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TECHNOLOGY B4 | **WEATHER B6**

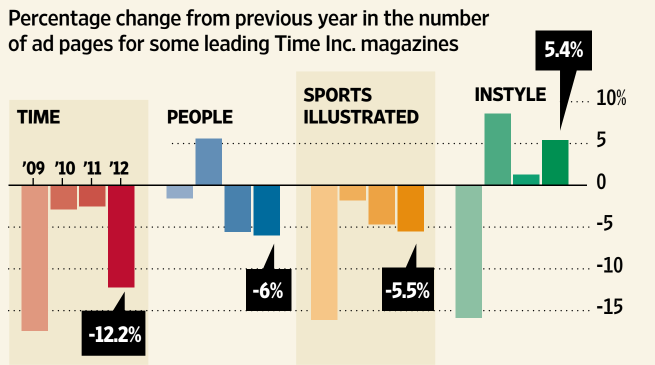
MARKETPLACE


Bloomberg News

Snow and Taxes Damped February Store Sales
RETAIL B3

Wrigley Adds Caffeine To Wake Up Its Gum
MARKETING B6

Keeping Tabs
Percentage change from previous year in the number of ad pages for some leading Time Inc. magazines



Source: Publishers Information Bureau
The Wall Street Journal

Time Spinoff: Risks Ahead

By Keach Hagey

Time Warner Inc.'s decision to spin off its shrinking Time Inc. magazine division helped send its stock to its highest price in several years Thursday. But the prospects for Time Inc. as an independent public company may be less sunny.

As the largest U.S. magazine publisher, Time Inc. has an enviable stable of titles, from the highly profitable People to the prestigious Time. But its operating income has dropped by roughly half over the past five years, and analysts expect revenue and profit to keep falling this year as the industry struggles to regain advertising lost to the recession and the Web.

"In this case, freedom is just another word for nothing left to lose," wrote Michael Nathanson, an analyst for Nomura Securities who used to work at Time Inc. "This once proud and profitable division is being punted as its business prospects look structurally challenged."

Time Inc. has trimmed $1 billion in costs but faces more cutbacks.

Whether Time Inc. can rise to this challenge rests on how aggressively it cuts costs and how much debt the new company takes on, observers say. Another big factor: who takes over as chief executive. The division's CEO, Laura Lang, plans to step down ahead of the spinoff.

Internal candidates are likely to include Todd Larsen, group president of the News and Sports Group, and Paul Caine, Time Inc.'s chief revenue officer, people familiar with the matter said. Neither responded to requests for comment.

The other big question: Time Inc's balance sheet. While **News Corp.** is expected to spin off its publishing assets with a cash cushion when it splits this summer, analysts predict that Time Inc. will take on up to a billion dollars in debt. News Corp. owns The Wall Street Journal.

"The risk is, if the business deteriorates further, can they reduce the leverage?" said John Janedis, a UBS Securities analyst. "The last thing they want is an asset that would appear to be overleveraged in two years."

People familiar with Time Warner's thinking say industry revenues, and probably those of Time Inc., are likely to continue to decline for the next year or two before possibly stabilizing. But they say the new company will be able to cut costs to match any such revenue declines, thereby ensuring profit growth. They say the debt to be taken on will enhance shareholder returns, making the company an attractive investment.

Time Inc. has already cut about $1 billion in costs in recent years but still has annual expenses of about $3 billion, the people say. This includes the costs of running a big fulfillment center to ship magazines around the country and printing costs.

Analysts say staff reductions, which have become commonplace at Time Inc. in recent years are likely to continue. In January, for instance, the company announced it was cutting nearly 500 of its 8,000 jobs.

Despite these prospects, Time Inc. employees seemed cheered by the prospect of a spinoff rather than the proposed deal to merge most Time Inc. titles with **Meredith** Corp.'s magazines, according to interviews with staffers and former executives. Some Time Inc. executives worried about how the company's brands would fare under the management of the cost-conscious, nonsense Meredith, as well as what would happen to their own, typically higher, salaries.

Time Inc. executives were also upbeat about the spinoff because they think it would mean an overhaul of the company's leadership, which many believe was adrift just as the magazine industry was going through a period of radical change.

Time Inc has had three CEOs since 2010. It also spent a year without any permanent CEO following the abrupt departure of Jack Griffin after five months prior to Ms. Lang's arrival a little more than a year ago. A person familiar with Time Warner said it wished the leadership had been more stable in recent years but noted that despite the turmoil, Time Inc. had outperformed the rest of the industry.

Time Inc. executives said the tumult at the top contributed to a general aversion to risk that kept the company from making the big bets required to respond to major structural changes in the magazine business.

For example, Time Inc. passed on an opportunity to sign a deal in early 2011 to put its digital magazine subscriptions on Apple Inc.'s devices because of concern it would lose control of its readers' data, people familiar with the matter said. Ms. Lang reversed that decision last year, but by that time, Time's competitors had a long head start.

—Merissa Marr and Martin Peers contributed to this article.

◆ Heard on the Street: A new reality for Time........ C8


Philip Montgomery for The Wall Street Journal
A newsstand on New York's 42nd Street displays some Time Inc. titles.

Icahn Rattles Dell Plan

By Sharon Terlep, Ben Worthen and Telis Demos

Activist investor Carl Icahn said he would push to replace **Dell** Inc.'s board and pursue "years of litigation" if the computer maker refused to accept his demand for a refinancing that would pay a hefty dividend to shareholders.

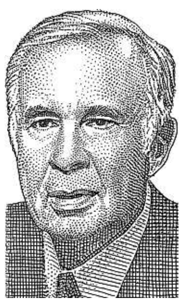
Prodding the company to reject a $24.4 billion buyout offer that it agreed to last month and endorse his alternative, Mr. Icahn disclosed he owns a "substantial" stake in Dell and unleashed his trademark attack on directors and on the management-backed offer.

"We see no reason that the future value of Dell should not accrue to all the existing Dell shareholders," Mr. Icahn wrote to a Dell special board committee, insisting it agree to his conditions or allow a vote for a replacement board that would.

Dell, of Round Rock, Texas, is preparing a counterattack but in a statement on Thursday didn't directly address Mr. Icahn's proposal. The Dell board committee said it was soliciting offers for the company and that it would "welcome Carl Icahn and all other interested parties to participate in that process."

Dell said that in the past it has considered a leveraged recapitalization and found it inferior to the proposal to go private.

Chief Executive and founder Michael Dell and private-equity firm **Silver Lake Partners** last month won board support for a $13.65-per-share offer, pending a 45-day hunt for better offers.


Carl Icahn

Mr. Icahn's move is expected to have some impact on the deal, but there is no guarantee it could alter the deal's current course. The merger agreement requires 42% of Dell's outside shareholders to approve the founder's buyout. Before Mr. Icahn's letter, holders of about 15% of shares have said they opposed the deal.

Some shareholders, sensing a higher offer isn't likely, have already voted by selling their shares.

"We thought the [proposed buyout] deal would go closer to $15 [a share]," said Joanna Shatney, head of U.S. large-cap equities at **Schroder Investment Management North America** Inc. But Ms. Shatney said that rather than fight for more, the fund she managed was selling down its small Dell stake, which was less than 0.1% of the company, because "we don't see

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More Action, Less Drama at Disney

New Studio Chief Alan Horn Speeds Film Development, Brings Stability


James Franco and Michelle Williams in 'Oz: The Great and Powerful,' a prequel to the classic film.
Disney

By Ben Fritz

Some Hollywood studio chiefs make their mark in a new job by signing deals with big name stars. Others announce their intention to rethink the ways movies are made and released. Alan Horn did it with a talking monkey.

In one of his first moves after being named chairman of **Walt Disney** Co.'s movie studio last May, Mr. Horn approved reshoots for "Oz: The Great and Powerful," a prequel to the "Wizard of Oz" that comes out Friday. The biggest change was to give star James Franco a wacky sidekick in the form of a chatty flying simian. In the version of the movie shot before Mr. Horn began, the monkey talked only late in the picture.

"Alan took the movie over and really made it his," said producer Joe Roth.

Few in Hollywood would be comfortable during their first weeks in a new job ordering up $15 million of changes to a movie that already cost about $200 million. But insiders say Mr. Horn, a 70-year-old industry veteran, has brought gravitas to the top of a studio embroiled in drama since 2009, when Disney Chief Executive Robert Iger filled the job with Rich Ross, a television executive who had no filmmaking experience. Mr. Ross lasted less than three years.

"There really is a feeling of stability and that is exactly what was needed," said Mr. Roth, who held Mr. Horn's job from 1994 through 2000. "A year or two ago you'd talk to agents and they couldn't figure out what Disney was up to."

Mr. Horn could hardly be more different from Mr. Ross, who came to the movie studio after running Disney Channels Worldwide. Upon taking the top movie job, Mr. Ross ousted most of the studio's senior executives and sought to revamp established marketing and distribution strategies. His brash approach struck filmmakers, agents and producers as ham-handed, and he won few allies in the creative community.

He was fired last April by Mr. Iger. A spokeswoman for Mr. Iger didn't respond to a request for comment. Messrs. Horn and Ross declined to comment.

By contrast, Mr. Horn has made no changes in Walt Disney Studios' executive ranks, defying typical Hollywood practice. He also is frequently lauded by people who do business with him as courtly and smooth. Mr. Horn was president of Warner Bros. from 1999 until 2011, when he was asked to leave so three younger executives could compete to replace the retiring studio chairman.

Disney's studio—which generated $722 million of operating income on $5.8 billion of revenue in the last fiscal year—is far smaller than the company's television and theme park units, but it creates material that feeds the parks, TV channels

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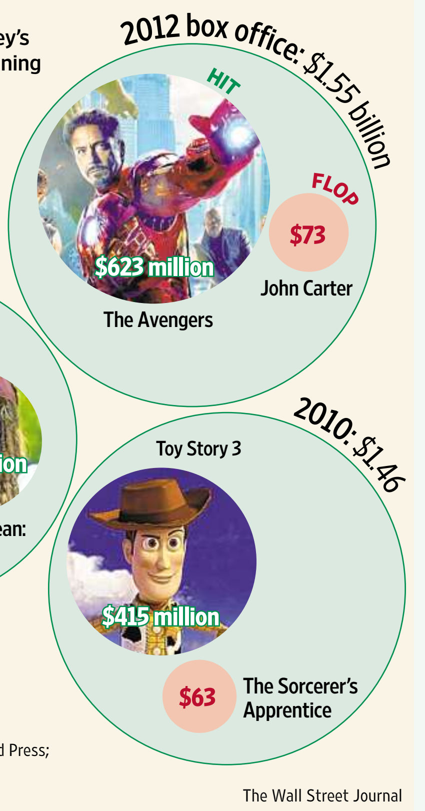
Hits and Misses
In recent years, Walt Disney's studios have had some shining successes, but also some duds. Total domestic box-office take for the studios, and for specific movies each year:



Note: Box-office take includes U.S. and Canada.
Photos from top: Walt Disney/ Everett Collection; Disney/Associated Press; Buena Vista Pictures/Everett
Source: Boxofficemojo.com
The Wall Street Journal

Few New App Ideas, Even Fewer Hits

Many Startups 'Die With a Whimper' in Hypercompetitive and Crowded Market

By Ben Fox Rubin

THE BUSINESS $ OF APPS

Pocket Gems Inc. is the classic Silicon Valley success story, a startup whose mobile games have been downloaded more than 100 million times since it was founded in 2009 in a Stanford University dorm room.

More commonplace is the tale of Spork, a little-used food-rating app that lived for just a year before giving up the ghost in a small San Francisco office.

Plenty of independent developers have made fortunes off the boom in mobile apps. But many more have failed after learning the hard way that computer skills, a little money and a good idea often aren't enough in the competitive market.

With hundreds of thousands of games, productivity tools and other apps already on the market, and thousands more launched every week, many startups are finding that their ideas aren't so unique after all. In this environment, well-heeled companies with big marketing budgets hold sway.

"There are so many startups that die with a whimper," said Dan Cheung, the 37-year-old software engineer who quit his job to build Spork. "That's the worst type of death....You walk into the office one day, you look at each other, and kind of realize it has to come to an end."

Mr. Cheung founded Spork with his sister Sam and fellow software developer Nick Hughes. The free mobile app let users rate specific dishes at restaurants. But they were beaten to the punch by a rival app called Foodspotting, which offered similar functions but was backed by more funding for advertising and marketing. Foodspotting had been downloaded about 4 million times when restaurant-reservation site **OpenTable** Inc. agreed to acquire it for $10 million in January.

"By the time we got to market," Mr. Cheung said, "kind of all the oxygen was sucked out of the room."

Spork registered about 100,000 downloads. But Mr. Cheung said his team couldn't find a way to make money from the concept. A year after they launched the project, they gathered in their San Francisco office and agreed to shut it down.

The odds of striking gold in the apps business are quite long. While there are more than 800,000 mobile apps available in **Apple** Inc.'s App Store, only 80 of them generated more than $1 million in revenue during the fourth quarter, according to research firm Distimo.

Reaching a few hundred downloads a day used to get an app on a Top 10 or 20 list a few years ago. It now requires several thousand, so larger apps companies—such as **Electronic Arts** Inc., **Walt Disney** Co., **Zynga** Inc. and **Rovio Entertainment**

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Online» Scan for complete coverage of the Journal's series, the Business of Apps, or visit WSJ.com/Apps.

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INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

INDEX TO PEOPLE

CORPORATE NEWS

Cablevision Alleges Coercion

Firm Says Viacom 'Strong-Armed' It, Threatening $1 Billion Penalty on Package

BY SHALINI RAMACHANDRAN

Cablevision Systems Corp. said Thursday that it would have had to pay **Viacom** Inc. a penalty of more than $1 billion if it had refused to carry Viacom's lesser-watched networks as part of a new deal it struck with the entertainment company at the end of last year.

Cablevision made the statement as it released a copy of an antitrust lawsuit it filed last week against Viacom, with certain details blacked out.

In the suit, filed in federal court in Manhattan, Cablevision alleges that Viacom forced it to carry and pay for more than a dozen smaller channels for the right to carry its more popular networks like Nickelodeon and MTV. Cablevision is asking the court to void a new agreement negotiated at the end of last year.

In the complaint, Cablevision alleges that Viacom "strong-armed" the operator by "threatening to charge Cablevision a ten-figure penalty" for just carrying the "core networks" that Cablevision wanted—namely Nickelodeon, Comedy Central, BET, MTV, VH1, TV Land, MTV2 and Spike TV.

Cablevision said that the additional charge for the contract would have amounted to more than its "entire 2013 programming budget." However, a Viacom spokesman pointed out that the agreement was multiyear, which doesn't compare with a one-year budget. References to the exact size of the penalty were blacked out in the complaint, although Cablevision disclosed it separately.

Viacom disputes Cablevision's allegations. "This suit is nothing more than a hypocritical attempt by Cablevision to void a long term carriage deal they agreed to only two months ago. Cablevision is crying foul over a standard business practice that expands choice and lower cost for consumers—a practice they use extensively to sell their own services," Viacom said in a statement.

The complaint had been sealed until Thursday while the companies negotiated which information in it could be made public. In the complaint, Cablevision said that Nickelodeon, Comedy Central, BET and MTV were vital for the operator to carry or a "substantial number of subscribers would likely abandon (or refuse to consider) Cablevision."

In contrast, Cablevision said, other lesser-watched networks like Palladia and Logo have "low or extremely low viewership" and wouldn't be carried by many distributors, including Cablevision, if they "had to compete on their merits against alternative sources of general programming."

Cablevision said that it had initially asked for just the core networks. According to the complaint, Viacom said it wouldn't consider a proposal that didn't include its full suite of networks. Viacom said Cablevision would have to pay more to carry just the four most-popular networks rather than its entire suite of channels, the complaint alleged.

In a statement, Viacom said that "Cablevision received [a] significant discount on a package of networks that account for nearly 20% of the total viewing audience." Viacom added: "Now they want the lower price without the obligation to offer our networks to their customers."

At the heart of the suit is a longstanding complaint from cable and satellite operators that entertainment companies bundle their channels together in carriage negotiations, making it hard for distributors to drop less-watched channels and just keep the popular outlets. Pay-TV distributors have said that tactic makes it harder for them to beat back the persistent increase in programming costs.

Disney/Associated Press

Johnny Depp, left, and Geoffrey Rush in 'Pirates of the Caribbean: On Stranger Tides.' Disney is planning a fifth film in the 'Pirates' series.

More Action, Less Drama at Disney

Continued from the prior page

and video games.

That strategy makes it very valuable for Disney to fully own its movies, so the company doesn't use financing partners to temper risk, as most of its competitors do. Last year's flop "John Carter" led to a $200 million write-off.

"Oz" should fare better. While early reviews have been lukewarm, pre-release surveys suggest it will open to about $80 million domestically and that interest is strong in many foreign countries.

In Hollywood, many of Disney's movies come not from its namesake studio but from corporate siblings including Marvel Studios, Pixar Animation Studios, and, soon, Lucasfilm, the company behind "Star Wars" that Disney acquired last year. Those units all ultimately report to Mr. Horn but have separate management teams. Disney also distributes films from DreamWorks Studios, which it doesn't own.

Mr. Horn has been particularly focused on Disney Studios' own live-action movies—a category that had been languishing. When he took over, the studio had only three such pictures scheduled: "Oz," July's "The Lone Ranger" starring Johnny Depp, and next year's "Maleficent" with Angelina Jolie.

Alan Horn

"It had gotten down to where they didn't have many [movies] going on," said John Lasseter, chief creative officer of Pixar and Disney Animation Studios.

Mr. Horn has sped up development and given the go-ahead to a pair of new big-budget pictures: "Tomorrowland," named after a section of the Disneyland theme park, and a fifth "Pirates of the Caribbean." He has also approved low-budget dramas including December's "Saving Mr. Banks," about the making of Disney's "Mary Poppins."

In addition, Mr. Horn hopes he will have a new "Star Wars" movie every year starting in 2015. Lucasfilm chief Kathy Kennedy is working with a trio of writers on sequels, the first of which will be directed by J.J. Abrams, and spinoffs focused on individual characters.

"I can see how much more active the place has become in the past year," said Mr. Roth.

Mr. Horn's lack of digital-age expertise could be his Achilles' heel. Despite the challenges that new technology and evolving consumer habits pose to the entertainment industry—a topic about which Mr. Iger frequently speaks—Mr. Horn is known as a traditionalist. Unlike his predecessor, he hasn't sought to challenge long-held practices by shortening the "window" between theatrical and DVD release dates or embracing social media in order to spend less on television advertising.

Disney is also the only major studio not to support an initiative to offer movies in the digital cloud in an effort to boost online sales. Its own effort, dubbed Disney Movies Anywhere, has been in the works for more than three years but has no launch date.

But Mr. Horn has garnered respect as he navigates the potentially treacherous waters of assigning release dates and giving feedback on projects he releases but whose production he doesn't directly supervise.

Marvel President Kevin Feige called his approach "a confidence-booster" and DreamWorks CEO Stacey Snider said a note from Mr. Horn prompted a decision to rework the epilogue of her studio's coming movie "The Fifth Estate," about WikiLeaks founder Julian Assange.

"Alan can check in on anything and anyone at Disney with a great deal of authority," said a producer who works with the studio.

Smithfield Feeling Heat

BY DAVID KESMODEL AND KELSEY GEE

Continental Grain Co., one of the biggest shareholders in **Smithfield Foods** Inc., sent a letter to the pork company's board Thursday urging it to consider strategic changes, including breaking up the company.

Continental—which along with several related parties owns about 6% of Smithfield—said the pork producer should analyze whether to split up into three independent companies to increase value for shareholders. It said it "is essential" that Smithfield's board hire an independent investment bank to help consider strategic alternatives.

A Smithfield spokeswoman couldn't immediately be reached for comment.

Continental, led by Chairman Paul J. Fribourg, has held a major stake in Smithfield for nearly seven years and had board representation. Mr. Fribourg and another Continental executive, Michael Zimmerman, resigned from the board in 2009, objecting to Smithfield's move to sell $250 million in stock to strengthen its balance sheet.

Smithfield shares surged Thursday after a better-than-expected earnings report. But from Aug. 31, 2006, through March 1, 2013, Smithfield shares fell by 26%, Continental said in its letter. During that period, shares of rivals Tyson Foods Inc. and Hormel Foods Corp. rose sharply.

Pandora CEO to Step Down

BY JOHN LETZING

Pandora Media Inc. posted a 54% jump in revenue as the Internet radio company provided evidence that cost increases are slowing. It also announced its chief executive will be stepping down.

Shares of the company, which posted results after the close of trading Thursday, soared more than 20% after-hours.

Pandora, based in Oakland, Calif., said Thursday that CEO Joe Kennedy will step aside once a successor is found. Mr. Kennedy, who has led the company since 2004, described the move as his own decision.

Mr. Kennedy has led Pandora through a brief yet bumpy existence as a public company following an IPO in 2011. Pandora has quickly gained listeners, but it has also been tripped up by royalty costs and a lag in making ad revenue from mobile devices.

For the fourth quarter, Pandora said its content-acquisition costs rose 59%. That compares to a 75% increase in the prior period.

Overall for the fourth quarter, Pandora posted a loss of $14.6 million, compared with a loss of $8.2 million in the year-earlier period. Revenue climbed to $125.1 million.

Shares of the company soared $2.47, or 21%, to $14.20 in after-hours trading, after closing at $11.73 Thursday.

Icahn Bares His Teeth at Dell

Continued from the prior page

a number of other suitors" who could offer a better price.

In his letter to Dell board members disclosed by the computer maker on Thursday, Mr. Icahn argued the founder's offer undervalues the company and laid out a plan that he said valued Dell at $22.81 a share. He proposed the company use cash and debt to pay shareholders a $9-a-share special dividend and keep their shares rather than accept the buyout group's bid.

Mr. Icahn has acquired a less than 5% stake in Dell, people familiar with the matter said.

Buyout firm **Blackstone Group** LP separately is reviewing the company's financial information, although it is unclear that it would proceed with a bid, people familiar with the matter said. Some other companies considered bids but ultimately decided against making an offer.

Over the past few weeks, several Dell shareholders have opposed Mr. Dell's offer. **Southeastern Asset Management** Inc., Dell's largest outside shareholder, criticized the buyout at the current price and hired a firm to convince other shareholders to oppose the deal.

Southeastern's efforts lately have appeared to stall, however; the firm approached Mr. Dell's group about rolling its 8.4% stake into the buyout but was rebuffed, a person familiar with the matter said.

Hewlett-Packard Co. and **Lenovo Group** Ltd. were approached about getting involved in a deal that would derail the founder's offer, but decided not to move ahead, people familiar

Agence France-Presse/Getty Images

Dell Chief Executive Michael Dell

with the matter said.

Mr. Icahn's proposal "definitely is going to cause, if it hasn't happened already, others to join the pack sensing a momentum shift," said Brad Allen, director of **Branav Shareholder Advisory Services** Inc., which works with boards to evaluate how shareholders will vote in a proxy contest.

The Dell team is weathering heavy criticism for its offering price, but under the merger agreement, it agreed to hold off releasing information on the company's financial conditions until after the go-shop period, people familiar with the matter said. In documents that would be distributed to investors later this month, the company would lay out the math behind the deal and will make the case that Dell exhausted all other options for the company, including a thorough search for other potential bidders, said these people. One person familiar with the matter said Dell's board didn't want to release projections or its argument in advance while it was trying to sell the company.

The outcome of the battle for votes may not become clear for several months. Active investors such as Mr. Icahn and Southeastern represent a relatively small portion of Dell's shareholder base. The largest block of Dell holders are passive index mutual funds and exchange-traded funds.

About 18% of Dell Inc. shares were owned by passive index funds at the end of last year, according to an analysis by Ipreo, a markets data and advisory firm.

In his letter, Mr. Icahn said his **Icahn Enterprises** LP would be willing to lend Dell $2 billion and Mr. Icahn would personally lend $3.25 billion as bridge loans to assure the financing of the dividend. He has acquired a less than 5% stake in Dell, a person close to the matter said.

Mr. Icahn once had a different take on the company's value, said a person familiar with the matter. Mr. Icahn earlier discussed a possible bid for Dell, as part of the go-shop process. He is no longer considering a bid, the person said.

Separately, Mr. Icahn disclosed in a regulatory filing Thursday that he had boosted his stake in nutritional-supplement maker **Herbalife** Ltd. The increase, to 15.55% from about 13.3%, comes roughly a week after Herbalife agreed to name two of Mr. Icahn's designees to its board.

—David Benoit and Joann S. Lublin contributed to this article.

Online>> See a timeline of Dell's ups and downs at **WSJ.com/Business.**