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MGM bidding war seen nearing end

Film studio restricts employee trading of shares ahead of c

REUTERS

Updated: 7:55 a.m. ET Sept. 1, 2004

PHILADELPHIA, - Metro-Goldwyn-Mayer Inc. has restricted its employees' ability to trade shares in the company, and could announce as early as next week a deal to be acquired for up to \$5 billion, sources close to the company and its talks with possible bidders said Tuesday.

Time Warner Inc. has gained an edge in recent weeks in negotiations to buy the movie studio and its film library, sources familiar with the talks said, speaking on condition of anonymity. But a Sony Corp.

consortium, which earlier this year held exclusive discussions with MGM, is also still in the running, the sources said.

A deal is not likely to be announced before the Labor Day weekend, the sources said. But MGM has closed its trading window for certain employees to buy and sell company stock until

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further notice, according to an Aug. 27 internal memo obtained by Reuters.

A company generally enforces such an action to protect employees against securities law violations or the appearance of improper trading if it expects news that could affect its stock price.

"You don't know it specifically relates to this deal, but the probability is that it is deal related," said Marc Morgenstern, managing director of securities law firm Kahn Kleinman.

A spokesperson at MGM declined to comment.

MGM first started talks with Sony and its partners on a \$5 billion deal early this year, but a window of exclusive negotiations in May failed to yield an agreement.

Sony is working with Texas Pacific Group and Providence Equity Partners.

Time Warner came later to the table and sources have said it is not willing to pay as much, but industry experts have said a lower valuation of MGM might be more accurate.

MGM controlling shareholder Kirk Kerkorian could be willing to agree to a cheaper deal if part or all of the consideration is in Time Warner stock, sources have said. Kerkorian, a 74 percent stakeholder in the company, would be spared a huge tax bill by accepting stock in lieu of cash. Some analysts have also said Time Warner's stock is undervalued.

The talks with both parties are at a fragile stage, and could fall apart at any time, the sources said Tuesday.

Time Warner, which owns the Warner Brothers and New Line Cinema studios, could offer Kerkorian as much as \$11.50 a share in Time Warner stock, one source said. It would offer other MGM shareholders as much as \$13 in cash per share, the source added, roughly equal to what Sony and its partners have considered paying.

MGM's library of more than 4,000 film titles, which includes the James Bond franchise, is its prized asset.

MGM also owns movie rights to "The Hobbit," written by the same author as the "Lord of the Rings" film trilogy that grossed more

than \$2.9 billion at box offices worldwide. Time Warner's New Line could add "The Hobbit" to that trilogy for another potential box office smash.

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