Meagher & Flom, New York.

Murphy said he made his first approach to Goldenson early last December when it became evident the FCC would adopt its final version of the rule raising multiple station ownership limits from seven per service to 12.

The first bid made by Murphy was $90 per share, according to some present at negotiations, but that was unacceptable to Goldenson.

Murphy unsuccessfuly tried to get some assurance that Capcities would emerge with at least one piece of ABC, perhaps a television station, if the initial bid were surpassed by a third party, or the deal ran into regulatory problems. Taft has such a "lock-up" in its pending deal with Gulf Broadcasting—an option to purchase KTSP-TV Phoenix.

Another point of dispute was how much "action" ABC shareholders would have in the new company. Murphy was trying to keep the issuance of new stock and warrants to a minimum. Theoretically, the number of warrants settled on would create 2.9 million shares, or 15% of the CCC/ABC stock.

The more intense negotiations took place in the 10 days preceding last Monday's (March 18) announcement. Besides Goldenson and Pierce, only two others at ABC reportedly knew what was going on: Michael P. Mallardi, executive vice president and chief financial officer, and Everett H. Erlick, executive vice president and general counsel. Burke said the same number were at the table for Capcities, with Joseph P. Dougherty, executive vice president and president of the broadcasting division, and Ronald Doerfler, senior vice president and chief financial officer, accompanying Murphy and Burke.

On Friday, March 15, "We finally knew we had a deal," said one of those present at the negotiations. Goldenson and Murphy began to worry about the implications and the board meetings. The lawyers and investment bankers worked during the weekend on the final agreement. Helping Capcities in the negotiations were Buffett and the law firm of Wachtell, Lipton, Rosen & Katz.

Burke agreed with a suggestion that Murphy's visits to the ABC building may have started rumors just before the weekend. Even before then, there were several high volume trading days and a steady rise in the stock price of ABC in comparison to the other two network-parent companies.

Burke said the first time that other Capcities executives found out about the deal was on Friday, after the stock exchange had closed. "There was still a chance of some activity on the West Coast, but these were senior officials." At ABC, the word did not spread until Sunday, when some broadcast group executives were flown in from the West Coast for a briefing.

Murphy first called together the Capcities' directors on Sunday night, St. Patrick's Day, at company headquarters at Madison Avenue and 51st Street in New York (coincidentally, opposite St. Patrick's cathedral). According to Burke, the directors spent four hours reviewing the deal. The vote, however, was not taken until another two-hour meeting that started at nine the next morning. After the acquisition was approved, the directors waited for their counterparts at ABC to finish.

One of those present at the ABC board meeting said that contracts and contract summaries were first distributed to the directors on Friday after the close of the exchange. Not all the directors could attend, so some of them participated via a conference call during the three hours the deal was discussed. A vote was taken, first by the outside directors, ostensibly because they had less to gain by the rejection or approval of the proposal. Then a combined vote was taken.

At 12:30 p.m., the board members of Capcities left the company's offices and walked to ABC headquarters four blocks away to shake hands on the deal.

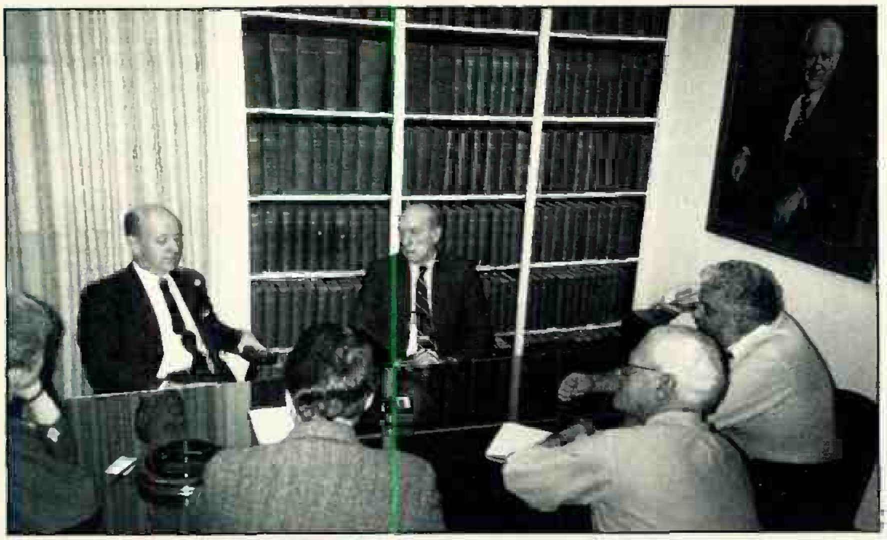
In the many interviews that Murphy and Burke gave in the days that followed, they said there were no immediate plans for major changes in the way ABC does business. Officials at ABC were trying to present it as a merger. "As a merger goes, this is as good as can be," Pierce told BROADCASTING.

The offer being made by Capcities is simple: $118 cash out of a minimum $121 to each ABC shareholder. The $3 extra is the price Capcities would pay to buy back each one-tenth warrant, following approval.

Those warrants allow their holder to purchase shares in CCC/ABC for $250 at any time during two-and-a-half years following the merger. Because shares of Capcities already were selling for over $200 at the close of last week, there is a good chance the market in those warrants will price them higher than $3.

Another financially relevant footnote: If the deal is delayed beyond Jan. 6, 1986, the purchase price per share will increase at least 6% (minus dividends), and perhaps more.

Yet another feature of the package encouraging current shareholders to sit out the deal is the right of ABC to purchase up to $1.1 billion in stock—about a third of the outstanding shares—at current prices. Any



On the record in Washington

"We hope two plus two equals five." That's how Tom Murphy, quoting Leonard Goldenson, described the synergy he thinks will result from the merger of his Capital Cities Communications with Goldenson's ABC Inc. The two chief executives stopped by BROADCASTING's DeSales Street headquarters in Washington last Tuesday morning, between visits to the FCC and Capitol Hill.

Murphy said the combination of people and assets each company will bring to the deal will position the new entity "ideally equipped to handle challenges of the future. Think of what happened in the last 25 years, and just imagine what might happen in the next 25."

What would they do about divesting properties beyond present FCC limits or rules? Neither was prepared to say, although Murphy did admit to having "a perfect scenario or dream." It appeared that holding on to Capcities' present cable holdings and its Philadelphia TV station (which presents a slight overlap to ABC's WABC-TV New York) were parts of that dream.

Goldenson, explaining his rationale for the merger, noted that "I started this thing [ABC] from a bankrupt corporation and built it into a very competitive force. I want to see that it's carried on and I think the managements of Capcities and ABC put together will see to it that this management of ABC will be carried on in the tradition in which it was built, and that to me is the greatest thing, as far as I'm concerned."

Goldenson denied that any threat of an unfriendly takeover had figured in his decision to sell, and Murphy denied any role as a "white knight" (a friendly company that steps in to protect another company threatened by takeover). Specifically, the takeover maneuvers of Turner Broadcasting's Ted Turner were never taken seriously, Goldenson said. Rather, the FCC's lifting its multiple ownership limits was the trigger, both he and Murphy agreed.

Pictured (clockwise from left): Patti Matson, ABC vice president for corporate communications; Murphy; Goldenson; BROADCASTING publisher Larry Taishoff; Edwin H. James, senior editorial consultant, and Don West, managing editor. The portrait is of BROADCASTING founder Sol Taishoff.