TIME WARNER'S CURE FOR DEBT WORRIES WALL ST.

Rights offering meets with criticism by shareholders and causes stock to drop; TW hopes to raise $2.1 billion-$3.5 billion; stock split, buyback also planned

Time Warner has long been worried that its stock price was weak because of excessive debt. However, the company found out last week that not all methods to rid itself of that $11.4 billion debt would be enthusiastically accepted by shareholders. Its announced multi-billion dollar rights offering met with shareholder criticism and a 16% drop in the Time Warner share price.

Rather than bring in an outside investor or renegotiate with debtholders, Time Warner has asked existing shareholders to put in more money. The company is doing so by offering shareholders rights to buy more common shares at a discount from June 5's closing price of $110.75. Time Warner also said its board has approved a stock split and a buyback "from time to time" of the company's series D convertible preferred stock.

According to the prospectus filed at the Securities and Exchange Commission, Time Warner will put about 34.5 million shares of common stock in a "pool" to be distributed in full to those shareholders who exercise their rights. The offering is contingent on at least 60% of the 34.5 million shares being exercised. The purchase price per share and the effect on Time Warner ownership will be determined by what percentage of shares are exercised. Last week, Time-Warner chief financial officer Burt Wasserman said he expects between 85% and 90% of the rights offering to be exercised.

Market reaction to the news has not been favorable—last Friday the stock closed at $94.50, down five, continuing a downward trend that started when news that Time Warner was planning on either issuing stock or selling part of its cable and entertainment segments reached the public. On Wednesday (June 5), the stock fell from $117.75 to $110.75. On June 6, the day of the announcement, the stock dropped another 10% to close at $99.50. Since earlier reports that the media giant was considering merging or selling part of its business segments caused the stock to rise, it may be safe to assume the market is disappointed in Time Warner's approach to reduce debt. Time Warner met with securities analysts last week, and the meeting, according to one analyst, was "very negative" and the stock price "accurately reflects the reaction to the deal." Analysts and shareholders are also questioning the cost of the rights offering, which could range anywhere from $62.2 million to $179 million.

If the stock stays at its current level, below $105, or continues to drop, it will obviously be harder for Time Warner's rights offering to be successful. Although Time Warner said the rights offering would not dilute present shareholders' holdings, not everyone sees it that way. Said Jay Nelson, analyst, Brown Brothers Harriman & Co.: "How much does it behoove me to have rights to the stock at $105 when it is trading at $99? Is the market saying: 'Don't do this, we won't play along,' or is it saying: 'I thought these guys didn't need equity, let me out of here?' "

There are several reasons Time Warner might want to reduce its debt now, even though principal repayment of its $4.3 billion bank debt is not finally due until March 1993. One positive result for reducing its debt load would be to make Time Warner a more appealing business partner. The company has been in joint venture talks with both Canal Plus, France's leading pay-TV network and the only pay-TV entity in major European countries, and Japanese consumer electronics manufacturer Toshiba Corp., but both are said to have expressed concern about the debt situation.

Reducing the debt load would also reduce cash outflow to service that debt. One analyst's report said the company in 1990 and 1991 had negative free cash flow after interest.

Once the SEC declares the offering effective, shareholders can sell their rights in the open market. Analysts had not yet estimated at what price the rights would trade, separate from the stock. Time Warner said the rights offering will expire 18 days after the record calender date, expected to be around June 17. If they choose not to exercise the rights they will simply expire. -JF

WOOLERY MAY GO TO GROUP W

According to sources close to Warner Bros. Domestic Television Distribution and Orion Television, the two companies broke off talks June 29 about Warner acquiring the distribution rights to *The Chuck Woolery Show*, with Group W Productions said to be on track to win the 1991-92 syndication rights to the first-run talk strip with an 11th-hour offer last week. Industry sources say that, in seeking to avoid deficit-financing of syndicated and network series, cash-strapped parent Orion Pictures is looking for the most expedient means of cutting its long-term debt through divestiture of its television properties.

A well-placed source said Orion desires only to maintain a scaled down syndication division for the sale of movie packages, adding that the rumored exit of Orion Television President and CEO Gary Nardino for an independent studio development deal with Lorimar Television apparently signals the demise of Orion's network, off-network and first-run syndicated TV divisions (see "Closed Circuit").

"Orion is looking to recoup the deficits it had to carry on its network series," said a close observer of the situaton. "Orion just wants to sell them off [series and pilot projects] to be out of the business as soon as possible. I don't think it is any secret that almost every Orion television executive is out looking for other jobs." (Executives from Orion, Lorimar and Warner Bros. all declined comment on this story.)

However, on the syndication side, the source said, Orion wanted to recoup its development costs on *Woolery* faster than Warner Bros. Domestic Television Distribution negotiators were willing to structure payments for acquiring the hour talk strip, which is sold in over 80% of the U.S.

As reported previously (BROADCASTING, May 20), Group W has also been considered a prime player for *Woolery* because Group W Media Sales is already contracted to handle all national barter sales, and all five of Group W's owned stations will carry the program.

As for Orion's syndication unit, one source ventured to predict that Bob King, station sales president, and Joe Indelli, executive vice president, sales, would be retained to oversee sales of Orion Pictures' movie packages. -MF