

Trade News

Drabinsky and MCA battle for control of Cineplex

TORONTO - On the 10th anniversary of the opening of the first Cineplex multi-theatre in Toronto's Eaton Centre, Garth Drabinsky, the company's founder and chief executive officer, is engaged in a bitter fight with MCA Inc. of Los Angeles for control of North America's second largest theatre chain.

The battle, which has been fought in the Ontario Supreme Court, the Quebec Securities Commission, the U.S. District Court in Los Angeles, the U.S. Securities and Exchange Commission, and on the floors of the Toronto and New York Stock Exchanges, has yet to be resolved at press time. In the most recent developments, Drabinsky has dropped his third bid to purchase enough shares to give him control over the company he built, and MCA says that it no longer intends to commence action against Drabinsky, Myron Gottlieb, the company's vice-chairman, and five other directors, in the Ontario Supreme Court.

The bizarre and twisted story began when Charles Bronfman, the wealthy Montreal financier, announced his intention to sell "substantially all" of his holdings in the company to a group of Cineplex board members brought together by Drabinsky and Gottlieb. It was almost 51/2 years ago that Bronfman bailed out the cash-poor Cineplex, allowing it grow into an international theatre chain. Through a separately arranged voting trust, the purchase of the Bronfman shares would have given Drabinsky and Gottlieb effective control of company.

MCA owns 48 percent of the shares outstanding of Cineplex which it bought in 1986 for \$9.80 per share. However, due to federal regulations

governing foreign control over sensitive cultural industries, MCA has only slightly less than 33 percent of the votes. The Bronfman sale would have given Drabinsky and Gottlieb slightly over 33 percent of the votes. Currently Drabinsky controls only 8 percent. It is rumoured that MCA executives are unhappy with his style of management and felt that any deal offered to the Bronfman group should be offered to all the shareholders, including themselves. This would amount to an estimated \$800 million buy-out, a figure that industry analysts say Drabinsky and his group could not afford.

Here is a chronology of events from April 11 to May 1st - April 11: It is announced that Charles Bronfman and several associates have struck a deal to sell "substantially all" (7.3 million shares) of their holdings in Cineplex Odeon to a group of buyers organized by Drabinsky and Gottlieb; April 14: Cineplex issues a press release saying the original deal has been amended to "minimize securities problems." The second deal calls for the purchase of 5.8 million shares and slightly less voting control. The complexities of the deal revolve around the number of people in the selling group. Securities regulations require that any number of sellers over five must receive approval of the commission; April 18: MCA notifies the Quebec Securities Commission that it objects to the deal and the commission agrees to hold a public hearing on the 21st; April 20: The City of Toronto proclaims Cineplex Odeon Day in honour of the company's 10th anniversary and "as a tribute to the development, progress and support of the entertainment arts;" MCA obtains an interim injunction from the Su-

preme Court of Ontario blocking Drabinsky's group from buying the Bronfman shares "until further order." In a related move, MCA filed a statement with the U.S. Securities and Exchange Commission calling for an independent committee to examine the proposed purchase, claiming that "the Cineplex directors may have put their own interests ahead of those of the company;" April 21: Kellogg Associates, a Los Angeles accounting firm that specializes in providing institutional investors with early warnings on potential problem stocks, issues a highly critical report on Cineplex's accounting practices found in the recently released Annual Report; April 24: The Supreme Court of Ontario sets aside MCA's interim injunction. MCA says it will appeal the decision. A class-action suit is filed in the U.S. District Court in Los Angeles by Three Bridges Investment Group of Philadelphia alleging that Drabinsky and Gottlieb have breached U.S. securities law; April 26: The Quebec Securities Commission issued its finding, denying the Drabinsky group permission to proceed with either the first or second purchase offer. The QSC said the first version was not in the public interest and the second did not meet the conditions governing public offers. MCA drops its appeal to the Ontario court; April 28: MCA threatens to sue Drabinsky and his supporters on the board of directors in the name of Cineplex. Meanwhile, Drabinsky's group come up with a third plan to purchase the Bronfman shares. The QSC postpones public hearings until the following week; April 29: Following a Cineplex board meeting on the 28th in Toronto, Drabinsky announces that he will drop his at-

tempts to buy the Bronfman shares and MCA says that it is suspending all legal proceedings against him.

In some quarters this latest development has been interrupted as a victory for MCA. Ian Currie, a Toronto lawyer who has been acting for MCA, was quoted in the *Globe and Mail* as saying, "The end result is what MCA was really seeking in the first place; that if there is going to be a change in control to the Drabinsky and Gottlieb group, then all the shareholders should be given the opportunity to participate."

This would throw open the doors for others to launch takeover bids, which might lead Drabinsky into a bidding war for control of his own company. Cineplex Odeon stock fluctuated up and down during this hectic three week period and settled down at \$16.75, 75 cents less than the original \$17.50 a share Drabinsky was offering Bronfman.

There has been a great deal of speculation about what will happen next. There is a general meeting of Cineplex shareholders to be held in Toronto on May 9th, and some analysts think it is here that Drabinsky will launch his final takeover bid. There is also a takeover rumour that has MCA being bought out by Sony of Japan; a MCA take-over of Cineplex (which would run counter to current federal government policy); or Rank PCI, of Great Britain, buying Cineplex (Drabinsky has sold off Toronto's Film House and his share in a movie theme world in Florida to Rank in the past four months).

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