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News of Charter Communications' proposed cash-and-stock acquisition of Time Warner Cable early Tuesday rather stole the thunder of the Morgan Stanley analysts who had just finished announcing that American M&A activity had finally returned to pre-crisis levels. Including $23 billion of debt, the Charter bid weighs in at $78.7 billion. It would set up one of the biggest junk-bond sales of all time.

It's hard to think of John Malone, whose Liberty Broadband Corp. stands behind the Charter bid, as anything but a whale. Still, plucky Charter, with $9.3 billion in revenue and a $20.1 billion market cap, is a mere minnow compared to its intended catch. Time Warner generates $23 billion in sales and commands a $51.7 billion market cap.

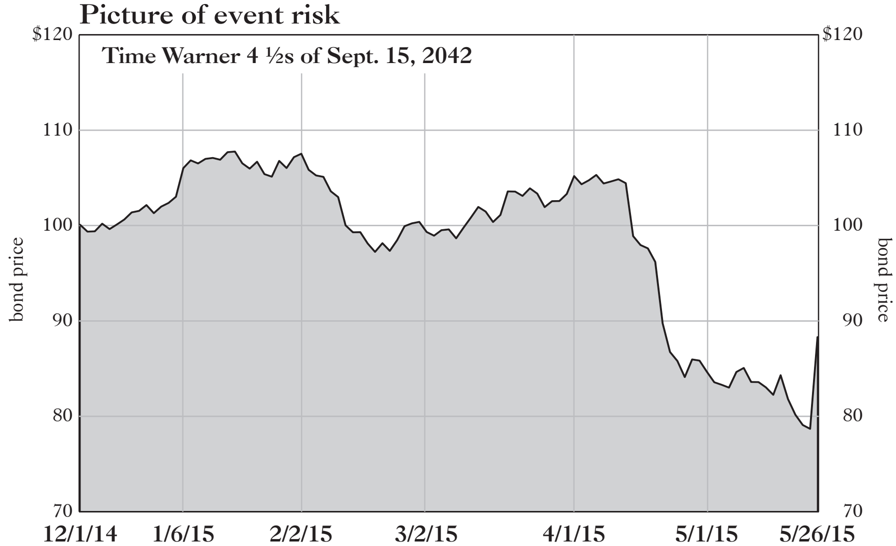
The bid hit the wires before the ink could dry on Charter's March 31 agreement to purchase Bright House Networks LLC for $10.4 billion. If and when the transactions settle, Charter projects, the combined entity would show a ratio of debt to EBITDA of 4 ½ times—borrowings of $61.5 billion vs. pro forma adjusted earnings before interest, taxes, depreciation and amortization of $13.8 billion. Of course, half a billion of the pro forma adjusted earnings are aspirational—management calls this earnings stream "leverageable first year synergies."

"Buy the rumor, sell the news," is standard operating procedure in most markets. "Buy the rumor" suffices in such a credit-juiced market as this one. "On Friday," colleague Evan Lorenz observes, "the share price of Quest Diagnostics Inc. (DGX on the Big Board; for a bearish analysis turn to *Grant's*, Nov. 28) shot up by 20% intraday after Joe Kunkle of Doylestown, Pa., tweeted that the company had been approached by a suitor. While not on Twitter, Kunkle runs the Web site OptionsHawk.com, through which he advises on options trading for as little as $149 per month.

"With an $11 billion market cap," Lorenz proceeds, "Quest is no small target and there are hurdles to a takeover. Wells Fargo analysts Gary Lieberman and Ryan Halsted explained why in a May 26 comment: 'A combination seems extremely unlikely due to the definition of the market which would cause a combination to prohibitively increase the market concentration, in our view. A private takeout of the large labs would seem more feasible. Labs, however, have relatively small amounts of hard assets when compared with other healthcare facilities' companies (i.e., hospitals), which have been taken private.' Tell it to Mr. Market: That demurrer notwithstanding, Quest closed up by 7.7%."

Is everyone ebullient? Not the fixed-income market. As bidders circled Time Warner this year, bondholders began to price in a degradation of credit quality. The Time Warner 4 1/2s of Sept. 15, 2042, leapt by almost 10 points on Tuesday, to 88.3 from 107.8 in January. Still, they have declined. "Event risk," they used to call it in those long-ago days before 2008. •

Picture of event risk



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