It's TBS Time

By Steve McClellan

Time Warner and Turner Broadcasting System have agreed to merge—after five weeks of grueling negotiations, most of which involved TCI's John Malone.

The $8 billion stock swap is subject to FCC and shareholder approval. The deal also has to survive scrutiny by the U.S. Justice Department and the Federal Trade Commission, both of which will review the anticompetitive implications of the merger.

If the deal goes through, Ted Turner will be the biggest winner, cashing in the company he built from scratch for a $2.5 billion, 11.3% stake in the largest media and entertainment company in the world. He'll be vice chairman of the parent company and will remain chief executive of TBS as a wholly owned subsidiary of Time Warner. In addition, Turner will oversee Time Warner Video, a new division consisting of the TBS properties, along with "supervisory responsibilities for the businesses of Home Box Office."

But many key management issues remain unanswered, and Time Warner Chairman Gerald Levin confirmed that exact roles and responsibilities within the merged companies remain to be determined. "We are going to talk about a team," he told reporters last week at a press conference announcing the deal. "That's what Ted Turner represents, and that's how we're going to go forward. What I expect to do between now and [the deal's closing] is spend a lot of time sensitively and patiently seeing how the family is going to come together. I think everybody here supports that idea," he said, referring to top TBS and Time Warner executives in attendance.

Added Levin: "There aren't going to be any questions of reporting lines or traditional hierarchies. This is going to be a team and a family that's out to make money and have fun."

Shortly after the deal was announced, US West filed a lawsuit blocking the merger, citing "numerous conflicts of interest for Time Warner." Levin described the suit as "absolutely without merit."

Ted Turner and Jerry Levin announce the $8 billion stock swap that will create the U.S.'s largest media company.

Lisa Quinones/Black Star

Separately, Levin told analysts last week that relations with US West have grown "very frosty" over efforts to restructure Time Warner Entertainment, comprising HBO, Warner Bros. and Time Warner Cable (in which US West has a 25% interest).

Time Warner wants to separate the cable system assets into an off-balance-sheet joint venture with US West that would resemble the Warner-Amex MSO venture that existed back in the 1970s and '80s. Divisive issues include both control and valuation of the assets in the Time Warner Entertainment portfolio.

Meanwhile, Levin said he was confident that the merger would be completed in six to nine months. Soon after completion, Time Warner will create its first new cable network—WTBS—which is being converted from a "superstation" to a basic cable service. The main difference: Fees that operators now pay the Copyright Office would revert to Time Warner in the form of cable carriage payments.

TBS Chief Operating Officer Terrence McGuirk said both the TCI and the Time Warner Cable systems, covering 40% of the country, already signed deals agreeing to carry WTBS as a basic service. As part of the conversion, TCI will sell Time Warner Southern Satellite Inc., the satellite common carrier that distributes WTBS as a superstation, for a combination of stock and cash totaling $360 million.

Time Warner and Turner officials say the restructured TBS would add another $100 milllion in annual cash flow to the company's coffers. While the merger will add another $2 billion in Time Warner debt (for a total $19 billion), TBS will add $600 million in annual cash flow to Time Warner before the conversion of TBS to a basic service, executives said last week. Thus, debt-to-cash-flow levels will improve as a result of the merger, they said.

Besides the Southern Satellite deal, TCI's Malone negotiated several other long-term arrangements in exchange for approving the merger. Among them: extended carriage agreements that give TCI systems rights to the various TBS cable networks (CNN, TNT, The Cartoon Network, WTBS, CNN Headline and Turner Classic Movies) for the next 20 years.

Executives told analysts that the new deals would kick in after existing carriage deals expire, on a staggered basis, between 1997 and 2005. Thus, projections for cash flow for the next several