A keystone of the deal: Warren Buffett

Recently, Warren Buffett gave a speech at Columbia University, commemorating the 50th anniversary of a book published by two professors who taught him at that university's graduate school of business in 1951. The speech was reprinted in *Barron's* and widely discussed.

Buffett is well known among investors for having followed the advice of his professors, and he made a fortune for himself and his partners. Simply put, that advice is: look for companies with assets, which for some reason have been undervalued by the stock market. Over time those assets will increase in value and the stock price will have to keep pace.

Two lesser known aspects of the Nebraska-bred Buffett are that he has put that theory to use in the stocks of media companies, and that, as was discovered last week, he is a deal maker. He helped advise Thomas Murphy, chairman of Capital Cities Communications, in the latter's negotiations to buy ABC Inc.

Murphy told BROADCASTING that a friend advised him 15 years ago that Buffett was a source of good advice, and he confirmed that appraisal after flying out to Buffett's Berkshire Hathaway offices in Omaha. (Buffett owns 41% of Berkshire Hathaway Inc.) Murphy asked Buffett, now 54 years old, to serve on Capcities' board, and although Buffett had previously declined, last week he agreed to join the Capcities/ABC board as part of the deal. If the sale goes through, he will purchase three million shares of the newly issued company at $172.50 per share, close to the pre-announcement trading price of Capcities stock, thereby giving Capcities an additional $517.5 million to make the purchase.

Buffett is reported to be a modest, easy-going person with a good sense of humor who thrives on soft drinks. He also takes an active interest in public affairs. At present, two of his philanthropic concerns are population control and the nuclear arms race. Some of his personality shows up in the pages of Berkshire Hathaway's annual report, which Howard Simons, curator of Harvard University's Nieman Foundation and a Buffett acquaintance, called, "the best written, most intelligent and funniest annual report in the United States."

Berkshire Hathaway and Buffett would benefit additionally from the sale of ABC through the 3% of ABC stock it reportedly owns, which could be worth a minimum $105 million. Other media-related holdings reported to be held by the Omaha-based company include 4.6% of Interpublic Group of Companies; 13% of The Washington Post Co., where Buffett is currently a director; 4.3% of Ogilvy & Mather; 8% of Affiliated Publications, and 4% of Time Inc. Until recently, Berkshire Hathaway also had shares in Media General. Some of the holdings have been reduced in recent months. As an example, Berkshire Hathaway had a 15% interest in Interpublic until recently.

that he, a week or two before the merger announcement, had called selected FCC staffers to inquire about when the network-cable proceeding was scheduled for action. According to Goldman, an FCC staffer assured him that the rulemaking wasn't coming up. "I was told it had the same status as the financial interest rule," Goldman said.

In a news release last week, moreover, Senator Wilson said Capcities would either have to sell its cable systems or the network. "A waiver of the rule is neither likely nor a good idea," Wilson said.

One FCC source said it would be especially difficult to approve the FCC's rulemaking now because it would appear as if the commission were merely "smoothing the way" for Capcities/ABC to retain the cable systems. But another FCC source suggested a way out. "One possibility would be to give them [Capcities/ABC] a hell of a long time to divest and take our time with the rulemaking," the source said. "But we'll wait to see what they [Capcities/ABC] propose and do some thinking on it."

The commission may be in a position to grant Capcities/ABC a waiver to keep enough systems to serve 90,000 subscribers. In 1981, when the FCC granted CBS its waiver, it said it would be receptive to similar waiver requests from the other networks.

The proposed merger would raise a couple of additional problems for Warren E. Buffett, the proposed director and 18% owner of Capcities/ABC. Buffett is a director of the Washington Post Co., which owns the *Washington Post* and Post-Newsweek Stations Inc., which, among other things, owns WDIV(TV) Detroit. Buffett told BROADCASTING last week that if the deal goes through, he will step down as a Washington Post director. (If he did not, Buffett would be considered, under FCC rules, as owning enough stock in the *Washington Post* media properties to be counted against the CapCities/ABC portfolio.)

Buffett is also chairman and 41% owner (his wife owns an additional 3%) of Berkshire Hathaway Inc., which owns, among other things, *The Buffalo News*. Last week Buffett said Capcities' Murphy and he had agreed that Berkshire Hathaway would keep the newspaper and that CapCities would sell its WKBW-TV Buffalo. (Capcities' WKBW(AM) Buffalo may have to be sold as well.)

Through insurance subsidiaries, Berkshire Hathaway, according to Buffett, also owns 13% of the Washington Post Co.; 8% of Affiliated Publications Inc., and 4% plus a fraction in Time Inc. Affiliated Publications, through subsidiaries, publishes the *Boston Globe* and owns several radio stations.

But Buffett's ownership of those companies through Berkshire Hathaway is not expected to raise additional problems under the commission's ownership rules. Insurance companies are considered to be "passive investors" that are permitted to own up to 10% of a media company before being considered owners under the FCC's other rules. (Other kinds of investors are permitted to own up to 5% of a media company before being considered owners.) And the FCC would calculate Buffett's attributable interests in those media properties by first diluting them with a multiplier to account for his owning the media property through intervening corporate layers. (With the FCC multiplier, Buffett—assessed for the 44%-plus of Berkshire Hathaway he holds with his wife—would be considered to own about 5.85% of the Washington Post Co., for example.) With the multiplier, the interests in the two other media companies would not even reach the 5% benchmark.

In an interview, Buffett said Capcities planned to tell the FCC that it would "quarantine" those passive investments. "We will do what we can to hold them on a passive basis," Buffett said. "But we'll do whatever [the FCC says] we have to do." □

Citizen groups mobilize to make presence felt in CCC/ABC consummation

Capital Cities' proposed takeover has attracted the interest of citizen groups as well. The $3.5-billion deal has generated concerns they say they want addressed. Sam Simon, executive director of the Telecommunications Research and Action Center, whose board includes representatives of several other public interest groups, said he and members of his board will meet with Capcities representatives in New York on Thursday (March 28). There are issues to be addressed "on which we are developing concerns," Simon said. And the National Black Media Coalition has contacted representatives of both ABC and Capcities expressing an interest in meeting with them. NBMC's Pluria Marshall said he is concerned about the lack of blacks in news directors' and other top managerial jobs at ABC and Capcities television stations. He also feels the parties should give a preference to blacks in disposing of properties commission rules will require them to spin off to complete the merger.

Simon and Marshall were not talking tough in terms of the possibility of filing petitions with the commission to block the sale. In fact, NBMC has assured ABC of the

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