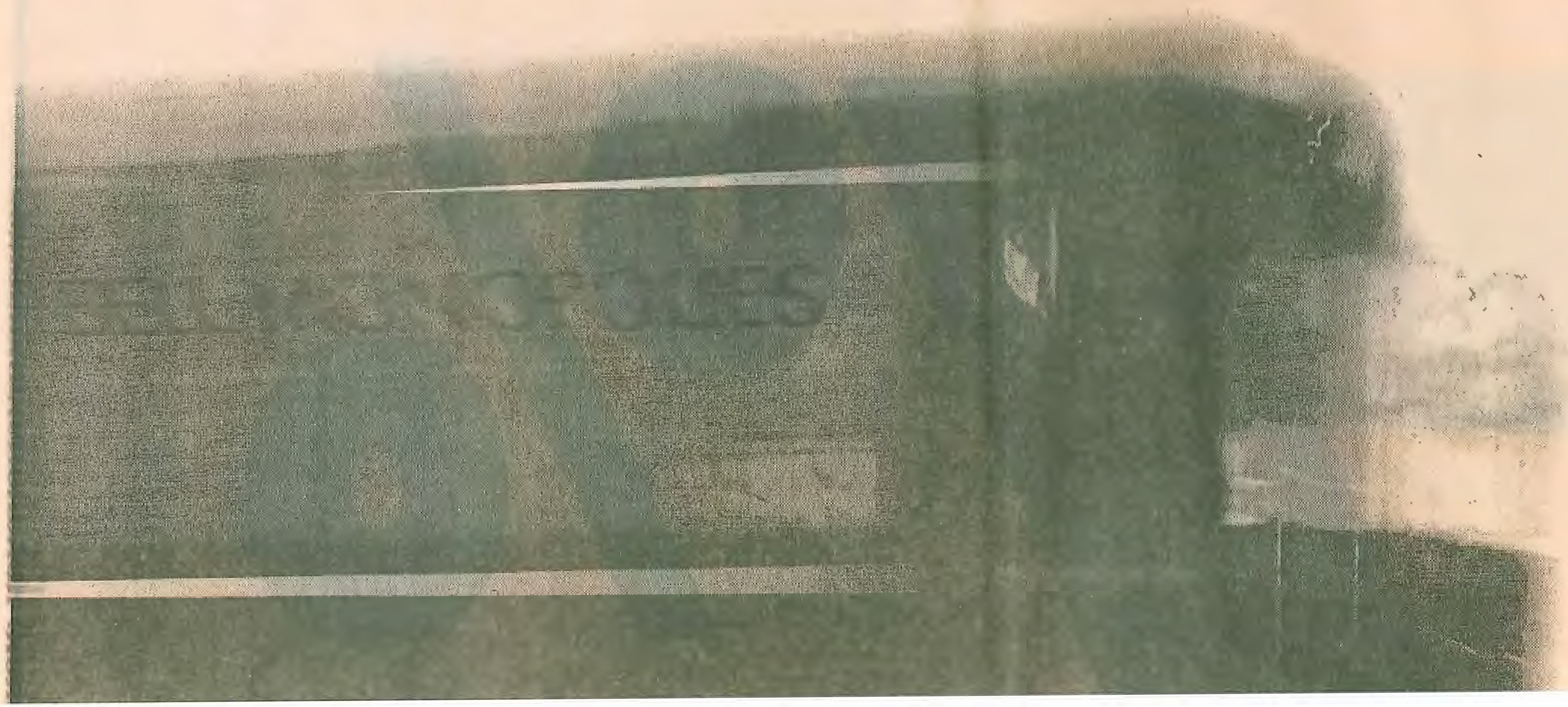
- John Brom Agency
- JW7 Concepts, Inc.
- K.E. Enterprises, Inc.
- Keltronics Corporation
- Kentucky Association of the Deaf
- Key-Four Inc.
- KHD Services, Inc.
- Klein Tools, Inc.
- Latin American Women and Supporters
- League of United Latin American Citizens (LULAC)
- Lenfest Group
- Link, Inc.
- Long Island Center for Independent Living
- Lynn, MA Independent Living Center
- Marcus Communications
- Maryland Association of the Deaf
- Minnesota Association of Deaf Citizens
- Missouri Association of the Deaf
- Mobile Community Action, Inc.
- Montana Association of the Deaf
- Morse-Starrett Products Company
- Mountain Lakes Resort, Inc.
- National Multiple Sclerosis Society, Michigan Chapter
- National Women's Conference Committee
- Nationwide Insurance, Reidsville, NC
- Nebraska Association of the Deaf
- Nebraska Senior Citizens Council
- New Hampshire Association of the Deaf
- Newington Senior and Disabled Center
- New Jersey Association of the Deaf, Inc.
- New Mexico Association of the Deaf
- North Dakota Association of the Deaf
- Oklahoma Association of the Deaf
- Ontario Pipe Supply, Inc.
- Organization for Consumer Justice
- Pacific West Enterprises
- Phoenix Staffing & Consulting
- Poteat, Inc.
- Printing Industries of America
- Raytel Inc./Metal Flex Hosing Inc.
- Reidsville, NC Chamber of Commerce
- Restor Industries, Inc.
- RPM Pizza, Inc.
- Satellite Broadcasting and Communications Association
- Self Help for Hard of Hearing People
- Self Initiated Living Options (SILO)
- SENIORS! Inc.
- SER-National Jobs for Progress
- Service Telephone and Equipment
- Sinders Enterprises
- Society of American Florists
- Southern Machinery Repair, Inc.
- Standard Distributors, Inc.
- Stanfield Elementary School District
- Stella Black Real Property Consultants, Inc.
- Summit Independent Living Center
- Sunflower Travel Corporation
- Sungro Chemicals, Inc.
- Tamaqua Cable Products Corp.

- Conrad Grundlehner, Inc.
- Consortium for Citizens with Disabilities Task Force on Communications Access
- CorporateCom
- CTE, Inc.
- Curative Rehabilitation Center
- Deion Associates & Strategies, Inc.
- DeYoung Manufacturing, Inc.
- Dimco-Gray Company
- Disabled Resources Center
- Drivers Unlimited of Rochester, Inc.
- Elbert Bradshaw Enterprises, Inc.
- Elcotel, Inc.
- Empire State Association of the Deaf
- Escuela de la Raza Unida
- Executive Resources Ltd.
- Fitzpatrick & Associates
- Fort Wayne Mold & Engineering, Inc.
- FTD Association
- Gastonia, NC Chamber of Commerce
- General Converters & Assemblers
- G.P. Simpson Lumber, Inc.
- GranCare, Inc.
- Gray Panthers
- Green & Associates, Inc.
- H.A. King & Associates, Inc.
- Lynn, MA Independent Living Center
- Marcus Communications
- Maryland Association of the Deaf
- Minnesota Association of Deaf Citizens
- Missouri Association of the Deaf
- Mobile Community Action, Inc.
- Montana Association of the Deaf
- Morse-Starrett Products Company
- Mountain Lakes Resort, Inc.
- MRB Media Services, Inc.
- MTE Corporation
- National African-American Consumer Education Council
- National Association of Commissions for Women
- National Association of Minority Automobile Dealers
- National Association of the Deaf
- National Coalition for Homeless Veterans
- National Council of Hispanic Women
- National Council of Silver Haired Legislators
- National Hispanic Caucus of State
- National Hispanic Council on Aging Legislators
- National Latino Telecommunications Task Force
- Standard Distributors, Inc.
- Stanfield Elementary School District
- Stella Black Real Property Consultants, Inc.
- Summit Independent Living Center
- Sunflower Travel Corporation
- Sungro Chemicals, Inc.
- Tamaqua Cable Products Corp.
- TAWI
- Technical Management, Inc.
- Technology Service Group, Inc.
- Telecommunications for the Deaf
- The Communications Department, Inc.
- Triax Communications Corp.
- Tri-County Independent Living Center, Inc.
- United Homeowners Association
- Vermont Association of the Deaf
- Virginia Association of the Deaf
- Virginia Public Interest Coalition
- Wall Street Services, Inc.
- Western and English Sales Association
- West Virginia Association of the Deaf, Inc.
- XTP Forum
- Zip Feed Mills, Inc.

Pass H.R. 1555 Now.

COALITION FOR COMMUNICATIONS REFORM NOW!

THERE'S A TRAIN

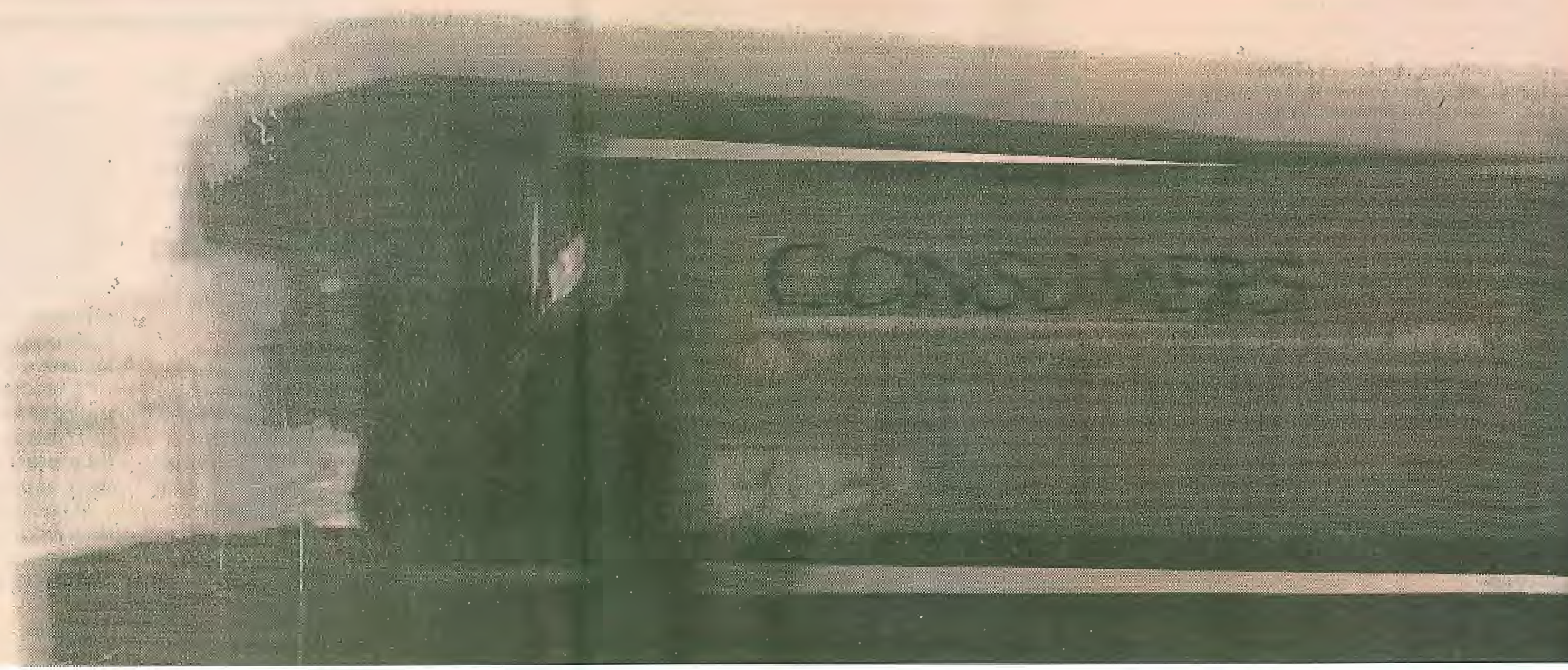


H.R. 1555 IS BEING RAMMED THROUGH CONGRESS THIS WEEK.

The Competitive Long Distance Coalition

CompTel · AT&T · MCI · Sprint · ACTA

WRECK COMING.



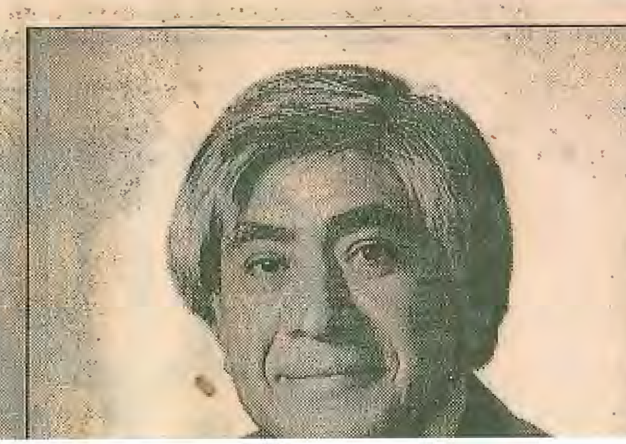
THOUSANDS WILL BE PUT OUT OF WORK AND CONSUMERS ARE THE VICTIMS.

The Competitive Long Distance Coalition

CompTel AT&T WorldCom MCI Sprint tra ACTA

THE VICTIMS. REAL PEOPLE.

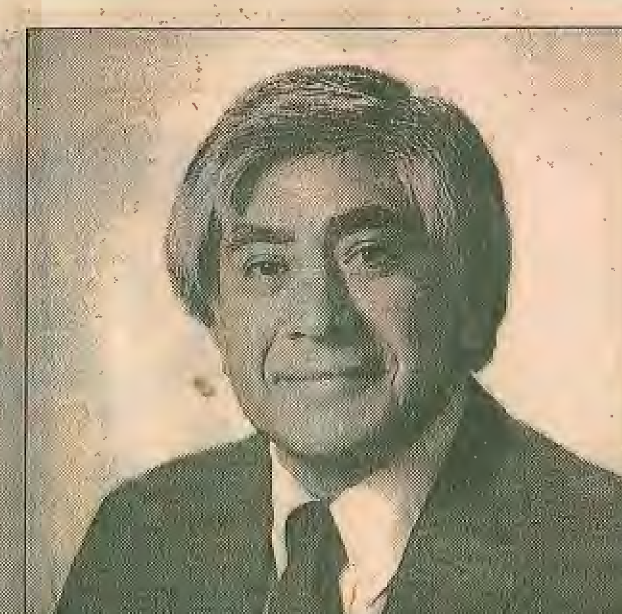
FOR TELEPHONE CONSUMERS H.R. 1555 IS A TRUE DISASTER.



REAL PEOPLE.

FOR TELEPHONE CONSUMERS H.R. 1555 IS A TRUE DISASTER.

Kathy Haycock, long distance entrepreneur
Founder & President, Call-America
Mesa, Arizona



Julian Camacho, long distance entrepreneur
Co-founder & CEO, Camco Communications
Sacramento, California

Kim Harwell, long distance entrepreneur
Founder, CEO, Telenet Communications
Detroit, Michigan

Larry Sisler, long distance entrepreneur
Founder, CEO, ProCom, Inc.
Bruceton Mills, West Virginia

H.R. 1555 is a true disaster for entrepreneurs like these too.

Because letting the giant Bell monopolies into the long distance business without first giving up their monopoly power could drive small business people like Kathy Haycock, Julian Camacho, Kim Harwell and Larry Sisler out of business.

And drive rates through the roof.

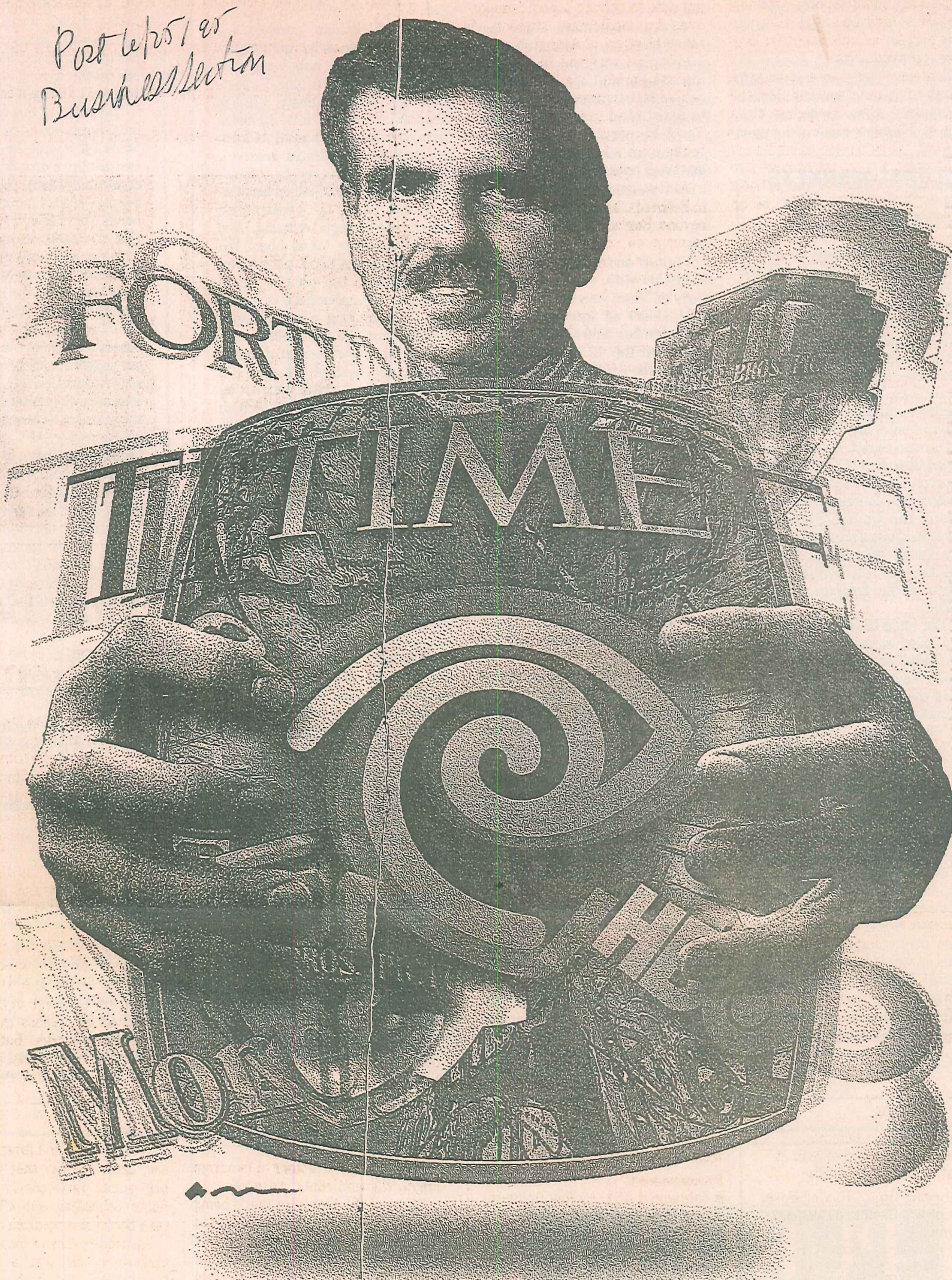
To make sure this doesn't happen, call your member of Congress and urge a "no" vote on H.R. 1555.

And keep a real disaster from happening.

The Competitive Long Distance Coalition

CompTel AT&T LDDS WorldCom MCI Sprint tra ACTA

Post 6/25/95
Business Section



BY RANDY MAYS FOR THE WASHINGTON POST

Getting a Grip on Debt

Time Warner Owes $18.5 Billion, but to Jerry Levin, That May Not Be Bad

By Paul Farhi
Washington Post Staff Writer

If Senate Majority Leader Robert J. Dole were the only problem facing Time Warner Inc. these days, the company's intense chairman, Gerald Levin, would be one happy-go-lucky fellow.

It's not that Dole's charge—that Time Warner's rap music recordings and movies are "nightmares of depravity" that debase America's children—didn't resound inside Time Warner's Rockefeller Center headquarters. It's just that Jerry Levin has bigger problems right now.

Nearly six years after engineering the creation of the world's largest media-entertainment company, Levin, 56, is still mopping up the debris. Time Warner now owes more money—$18.5 billion and counting—than it did when Levin and the late Steven J. Ross of Warner Communications Inc. engineered the merger of Time Inc. and Warner.

The debt hangs over Time Warner and Levin like a thundercloud.

Levin has promised to sell off assets, but has done so only in dribs and drabs. With so many IOUs to pay, many executives, including some within Time Warner, have questioned whether the company will be able to finance Levin's vision: transforming Time Warner's many cable TV systems into the "full-service" telecommunications conduits of the 21st century.

"Someone's got to fix the balance sheet and make the tough decisions," one person intimate with the company said last week. "I've concluded that Jerry Levin doesn't have the discipline or stomach to do it."

And yet . . .

And yet, there also is a contrarian view emerging that time may actually be on Time Warner's side. For this newfound optimism, Levin (pronounced leh-VIN) can thank . . . Bob Dole.

After a long stall, Time Warner's stock has lately been percolating, rising about 23 per-

See TIME WARNER, H4, Col. 1

TIME WARNER, From H1

cent, to $43 per share, in the past two months. While some of this gain is attributable to the torrid box office performance of Time Warner's newly released "Batman Forever," much of it can be traced directly to Washington.

With Dole's leadership, the Senate this month passed a comprehensive telecommunications bill that arguably benefits Time Warner as much as any company. Among its many provisions, the bill would dump most of the federal price regulations that for the past two years have restrained cable companies (such as Time Warner) from raising customers' monthly rates. It also allows cable operators to offer local telephone service (and phone companies to offer cable service). The House will consider a similar bill next month.

It doesn't take a Wall Street genius to recognize how these twin features offer possible cures for Levin's headaches.

First, the bill opens up a huge window of opportunity for Time Warner and other large cable companies such as Tele-Communications Inc. (TCI) in the phone business. Most analysts believe cable companies can begin offering phone service through their wires faster than telephone companies can offer video through theirs.

And while the regional phone companies such as Bell Atlantic Corp. have deep pockets and staying power, it's clear the telephone companies have far more to lose in this fight than the cable operators: Local phone service generates $95 billion in annual revenue while cable TV is only a $24 billion-a-year business.

Second, some observers think Congress may be providing Time Warner with a way out of its debt troubles. With cable rates largely deregulated, Time Warner would be free to ask its 11.3 million cable customers to pay more each month—perhaps much more.

Several Wall Street analysts have predicted that Time Warner will see double-digit growth in its cable revenue next year, a figure that chief financial officer Richard Bressler, in an interview, doesn't dispute.

Another Time Warner executive, who asked not to be identified, said deregulation would help Time Warner among lenders who may be concerned that the company is too leveraged and too regulated. "We could get a lot done just by not having Reed Hundt in the room," said this executive, referring to the chairman of the Federal Communications Commission, who spearheaded a round of cable price cutbacks last year.

Additional revenue, of course, would help pare the company's debt, and additional borrowing capability would permit it to finance the rewiring of Time Warner's cable systems—a job Bressler estimates will cost about $850 per customer, or roughly $9.6 billion, to complete over the next decade.

"Jerry pursued a strategy that was not very popular [with investors] because it implied a huge capital commitment, and no one understood how they were going to pay for it," said John Reidy, who follows Time Warner's stock for Smith Barney Inc. "Now that strategy looks much more executable. The Street is saying, 'Someday this is going to happen.' "

A top executive of a rival media-entertainment company, usually no fan of Levin's, is even more sanguine: "Jerry's going to look like a real hero. Deregulation is going to make that stock roar."

Whatever Bob Dole may think of

See TIME WARNER, H5, Col. 1

TIME WARNER'S WORLD

A look at some of the entertainment giant's most successful offerings of 1994.

Brad Pitt with Kirste Dunst in "

TOP RECORDING ARTISTS

- 3 Tenors
- Eric Clapton
- Stone Temple Pilots
- Green Day
- R.E.M.

TOP FIVE BESTSELLERS

- "Celestine Prophecy"
- "Pleading Guilty"
- "Slow Waltz in Cedar Bend"
- "Where There's Smoke"
- "Hidden Fires"

Alternative rock band Stone Temple Pilots

MOVIE MONEYMAKERS, IN MILLIONS

- "Interview With the Vampire" ($105.2)
- "Maverick" ($101.6)
- "The Client" ($92.1)
- "Disclosure" ($83)
- "Ace Ventura" ($72.2)

BEST-SELLING MAGAZINES

- Time
- People
- Sports Illustrated
- Fortune
- Entertainment Weekly

SOURCES: Time Warner, Warner Bros., Warner Books

BY TRACIE TSO—THE WASHINGTON POST

For Levin, Buyout Threat Decreases as Debt Increases

TIME WARNER, From H4

Time Warner's products, no one disputes that the company produces some of the most successful "software" in the business. Time Warner owns the leading movie and TV studio (Warner Bros.), the leading magazine publishing house (Time, Sports Illustrated, People, etc.), the top pay-TV service (HBO) and the foremost record labels (Warner, Elektra, Atlantic). It is also closing in on TCI as the leading owner of cable TV systems, thanks to two recent acquisitions.

In fact, except for the cable division, the operating results of the other four "software" divisions were at record levels during the first quarter, providing more than enough cash flow to cover the company's IOUs. This performance is all the more remarkable considering that Time Warner's top management has often resembled a fractious extended family—the legacy of a merger between Warner's free-wheeling executive group and Time Inc.'s button-down cadre.

Showing Fire

Levin, who declined to be interviewed, was once labeled Time Inc.'s "resident genius." To be sure, it was a somewhat backhanded compliment that reflected his formidable intellect but pooh-poohed his abilities as an operator and manager. As chief executive—a position he gained when he and Ross maneuvered to push out Time's Nicholas J. Nicholas—Levin has shown more fire. In recent months, he has ousted executives who ran the company's Six Flags amusement parks, its new technology sector and its music and records division.

Last week, there were more flashes of turmoil inside Time Warner. Doug Morris, Time Warner's top domestic record executive, was fired by his boss, Michael Fuchs, the chairman of both Warner Music Group and HBO. Morris thus became the fourth top executive in the music group to walk out, or be pushed out, in the past 11 months.

Fuchs, a Levin protégé who began overseeing the music division in April, denied that the firing was related to Morris's staunch support of several controversial rap artists. Rather, he said he and Morris had disagreed on management strategy.

Company insiders say Morris's departure is significant to the $4 billion-a-year division—Time Warner's most profitable—primarily because of his close ties to the chiefs of Time Warner's three main labels. If they followed their former boss out the door, it could start a domino effect on an artist roster that includes Green Day, Eric Clapton, Hootie & the Blowfish and Madonna.

To prevent that, the company by week's end was said to be in negotiations to bring back Mo Ostin, the popular former chairman of Warner Bros. Records who resigned from the company last fall after a long-running power struggle with Fuchs's predecessor, Robert Morgado, himself cashiered by Levin.

The highly public contretemps has had no discernible impact so far on the steady uptick in Time Warner's stock. And that may be crucial to Levin. The recent buoyancy appears to strengthen his hand in dealing with two other core problems at Time Warner: restructuring the company and protecting it from a takeover.

Levin and Time Warner President Richard Parsons are angling to undo a series of "strategic alliances" he and Ross initiated—with US West Inc., Toshiba Corp. and Itochu Corp.—before Ross's death from cancer in late 1992.

Those deals brought Time Warner about $3.5 billion in additional cash, but they complicated the company's ownership and capital structure so much that Levin believes would-be investors have shied away from the stock. The company and its three strategic partners own something called Time Warner Entertainment, a limited partnership that holds Time Warner's film operations, HBO and the cable systems. The arrangement is so complex that even CS First Boston analyst Laura Martin isn't sure how much of it Time Warner actually owns.

Levin has said he wants to reorganize the company into separate "content" and "telecommunications" halves. Theoretically, a rising stock gives him more valuable currency to negotiate with. But unknotting Time Warner Entertainment is easier said than done: It's not clear which piece of Time Warner's pie each of its partners wants, and how much of it they might accept in exchange for unraveling the partnership.

Enter Edgar Bronfman

And then, there is Edgar Bronfman Jr. to consider. The company that Bronfman runs, liquor giant Seagram Co., holds 14.9 percent of Time Warner's stock. Bronfman has not indicated what he wants to do with his Time Warner shares since buying 80 percent of another entertainment-media conglomerate, MCA Inc. "We're examining all our options," said a Seagram's spokesman, who added that Bronfman "has said he could sell [the shares] tomorrow."

The question is, to whom? Although Time Warner has an anti-takeover "poison pill" that kicks in once any investor accumulates more than 15 percent of its stock, that would not stop Bronfman from selling to, or allying with, a group of dissident shareholders who collectively might seek control of the company. One Wall Street fund manager says he is bullish on Time Warner in part because of the takeover possibilities.

People inside the company say they no longer take this seriously. A deal involving a buyout of all of Time Warner's 400 million shares, plus the assumption of its debts, would be valued at more than $40 billion—a price virtually no one can afford.

And much to Jerry Levin's great relief and satisfaction, his company appears to be getting more expensive every day.