

2. The document attached hereto as Exhibit A is a true and correct copy of a letter from Richard E. Snyder, Chairman and Chief Executive Officer of Simon & Schuster, to Nicholas J. Nicholas, Jr., dated March 9, 1989. This letter was produced by Time to Paramount pursuant to Paramount's document request; however, Paramount has failed to produce this document to Time even though it is clearly responsive to Time's document requests.

3. The document attached hereto as Exhibit B is a true and correct copy of the Time Inc./Warner Communications Merger Company Report of Drexel Burnham Lambert Incorporated, dated March 7, 1989, and authored by John S. Reidy.

4. The document attached hereto as Exhibit C is a true and correct copy of Moving Toward Consolidation in the Entertainment Industry, a Wertheim Schroder & Co., Inc. report, dated March 1989, authored by David S. Londoner and Francine S. Blum.

5. The document attached hereto as Exhibit D is a true and correct copy of Eye on Entertainment, a Smith Barney research report, dated June 1989.

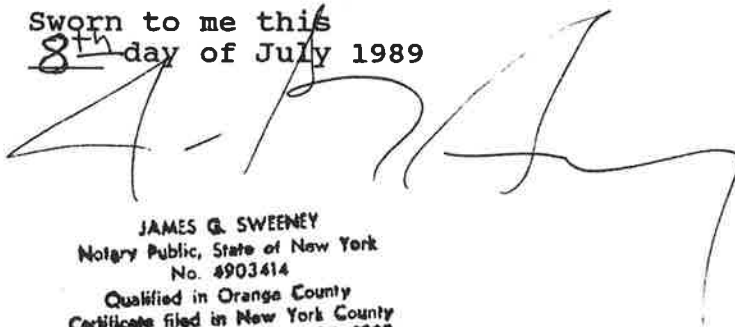
6. The document attached hereto as Exhibit E is a true and correct copy of the Minutes of the Time Board of Directors Meeting on June 16, 1989.

7. The document attached hereto as Exhibit F is a true and correct copy of the Recommendation Report of Wertheim Schroder & Co., dated June 19, 1989.



Rory O. Millson

Sworn to me this
8th day of July 1989



JAMES G. SWEENEY
Notary Public, State of New York
No. 4903414
Qualified in Orange County
Certificate filed in New York County
Commission Expires August 24, 1989

EXHIBIT A

S I M O N



S C H U S T E R

Richard E. Snyder
Chairman
Chief Executive Officer

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Dick #1

March 9, 1989

Nicholas J. Nicholas, Jr.
President
Chief Executive Officer
Time Inc.
Time-Life Building
Rockefeller Center
New York, New York 10020

Dear Nick:

My congratulations, coupled with my jealousy, for making the greatest deal ever imaginable! Fear and trembling strikes when we view your colossus but I think we will muddle our way through. It's a great concept, a perfect company and my congratulations to all your colleagues as well. But tell Kelso he's still number two!

I'm off this Friday night for the Jerusalem Book Fair and then we shall wend our way to Egypt. If we are back before you make your journey I will give you a call and advise you of all the pitfalls we have encountered and the beauty.

Best regards,

Richard E. Snyder

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EXHIBIT B

Index : 908023
 Title : Time Inc. Warner Communications Merger - Company Report
 Date : 07 MAR 89
 Source : DREXEL BURNHAM LAMBERT INCORPORATED
 Author : Reidy, J.S., et al
 Length : 2 PAGES

Investext Page 1 of 2

TIME INC. (TL - \$115 1/2)
 WARNER COMMUNICATIONS (WCI - \$48 7/8)

A Marriage of Equals/Powerhouse Merger

TIME INC.

Rating:	Market Performer	Shares outstanding:	57.2 million
52-Week Range:	\$122 1/2-84 1/8	Dividend:	\$1.00 Yield: 10.9%
EPS	1988A: 55.59	P/E	1988A: 20.6
	1989E: 58.20		1989E: 19.5
	1990E: 56.75		1990E: 17.1
Projected 5-year		Long-term debt/equity:	86.7%
growth rate:	11.3%	Return on equity:	25.0%
Market proxy ROR:	8.9%	Market cycle beta:	1.6%
Company ROR:	15.0%	S&P 500:	294.81

WARNER COMMUNICATIONS

Rating:	B+	Shares outstanding:	178 million
52-Week Range:	\$50 3/4-29 1/4	Dividend:	\$0.68 Yield: 1.4%
EPS	1988A: 31.44	P/E	1988A: 20.0
	1989E: 32.81		1989E: 17.5
	1990E: 33.65		1990E: 13.4
Projected 5-year		Long-term debt/equity:	70%
growth rate:	15%	Return on equity:	20.0%
Market proxy ROR:	8.9%	Market cycle beta:	1.59
Company ROR:	6.1%	S&P 500:	294.81

POINT OF VIEW

Time Inc. and Warner Communications' planned merger through a tax free exchange of stock will create a world class powerhouse entertainment and media company with estimated 1989 and 1990 EPS of around \$6.10 and \$7.50. The new company will be the world's most profitable recorded music company, probably the most profitable filmed entertainment company by 1990 and the largest supplier of television programs, the second largest cable company, the largest and most profitable domestic magazine company and one of the world's few \$1 billion book publishing companies. While the Warner stock shall be exchanged for 0.465 shares of TL, worth over \$53 1/2 per share based on Time's current price of \$115 1/2, the transaction is truly an amalgamation of relative equals. We estimate Time shall provide about 50% of this year's operating income but Warner should provide about 55% next year. If operating incomes Warner shareholders will own 60% of the value of the merged entity.

The new Time Warner Inc. will represent an "up" of the entertainment and media industries. We believe all broad based investment accounts will have to own its shares.

The WCI shares sell at a 9% discount to their value in Time Inc. shares and so they are our current preferred vehicle. We think the stock of the combined companies could sell at a 20-25% premium to the S&P 500. Based on our 1990 estimates, the Time Warner shares could sell in the \$125 area.

We are maintaining our BUY recommendation on WCI. While we have not altered our Market performer rating for Time Inc. we think the shares offer attractive longer-term appreciation potential.

DISCUSSION.

Time-Warner will have over \$10 billion of revenues and about \$850 million of after tax profits this year. The pooling of interests merger will result in an enterprise with only \$2.5 billion of combined debt and a stock market capitalization of about \$15.5 billion based on approximately 140 million shares of the new entity.

In 1990 when the expected breakout in Lorimar's earnings occurs, we estimate the new company shall derive operating income from its various businesses as follows:

Investext Page 2 of 2

Filmed entertainment - 22%; cable television programming providing an additional 9%; cable television systems - 22%; recorded music, including music publishing - 21%; magazine publishing - 16%; book publishing - 8%.

There are countless opportunities for synergies such as: Warner Bros. could make some films exclusively for Home Box Office, Lorimar could produce some programming for the combined companies' 5.5 million cable subscribers, Time Inc.'s direct marketing arms could sell videocassettes of Warner films and Warner recorded music, and the Time publications could be used to market Warner's filmed entertainment and recorded music products.

While it has not been discussed to date, we believe the merged companies over time could save \$50 million in overhead which would add EPS of \$0.25.

Among the key points which emerged in Monday's financial community meeting with Warner Communications' chief executive Steve Ross and Time Inc.'s chairman Dick Munro and president Nick Nicholas were:

- * Completion of the Time Warner merger will take about five months to obtain approval for transfer of cable television franchises. (The companies' SEC anti-trust issues).

- * The deal is SO SURE, the companies' believe that collectively

potential for cost cutting.

- * It is a tax free pooling of interests merger of equals with no new debt created and no goodwill amortization. There is no guaranteed minimum/ maximum dollar amount of TL stock that WCI shareholders will receive. They will get whatever 0.465 of TL are worth.

- * The merged entity will have large excess cash flow (after taxes, dividends and capital spending) which we estimate at close to \$1 billion in 1990. We think a major share repurchase is likely after the closing. The second major use of cash flow, in our view, is likely to be acquisition of compatible businesses, especially international music and film assets and cable television systems.

- * The companies do not know what Chris-Craft Industries (CCN-S33-Not Followed) -- which owns a 17% voting interest in WCI -- will do. CCN chairman Herb Siegel abstained on the merger vote. WCI has a right of "last refusal" on the CCN holdings of WCI, but Mr. Siegel could sell to an outsider willing to pay more than WCI.

- * Time Inc. refused to discuss plans for its 82% owned cable television subsidiary American Television and Communications Corp. (ATCMA-S40-Not Followed). There has been speculation that TL might buy up the public float of ATCMA.

- * WCI has a \$1.3 billion tax loss carryforward of which \$300 million is attributable to Lorimar and will be used shortly. The additional \$1 billion will be available to the merged entity.

WCI is at a 9% discount to its value in TL stock which we consider very reasonably priced.

Last Research Report on Time, Inc.: October, 1988

Last Research Abstract on Time, Inc.: October 11, 1988

Last Research Report on Warner Communications: November, 1987

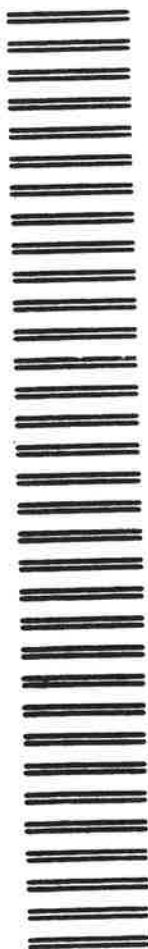
Last Research Abstract on Warner Communications: February 14, 1985

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**MOVING TOWARD CONSOLIDATION
IN THE ENTERTAINMENT INDUSTRY**



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Moving Toward Consolidation In the Entertainment Industry

**David J. Londoner, CFA
Francine S. Blum**

March, 1989

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Moving Toward Consolidation in the Entertainment Industry

Bread and Circuses

One of the important growth businesses in the next twenty years will be the entertainment industry.

We reach this conclusion traveling a number of roads, all of which flow in the same direction. Not the narrowest of these paths wends its way through Russia, China and the underdeveloped countries, which seem to offer vast potential markets for the action and adventure we see on the cinema and video screens. Karl Marx is outdated; *entertainment* is the opiate of the masses.

Two structural trends dominate developments in the entertainment business.

The technology for disseminating entertainment software is expanding, permitting the up-front cost of production to be spread over broader markets.

Advertiser-supported entertainment is increasingly being replaced by consumer paid-for programming, accelerating the revenue growth of the industry.

Beginning almost one hundred years ago with the invention of the motion picture projector, improvements in technology are both lowering cost and increasing convenience. Demand for entertainment is thus stimulated not only by

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lower prices, but by easier access. The ability to be entertained by high-quality, current programming in the living room is inducing consumers to increase their entertainment consumption and their willingness to pay for it. This is coincidentally broadening the sources of revenue, permitting ever more popular entertainment to be produced, and - in a circular fashion - further increasing demand.

This easy access to popular programming is having a corollary effect. The greatest broadening of "reach" in entertainment came in the 1950s with the mass purchasing of television sets. In 1949, a typical family went to the movies once a week. Today, motion picture attendance averages once a month in the U.S. population, but the same family has its television set turned on for a staggering seven hours and forty minutes a day.

By its nature at the time, television developed as an advertiser-supported medium, which limited its revenue to the amount which advertisers could justify paying, a figure which is a fraction of the amount a consumer might spend personally.

Make some easy calculations. If the cost-per-thousand of network television is \$8.00 for a 30-second commercial, and there are nine minutes of advertising in a prime-time hour, then 14.4 cents is spent collectively by advertisers to reach a typical home during one hour. That is literally peanuts compared to what will willingly be paid by the consumer himself for an hour's entertainment.

Cable television and videocassette recorders permit a consumer to spend directly for his amusement. They represent relatively straightforward technologies (especially compared to television itself), but massive economic changes. Fifty-dollar musical comedy tickets or \$100 World Series tickets are the extreme examples of how much an individual might pay for entertainment, but more common ones are simply the \$22.00 a month the typical cable viewer spends for his subscription, or the \$2.50 that a consumer will readily part with for a 95-minute film rented from the video store.

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The expansion in viewing was the inevitable result of the technological changes brought about by carrying moving images into the home. The expansion in dollars is the ongoing result of slowly converting that viewing from advertiser-supported programs to directly paid-for entertainment at much higher prices.

In the hustle of day-to-day deal-making in the entertainment business, the most obvious trends are sometimes the least observed. Talk abounds about the weakness in the one-hour syndication markets and the upsurge in European license fees. Discussion of the mega-movements which are precipitating those events is virtually nonexistent.

One typically thinks of the gross amount of entertainment expenditure in the United States as being the aggregate money spent on movie tickets, cable subscriptions, records, videocassettes and so forth. In terms of consumer budgets, however, entertainment outlays realistically include the cost of hardware as well, vaulting the number by \$28 billion in the USA alone to over \$60 billion. Possibly the true amount of money spent on entertainment should include the color television sets and video recorders themselves; they are in the entertainment budget as well as movie tickets and cassette rentals.

Our point is that entertainment expenditures in the United States are a huge and growing portion of consumer expenditures. These outlays are a smaller percentage elsewhere, and - as the reach of technology broadens out - will probably grow at a still faster rate abroad.

We are intrigued by the unusual economics of entertainment production. Unlike most businesses, which have an incremental cost of production for each dollar of sales, the entertainment business is structured with a sunk cost. The cost of production is laid out up front, and revenues are earned without meaningful incremental cost. (This gives rise to certain accounting questions which have been discussed in an earlier report.) The economics of the business is such that - ceteris paribus - incremental revenues drop largely to the bottom line. If a new market emerges, so do earnings.

Think back to the Middle Ages. For the medieval man, substantially all experience was circumscribed by the boundaries of his village and its surrounding area. Once a season, perhaps, into the village would arrive an Event - the traveling circus or puppet show, one of the few highlights of his dreary existence.

Everything changes but nothing changes. The television set is an allotropic form of puppet show. Religion may no longer be the opiate of the masses, but comedy, tragedy and pageant endure.

The Dominance of American-Made Programming

It is no secret to anyone who travels abroad that American movies are the world's most popular. A glance at a recent trade publication reveals that in the prior week, eight of London's top ten movies were U.S. exports, two were British-made films. In Tokyo, seven of the top ten were American. In Stockholm, six of the top ten.

In fact, the entertainment industry last year contributed \$8.5 billion to the U.S. balance of trade, the second largest net contributor after aerospace. The reason is no doubt that in Hollywood, budgets are higher, star values are greater, and the world's public has come to expect that a Hollywood picture delivers on a level only occasionally found in foreign films.

Not only feature films. British television plays over a dozen U.S.-made series in addition to *East Enders* and *Coronation Street*, but it airs virtually nothing from France, Germany or Italy, all of which have substantive television output.

No surprise, then: American entertainment companies dominate worldwide production and distribution, collect the highest revenues, and own the most valuable libraries. The significance of that fact governs our view of events over the next ten years.

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The Global Entertainment Giant

The early 1990s will witness the most profound structural changes in the entertainment industry since the 1949 Consent Decree, which divorced theatre ownership from film distribution.

Item: In 1960, virtually 100% of a distributor's worldwide revenue from feature films came from theatrical rentals. Today, the comparable figure is under 35%; almost two-thirds of revenue is now derived from markets which did not exist thirty years ago.

The globalization of entertainment and the variety of methods of distributing it - pay television, home video, barter syndication, direct broadcast satellite - make both domestic and overseas strategic alliances an important method of doing business. Trade barriers are breaking down (the European Community is the best example), and ownership of media companies and distributors are as a result becoming increasingly international. Enforcement of antitrust laws in the United States has been relaxed, and the way is opening for vertical and horizontal combinations not seen in the United States since the 1890 passage of the Sherman Act. Similar integration is increasingly being permitted in Europe.

The consent decrees governing the film and television business in the United States - the abovementioned "Paramount" decree and the network decrees - are being whittled away. Judge Palmieri has permitted theatre ownership by Paramount and Warner Bros. (joint venturers in the company which owns Mann Theatre), and other film companies such as Columbia (which was not a signatory to the decree) are important theatre owners without Justice Department objection. MCA (which is a signatory) has been permitted to own almost half of Cineplex-Odeon, the second largest theatre chain in North America. The three network consent decrees still stand, but a key portion of them - the restrictions on the number of prime time hours the networks can produce - will expire in November 1990. Hollywood and the networks have been in discussion for the last few years to resolve this issue of financial interest/syndication.

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The financial interest/syndication issue ("Fin/syn", as it is commonly called) is important to the outlook for the entertainment industry. Under these rules (i) a network is restricted (currently) to producing no more than five hours of entertainment programming shown in prime time; (ii) may not own a percentage interest in programming produced by others, and (iii) may not syndicate programming in the United States at all, or overseas unless the programming is owned by the network. For those programs which the network may produce - and only one network currently produces any series programming - the network-owner must sell the syndication rights for a flat fee to an unaffiliated syndicator. The Fin/syn rules were adopted by the F.C.C. in 1970, and further codified by consent decrees with the Department of Justice in 1978 and 1980.

The Fin/syn discussions now taking place between the studios and the networks revolve around the ability of the networks - after November 1990 - to produce all or substantially all of their own programming. Network production is a very large business for Hollywood; the networks buy over \$4 billion worth of programming a year, almost all of it from the major and independent film and television companies on the West Coast. A compromise is being sought, probably along the lines that the networks will be permitted to own part of (a financial interest in) network shows which Hollywood companies would produce. Presumably, the network would pay a higher license fee, which would cover a portion of the production deficit, and would end up with a portion of the back-end syndication proceeds. In this fashion, the networks could build their own program libraries and benefit from the aftermarkets that the studios find so lucrative when a program is successful.

The sticking point in the negotiations is likely to be whether the networks will be permitted to syndicate. The distribution of programming to local stations following the network run is a lucrative business. Its value is not only in the distribution fees earned, but in the marketplace power which comes with the distribution of a successful show. The distributor of a popular off-network show can launch the syndication of other shows along with it. These may be other off-network shows, movie packages or first-run programming; the market clout of a strong syndicator can help move middle-ranked product.

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If the Fin/syn negotiations result in a compromise, the joint proposal will go before Congress, which is likely to accept the settlement and solidify it through legislation. We think some compromise will be reached.

We dwell upon these regulations for a particular reason. They are the principal historical barriers to what we see as a major consolidation in the the entertainment industry. These barriers are about to be reduced or removed. We think this consolidation will take place during the 1990s, leaving a completely restructured industry.

The Reasons for Consolidation

The peculiar economics of the entertainment business described above points directly at consolidation. For a company which produces programming, control over the means of distribution is crucial. Since the sunk cost, the upfront cost of producing programming, is such a high proportion of the total cost of goods sold, it is advantageous that this programming be viewed by the largest possible audience. Control over the distribution channels in each market is the most direct way to assure broad distribution of the product and the maximization of those incremental revenues which drop so largely to the bottom line.

To maximize revenue and income, a production entity will need to exercise dominion over its end markets: theatrical, home video, pay television, network television, advertiser-supported cable networks and broadcast syndication; domestic and international; plus the emerging markets such as pay-per-view, direct-to-home satellite and future technologies.

There is a compelling economic impetus for control over these distribution channels. As the cost of production and marketing escalates, risk expands. The risk is so high in theatrical production that an estimated four out of five films fail to produce enough revenue to cover their cost, if one includes allocated overhead and interest. The bottleneck exists in distribution; many films do not get adequate theatrical release dates; only one out of four films is

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shown on network television, and HBO and Showtime have mostly exclusive deals which limit viewership. Consolidation of the industry will permit greater control over distribution, guaranteeing at least an opportunity for viewers to watch.

The U.S. producers and networks will in all likelihood be prevented from owning television networks and stations in most foreign countries, but minority interests probably will be permitted. (The same is true in the United States: foreign entities are not allowed to own more than 20% of a radio or television station under F.C.C. regulations, although various structures have been improvised to circumvent the rules.) We believe strategic alliances will be formed with foreign networks - both terrestrial and satellite - which will permit them access on a favorable basis to American programming, and give their American suppliers a guaranteed means of distribution in those foreign countries.

There is another question which is addressed by these international alliances. There is a limit on foreign content written in the television regulations of many foreign countries. The U.K., for instance, restricts non-E.C. programming to 14% of the B.B.C. and I.T.C. schedules. For American companies to circumvent these regulations, a production subsidiary in the European Community is not the answer - a subsidiary is still viewed as an American company. However, a French company which has a production co-venture with an American firm would produce product that would qualify as E.C.-produced - even if the American firm owned a minority interest in the French company. We believe such strategic alliances will mushroom in the near future.

The Mega-Media Conglomerates

The three broadcast networks and HBO are the largest buyers of entertainment product in the world. The Hollywood companies are the largest producers. Substantially all of the principal end markets have fewer than four competitors: there are usually three or four important television stations in a market; in pay-TV there are essentially two; typically two or three theatre chains dominate a local area. In foreign television, the number of outlets is grow-

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ing, but it is still small in most countries. Cable television in the U.S. is a pure monopoly (and increasingly is behaving as one).

Incentive is ample for combinations across those lines to guarantee broad distribution. When the legal barriers fall, we expect a rush toward consolidation. We believe there will be four or five major media conglomerates by the middle of the 1990s, each of which will encompass a network and/or HBO, an existing film and television producer/distributor, cinemas, free cable networks and important offshore alliances. In effect, it would represent a return to the pre-1950 situation in the motion picture business, when theatres (at the time the only means of exhibiting feature product) were under common ownership or control with the production entities.

Two companies are in the forefront of that trend. Rupert Murdoch's News Corp., the worldwide newspaper organization which is pioneering the concept of the global advertising buy, is also a model for what we think the future will bring to the entertainment business. News Corp. owns Twentieth Century-Fox Film Corporation, a fully integrated studio and distribution company and a middle-ranked television producer; it owns The Fox Network, a quasi-network which will soon broadcast three nights a week, and is expected to launch a fourth; seven television stations; and Sky Channel, the first attempt - with Disney - of non-Europeans to launch a European pay and advertiser-supported satellite network.

The second is the about-to-be created Time-Warner Inc. A model of what the global giants will look like, the new company will be the largest entertainment/media complex in the world, effectively integrating production, distribution and certain important end-markets. Its cable subsidiary will be second only to Tele-Communications Inc. in number of subscribers; it will be first in capital resources and equity value. Film and television production integrates handsomely with HBO/Cinemax; Warner combined with Lorimar -Telepictures is the world's largest producer of television programs. Warner's pioneering efforts in pay-per-view development will be materially enhanced by its new affiliations with the second largest cable entity and the dominant pay-TV network. And the ability to negotiate foreign equity arrangements is enhanced by Time-Warner's

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ability to distribute appropriate foreign-made programming in the United States. Other combinations will follow.

The chart on page 11 lists the principal actors on the domestic entertainment screen. Some further information of a financial nature is found in the table on page 18. These are the companies which will - if our thesis proves correct - be the major participants in the conglomerates we envision.

Corporate and Investment Strategies

Corporate strategies do not necessarily dictate parallel investment strategies. Our own investment research objectives tend to focus somewhere in between those of corporate managements and those of our position traders. We look at a time frame of about twelve months. Corporate managements might be looking out ten years; traders about four hours.

There are parallel objectives, however, in what we advise our corporate clients and our portfolio investor clients. We look at a rather large number of indicators when counseling investing, not the least of which is a little-used computation called sales per dollar of market value. The traditional yardsticks - price/earnings multiple, capitalization and cash flow - may have greater significance, but sales per dollar of market value gives an indication of the kind of leverage one obtains by buying a stock. Or a company. From the viewpoint of a corporate acquirer, as differentiated from a portfolio investor, that figure becomes even more important.

The table on page 21 shows the relevant financial statistics for the companies covered.

The economic advantages to consolidation are sufficiently profound to lead us to the conclusion that mega-mergers will alter the structure of the entertainment business over the next five years. The ability to amortize the increasingly high cost of programming over a greater number of outlets is the

BUSINESSES OF MAJOR DOMESTIC ENTERTAINMENT COMPANIES

Principal Corporations	Film Prod & Dist	TV Prod & Dist	B'cast Network	Aff'd TV Stations	Indep TV Stations	Cable Systems	Cable Network Ad-Sales	Pay Cable Network	U.S.-Based Cinemas (Screens)	Foreign Cinemas	Foreign Satellite Networks
CBS Inc.		Medium	CBS	5							
Capitol Cities/ABC		Medium	ABC	8			ESPN Others				
Columbia Pictures	Large	Large							Loews 822		
Walt Disney Company	Large	Medium			104			DisCms			1/2 Sky
General Electric		Medium	NBC	7			1/2CNBC Others				
Gulf+Western	Large	Large			Open TVX 4		Met/BcGm 1/2 USA		1/2Mann 486	FmaPhyre 1/2 UIP	
MCA Inc.	Large	Large			WWOR		1/2 USA		48%ComOd 1892	1/2 UIP	
MGM/UA	Medium	Medium									
NewsCorp	Large	Medium	Fox	Fox-Affls 7							1/2 Sky Others
Orion Pictures	Medium	Small									
Tele-Communications Inc.						Large	Interests		Via Units Cap 2877		
Time Inc.		Small				Large		HBO Cinemas			
Turner Broadcasting	Own MGM Library				WTBS		CHARLES TNT				CNN
Viacom Inc.		Large in Disarb		4		Large	MTV, Max Others	Showtime /TMC	Affs to NatAmunt		Int in MTV Eur
Warner Comm.	Large	Large			Indirect (CCN)	Medium			1/2Mann 486		

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best way of maximizing profits. (Well, the second best way; the best is still to produce hit shows.) This implies vertical integration.

Much of the merger-related activity now under way looks toward vertical integration of a different variety. The current activity involves foreign entities in the consumer electronics business looking for footholds in entertainment. It carries a different but equally compelling economic logic.

Worldwide entertainment hardware is a \$120 billion business today; over the next twenty years it will represent a cumulative \$3 trillion in sales. To the extent that Sony, for instance, can increase its market share by two or three percentage points in those markets, that is a sizable amount of money. Ownership of a software production entity would assure availability of program material for a new entertainment appliance, giving Sony the ability to promote its hardware with software. *Buy a new optical videodisc player for \$800 and get five James Bond discs for \$19.95; retail value \$124.75.*

Much of today's activity appears to represent Sony, Philips, Matsushita and other hardware manufacturers looking for a way to integrate forward. Akio Morita, Sony's chairman, has been widely quoted as saying that if Sony had owned a studio, Beta would today be the dominant tape format.

In our five year view, studios will be gobbled up either by consumer electronics companies or by other entertainment conglomerates. Those that are part of consumer electronics companies may be at a disadvantage, lacking the entertainment integration necessary to amortize production costs, but could in the end contribute even more to their parents' profits by promoting hardware. Those that are part of an integrated distribution network should ultimately dominate the entertainment business and share directly in that important growth.

We think the less well-positioned entities will be acquired first; the stronger, more profitable companies may not change hands until after the regulatory barriers fall. Indeed, some of the second-tier motion picture companies may join with first-tier ones to be part of the industry consolidation, in the way that Lorimar joined up with Warner prior to the Time-Warner announcement.

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If that is so, MGM, Columbia and Orion could be sold before MCA, Paramount and Disney combine with other companies. The first three will more likely be sold, the others merged - like Warner - on a basis that keeps their shareholders involved in the surviving entity. There are accounting reasons for those types of transactions as well; one would prefer to use pooling-of-interest treatment for the companies which use conservative accounting (Warner, Disney, Gulf+Western), but might be better off with purchase treatment for those with high film inventory valuations (MGM, Columbia and Orion).

From an investor's viewpoint, there are short-term opportunities and long-range strategies. The short term will probably reward investors who buy MGM, Orion and Columbia, even though they represent less value than the other motion picture companies. Since these will probably be sold, not merged, the premiums over market should be higher. Warner is getting a premium of only 20% in the Time merger and is being merged at a price below its \$60 breakup value. That is because Time itself is selling at about half its breakup value. If Time had purchased Warner for cash, Warner holders would probably have received a higher immediate value but would not have shared in any of the future growth that the combination implies.

For the other companies, larger premiums should likewise be paid for those to be sold than those to be merged. Accordingly, even though they are not considered undervalued, we might suggest trading-oriented purchases of Orion and Columbia. Both would seem to have near term possibilities, especially if Columbia can indeed improve its feature film business under its new management. MGM/UA is still considered too fully priced, although a buyer should be genuinely attracted to its *Bond* and *Rocky* films.

For investors, the obvious choice is Gulf+Western, the most undervalued stock in the movie group. Paramount is a jewel, a powerful library coupled with a top-notch production team. Contributing one-third of Gulf+Western's earnings, Paramount is the world's most profitable studio. Both sister companies, Associates Corp. and Simon & Schuster are valuable properties as well; the breakup value of Gulf+Western is in the low \$70's, some 50% above today's

price for the shares. The stock is also at a very reasonable 13x multiple on fiscal 1989 estimated earnings of \$3.60 a share.

Disney offers the most impressive growth, and its solid franchise and properties mark it as the best long range investment in the group. Disney, however, is the least likely to be sold. It will almost surely be the dominant part of any combination and accordingly will very likely suffer earnings dilution when it merges. Its prospective partners will probably receive the premium, in part because Disney can pay cash for whatever it buys, or it can pay high-multiple stock for whatever it joins with in a merger. The stock is viewed as undervalued on its own fundamentals, not on its merger prospects.

MCA is viewed as a likely candidate for early consolidation. We have been critical of MCA's lack of growth during this decade, and are not at all convinced that it has solved its problems on the creative side. Nevertheless, it is one of the dominant studios in both features and television and has an extremely valuable library. What is unclear is whether MCA will be sold outright (presumably above \$70 a share) or merged with another entity. Unless such a merger were for high-multiple stock (such as Sony's, for instance), the premium to market could be narrow. MCA might also be the dominant part of the survivor and accordingly might not receive much of a premium for its shares. Our estimate of breakup value, which is more conservative than that of many others, is \$65 a share. The stock should work higher but it is not our first choice in the group.

As regards the networks, we think they will each eventuate as part of one of these mega-media enterprises. General Electric's NBC is quite obviously more likely to be an acquirer than a seller, although we are not one hundred percent convinced that top management at GE is indelibly committed to the entertainment business. CBS and Capital Cities/ABC are both considered attractive; private market values are approximately \$275 and \$625 respectively, both 60%-70% above today's market prices. Although the network business by itself is mature competitive, it is the largest buyer of entertainment product, and captive outlets are the economic requirement we discussed earlier. Capital Cities is a better positioned company than CBS - it has more stations - but CBS

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has the most liquid capitalization of any major company in the United States. We like both stocks.

Finally, Time-Warner. Together, they make a potent enterprise, arguably better equipped to compete in world markets than any of their existing counterparts. The message in this paper is that they will not hold this advantage for long, but having a head start on the competition is itself valuable. We like the combination and like the two stocks separately as investments.

Conclusion

There are compelling economic arguments for consolidation in the entertainment industries. These emanate from the concept that control over end markets is particularly attractive in industries where sunk costs are more important than variable costs. To be able to spread those sunk costs over broader and better controlled markets implies a meaningful gain in profits. Time-Warner is the first consolidation to take advantage of these arguments.

We think it is the first of several. The game about to be played is musical chairs, *allegro vivace*. It is advantageous for a producer/distributor to join with a broadcast and/or pay network. There is a strong case to be made that regulatory barriers will fall, easing the way for further mega-mergers within the business.

We believe the financial interest rules which prevent networks from owning interests in programming will soon be dropped, and there is a high probability that the prohibition against network syndication efforts will be dropped as well.

Investors should be involved. The winners in this big-stakes poker game will not be made obvious merely from a view of the standard investment yardsticks. The traditional tools of investment analysis - price/earnings multiples, book values and returns on investment - may be less important than an intensive view of the politics and personalities in these businesses. Enter-

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tainment corporations have strengths and weaknesses that only occasionally appear in the reported financial figures. Position, market strength, creative energy and library values remain unaudited by the Big Eight.

Depending on price, our favorite investments here are Gulf + Western, Capital Cities/ABC, Disney and Warner, all of which are officially on our Recommended List, and CBS, which is not currently. Time Inc. is favored also, although we would rather purchase Warner to take advantage of the discount from its exchange value in the merger. In more speculative accounts, we are tempted by Orion, as the smallest of the principal studios.

From a corporate viewpoint, long range strategies will need to be telescoped. The rapidity of change is accelerating, and taking the road of lengthy contemplation will lead to missed opportunity. This is the period in which everyone is talking to everyone else, sounding each other out and looking for openings. The talking period, we suspect, will not last long and the moment for action and deals will follow shortly.

David J. Londoner

Francine S. Blum

March, 1989

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FINANCIAL STATISTICS FOR MOST RECENT TWELVE MONTHS
(\$ in millions, except per share)

Company (Symbol)(Fiscal Yr.)	Total Revenues	Entertainment Revenues	Net Income	Shrs. Outst.	Recent Price
CBS Inc. (CBS)(1991)	92,779	92,779	5399	29.6	8172
Capital Cities/ABC (CCB)(1991)	4,779	3,799	387	19.2	378
Columbia Pictures (CPE)(1991)	1,148	1,148	17	110.7	17
Wall Disney (DIS)(1991)	3,499	3,499	522	139.2	78
General Electric (GE)(1991)	39,899	3,999	3,399	999.0	48
Gulf + Western (GW)(1991)	5,199	1,999	399	119.2	48
MCA Inc. (MCA)(1991)	3,094	2,299	199	73.0	99
MGM/UA (MGM)(1991)	679	679	(49)	99.4	17
News Corp. [*] (NWS)(1991)	4,399	1,299	341	139.2	19
Orion Pictures (OPC)(1991)	399	399	7	17.9	19
Telco-Communications (TCOM)(1991)	2,149	2,149	29	149.9	29
Time Inc. (TL)(1991)	4,997	1,994	299	97.9	119
Turner Broadcasting (TBA)(1991)	997	997	(99)	72.9	27
Viacom Inc. (VIA)(1991)	1,299	1,299	(199)	99.4	49
Warner Comm. (WGT)(1991)	4,999	4,997	499	149.1	49

Converted to U.S. dollars.

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FINANCIAL STATISTICS FOR MOST RECENT TWELVE MONTHS
(\$ in millions, except per share)

Company (Symbol/Fiscal Yr.)	SBL Mkt. Value	•	I.T. Debt	=	Total Mkt. Value (TMO)	Total Sales/ TMV	Ent. Sales/ TMV	1988	
								P/E	P/B
CBS Inc. (CBS)(1991)	4,046.7		998		4,997.7	90.98	90.98	911.02	13.8
Capital Cities/ABC (CCB)(1991)	6,578.1		1,688		7,776.1	0.81	0.46	22.31	16.8
Columbia Pictures (CPE)(2/89)	1,882.4		1,178		3,062.4	0.38	0.38	0.20 E	65.0
Walt Disney (DIS)(8/90)	10,173.2		498		10,698.7	0.32	0.32	3.80	20.1
General Electric (GE)(1991)	40,822.8		2,488		44,121.8	0.88	0.88	3.75	12.0
Gulf + Western (GW)(10/91)	5,388.3		1,388		6,748.8	0.78	0.28	3.21	14.4
MCA Inc. (MCA)(1991)	4,081.7		1,213		5,274.7	0.57	0.48	2.28	24.6
MGM/UA (MGM)(8/91)	887.1		888		1,516.8	0.44	0.44	(0.97)	n.m
News Corp. [*] (NWS)(8/90)	2,516.1		4,084		6,578.0	0.88	0.18	2.17	8.7
Orion Pictures (OPC)(2/89)	281.8		388		688.8	0.58	0.58	0.88 E	28.3
Tels-Communications (TCOMAX)(12/91)	4,120.3		5,988		10,088.3	0.21	0.21	0.90	94.3
Time Inc. (TLX)(1991)	8,888.7		1,488		9,881.7	0.88	0.24	5.81	23.1
Turner Broadcasting (TBSA)(1991)	2,871.8 **		1,213		3,384.8	0.24	0.24	(2.18)	n.m
Viacom Inc. (VIA)(1991)	2,121.8		2,888 **		4,913.8	0.28	0.28	(2.84)	n.m
Warner Comm. (WCI)(1991)	7,818.4		748		7,788.4	0.84	0.88	2.88	18.5

* Converted to U.S. dollars.

** Includes preferred.

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EARNINGS ESTIMATES

COMPANY (FISCAL YEAR)	RECENT PRICE	12 MONTH RANGE	SHARES OUTST	FULLY DILUTED E.P.S.				1989 % INC	P/E 1989 EST
				1986	1987	1988	1989E		
S & P Industries	342	342-278		\$14.57	\$30.48	\$28.68	\$27.30	0%	12.5

ENTERTAINMENT

DISNEY (8/30)	R	77	78-84	138	\$1.57	\$2.88	\$3.80	\$4.78	25%	16.2
GULF + WESTERN (10/31)	R	47	48-58	118	1.89	2.88	3.21	3.88	12%	13.1
WARNER COMMUNICATIONS	R	88	88-98	108	1.58	2.88	2.87	2.88	0%	17.2
MCA		55	55-58	73	2.02	1.88	2.28	2.35	4%	23.4
MGM/UA (8/31)		17	18-7	88	0.31	(1.88)	(.87)	(1.50)	N.A.	N.A.
Columbia Pictures (2/28)		18	187-7	112	0.58	0.87	(.88)	0.20	N.A.	90.0
Orion (Oct. 2/28)		18	20-11	22	0.44	0.88	0.80 E	0.70	17%	22.9

BROADCASTING, CABLE & MEDIA

CAPITAL CITIES	R	378	385-287	17	\$11.28	\$18.48	\$22.31	\$25.88	15%	14.8
Gannett Co		37	40-28	181	1.71	1.88	2.28	2.38	4%	15.7
CBS		174	188-148	28	2.82	5.74	11.02	9.58	-14%	18.3
News Corp. ADR (8/30)		18	22-18	138	0.58	1.88	2.17	2.18	-1%	8.8
Time Incorporated		117	125-78	57	2.40	4.18	5.01	6.00	20%	19.5
Viacom		48	41-18	48	—	(3.28)	(3.84)	(2.28)	N.A.	N.A.
Tele-Communications Int.		28	28-15	174	0.81	0.84	(.20) E	N.A.	N.A.	N.A.
Turner Broadcasting		28	28-10	70	(5.48)	(4.40)	(3.18)	(3.28)	N.A.	N.A.

OTHER COMPANIES MENTIONED IN THIS REPORT

General Electric		48	48-58	888	\$2.73	\$2.38	\$3.75	\$4.28	13%	10.8
Messersmith ADR (Oct. 3/31)		88	238-187	188	5.88	8.73	8.58 E	9.30	0%	8.8
Philips NV		18	18-12	288	2.02	1.88	2.08	N.A.	N.A.	N.A.
Sony Corp. ADR (Oct. 3/31)		58	88-38	288	1.12	1.18	1.88 E	2.00	5%	28.5

R: On Weithem Schroeder Recommended List

A: Actual E: Estimated

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EXHIBIT D

EYE ON ENTERTAINMENT™



Holy blockbuster! At least, that's what Warner hopes will be the fate of its new "Batman" movie (starring Michael Keaton).

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This Month

Considering Paramount's willingness to be a spoiler in the planned merger of Time and Warner -- two very important customers, suppliers and competitors -- it seems that anything is now possible in the increasingly incestuous entertainment industry. Last month's lawsuits (Viacom vs. HBO, Paramount vs. Showtime, Murdoch vs. Disney) seem like small potatoes compared with the full-scale warfare that has broken out since. Note that all of the activity so far has been within the industry; things will become even more interesting if we see some outside bidders, which would further confirm the desirability of these assets. Accordingly, this issue of *Eye* includes updated asset value estimates on the companies likely to be involved.

There has been much discussion about Martin Davis' real motives in pursuing Time, Inc. Was he seeking to protect Paramount's position in the industry by dealing a serious blow to a competitor (i.e., if Time and Warner want to get together, make them leverage up to do it)? Whether he was or wasn't, this already has been achieved. Was Mr. Davis putting Paramount in play? I seriously doubt that this was the primary motivation, but it must have been recognized as a possible -- and perhaps not unacceptable -- outcome; the bid for TL has certainly moved PCI's own asset value into the limelight. Or is Paramount simply hell-bent on having Time, Inc., and willing to go the distance -- perhaps \$200-plus per share -- to accomplish this? Only the developments of the next few weeks will tell. But I must say, if Mr. Davis does wind up with Time, I'm not at all certain that I like the deal -- especially if it's above \$175. And not only because of the leverage; there have been some very successful leveraged entertainment

stories before, i.e., Viacom and Turner Broadcasting. Conceptually, the business mix is simply not that attractive. As described by management, the new company's revenue mix would be as follows:

Filmed Entertainment	39%
Books	27%
Magazines	23%
Cable	11%

Fully half of sales would be coming from publishing, an area in which Paramount has



Is The Joker actually behind the Paramount-Time-Warner battle? (Jack Nicholson in Warner's "Batman.")

lately faltered. It didn't get much attention at the time, because the bid for TL came on its heels, but Paramount's April quarter results showed a problem in publishing. The loss was much larger than expected (-\$26 million versus the estimated -\$5 million), and management suggested that full-year operating income could be flat. Ongoing problems in information services and difficult comparisons in bestseller titles are responsible for the weakness. But publishing isn't such a hot business, anyway -- at least not compared to entertainment. It can be

cyclical and requires heavy capital spending and political maneuvering (textbook adoption), but doesn't offer much leverage on the upside. Films do, but a cynic could argue that Paramount will be hard-pressed next year to surpass what is sure to be a bang-up performance this year ("Scrooged," "The Naked Gun," "Pet Sematary," "Indiana Jones," "Star Trek" and the yet-to-come "Black Rain," "Harlem Nights," "Hunt for Red October" and "The Two Jakes"). Would a combination of Time and Paramount really be a growth company? Viacom and Turner Broadcasting were generating annual operating income gains of 30% to 40% or higher; Paramount could be a low-teens grower (if even that). That would mean an awfully long and drawn out deleveraging scenario.

A Time/Warner combination, on the other hand, would be a company with a much more diversified business mix, resulting in a higher rate of growth, and a more exciting stock to follow (and to own). The combined company's revenue mix would be roughly as follows:

Filmed Entertainment	23%
Records	22%
Magazines	19%
Cable Systems	14%
Cable Networks	11%
Books	11%

And, very significantly, more of the businesses have upside than in the Time/Paramount combination. First, Warner's extensive overseas distribution system and clout could help "internationalize" some of Time, Inc.'s businesses; Paramount is just not as strong in foreign markets. Second, Warner's generally has been a more visionary and aggressive management. Warner knows the cable business and, with its own cable systems, could leverage not only Time's cable

systems, but especially its cable networks. True, records are unlikely to keep growing at 50% a year, but they will grow at better than 20% a year. And perhaps the greatest upside lies in the filmed entertainment division, for two reasons: first, Warner's film performance has been so-so and therefore has plenty of room for upside; and second, television is on the verge of a significant expansion in profits -- the whole rationale for the Lorimar acquisition was the growth it will have in 1990 and beyond, domestically and abroad.

Finally, I would point out that, while the focus has been on Time as the company being fought over, the real gem among these three has to be Warner -- whether one considers business mix, cash flow, growth rates, or management, Warner comes out on top and is the real plum in this battle.

If we are now in an environment where anything goes, then it makes sense to review the asset valuations of companies that already are-- or could become -- involved in the takeover arena.

**Columbia Pictures Entertainment
Estimated Asset Value**

	(millions)	
Film		
Library (3,200 titles)	\$ 1,500	\$ 1,600
Distribution Network/Name Franchise	325	350
Television		
Syndicable series (discounted CF)	350	400
Catalog (22,000 episodes)	450	500
Merv Griffin (\$100 million of CF/year x 4-5)	400	500
Daytime serials (\$20 million of CF/year x 3-4)	60	80
Loews Theatres (\$70 million of 1989 CF x 10-11)	700	770
Burbank Studio (45%)	150	200
Cash and Receivables	475	475
Debt	(1,250)	(1,250)
Net Asset Value	3,160	3,625
Per shares (112 million)	\$28	\$32



Columbia has nothing to fear from "Ghostbusters II;" the film did \$30 million in its opening weekend, setting a new all-time record. (Pictured: Ernie Hudson, Dan Aykroyd, Bill Murray and Harold Ramis.)

MCA, Inc.
Estimated Asset Value

	(millions)	
Film		
Library (3,000 titles)	\$ 1,400	\$ 1,500
Distribution Network/Name Franchise	325	350
Television		
Catalog (12,000 episodes)	350	400
First-Run series 200	250	
Studio Tour/Amphitheatre - 12x-13x \$35 million Op. Inc.	420	455
Florida Tour	400	400
Cineplex Odeon - 22 million shares @ \$13	286	286
USA Network (50% owned with Paramount)	400	500
Music Entertainment - 11x-12x '89 Est. Op. Inc. \$60	660	720
Retail/Mail order - 9x-10x \$15 million Op. Inc. (normalized year)	135	150
Book Publishing - 13x-15x \$28 million Op. profit	364	420
Toys - 10x-11x \$35 million Op. Inc. (normalized year)	350	385
Undeveloped Land		
400 acres Florida \$100 - \$200 million	1000	1200
420 L.A. (Universal City) \$900 - \$1000		
Office Building/Hotel	300	400
50%		
Cash	150	150
Debt	(1000)	(1000)
	\$5740	\$6566
Per share (73 million)	\$79	\$90

Orion Pictures Corporation
Estimated Asset Value

	(millions)	
Film		
Library (810 titles)	\$ 550	\$ 600
Distribution System/Franchise	300	325
Television		
"Cagney & Lacey" - 125 episodes	30	35
"Adderly" - 120 episodes	10	15
"Hollywood Squares"	5	10
"Crimewatch Tonight"	15	20
Debt	(410)	(410)
	\$ 500	\$ 595
Per Share (18 million)	\$28	\$33

Source: SBHU estimates.

Paramount Communications, Inc.
Estimated Asset Value

	(millions)	
Associates (F89 Est. Op. Inc.: \$440 mil. Adjusting for overly conservative reserves could add 10% + to Op. Inc. Book Value: \$1.2 bil. Japanese buyer could pay a premium; Associates could be sold in 2 or 3 pieces.)	\$ 4,000	\$ 4,200
Publishing (15x-17x F89 Est. Op. Inc. \$210 mil.)	3,150	3,570
Paramount (12x-13x F89 Est. Op. Inc. \$275 mil.)	3,300	3,575
Distribution System/Logo	325	350
Famous Players (Canadian theatre circuit \$40 mil. CF x 9-10)	360	400
MSG (Madison Squared Garden Arena } \$50 mil. pot. Knicks, Rangers (\$50-\$100 mil.) } op inc. MSG Cable Network - 5 year Yankees rights) (\$700 mil.)	800	1,000
USA Network (50% owned with MCA)	400	500
Cash	700	700
Debt	<u>(1,300)</u>	<u>(1,300)</u>
	\$11,735	\$12,995
Per share (117 million)	\$98	\$111

Warner Communications, Inc.
Estimated Asset Value

	(millions)	
Film Library/Studio	\$ 2,400	
Distribution System/Logo	325	350
Warner/Lorimar Television	2,000	2,200
MGM Lot/Lab	150	175
Recorded Music (13-14 x 1989 Est. Op. Inc. \$320)	4,160	4,480
Cable TV (1.6 mil. subs x \$2,200-\$2,400)	3,520	3,840
BHC TV Stations	250	275
Publishing (16x-17x 1989 Est. Op. Inc. \$14)	224	238
Turner Broadcasting Interest (1.3 mil. B shares)	47	47
Miscellaneous (Hasbro, Franklin Mint, etc.)	800	800
Cash	600	600
Debt	<u>(1,200)</u>	<u>(1,200)</u>
	\$13,076	\$14,205
Per share (180 million)	\$73	\$79

Focus On Upcoming Quarterly EPS

If anyone still cares about fundamentals, here's a preview of the second-quarter earnings reports for the large-cap entertainment companies.

Disney - I'm looking for another good quarter here, but without the magnitude (and surprise) of gains seen in the past two reports. Park profits could be up nearly 30%, but film earnings should be about flat: Disney is seeing excellent

ancillary sales from last year's hits, but the current box office is unexciting. Consumer products profits still are growing, albeit more slowly. Slightly higher G&A and slightly lower interest income should reduce pretax growth to 20%. EPS should come in at about \$1.44 versus last year's \$1.20. Street consensus is around \$1.40 to \$1.45, so results should be pretty much in line with expectations.

WALT DISNEY CORPORATION QUARTERLY RESULTS AND FORECAST -----(\$ millions)-----

	3QFY89A	3QFY88A	Change
Revenues			
Entertainment & Recreation	725.0	599.9	21%
Film Entertainment	325.0	259.6	25%
Consumer Products	95.0	56.1	69%
Total Revenues	1,145.0	915.6	25%
Operating Income			
Entertainment & Recreation	246.0	190.5	29%
Filmed Entertainment	50.0	47.9	4%
Consumer Products	42.0	33.0	27%
Total Operating Income	338.0	271.4	25%
Operating Margins			
Entertainment & Recreation	33.9%	31.8%	
Filmed Entertainment	15.4%	18.5%	
Consumer Products	44.2%	58.8%	
Total Operating Margin	29.5%	29.6%	
Corporate G&A	(28.0)	(25.8)	9%
Interest Expense	(5.0)	(0.1)	
Interest Income	15.0	20.8	-28%
Pretax Income	320.0	266.3	20%
Taxes	(121.6)	(101.2)	20%
Tax Rate	38.0%	38.0%	
Income Cont. Ops.	198.4	165.1	20%
Discont. Ops.		0.0	
Net Income	198.4	165.1	20%
Average Shares	138.1	137.3	1%
EPS Cont. Ops.	\$1.44	\$1.20	19%
Discont. Ops.	\$0.00	\$0.00	
Net	\$1.44	\$1.20	19%

MCA - The improvement here continues, and 2Q results should show further evidence of it. Better results at the box office are making the biggest difference, but stemming losses in toys and retail as well as improvement at the studio tour, WOR-TV and USA Network are all helping.

Everything that has been going wrong here is now improving, and the cumulative effect on EPS can be impressive. I am looking for \$0.54 versus last year's \$0.11, which included a significant loss in the toy sector. Street consensus is \$0.50, and if there's a surprise, it'll be on the upside.

MCA, INC.
QUARTERLY RESULTS AND FORECAST

-----(\$ millions)-----

	2Q89A	2Q88A	Change
Revenues			
Filmed Entertainment			
Theatrical	\$90.0	\$56.9	58%
Television	150.0	125.0	20%
Home Video & Pay TV	105.0	96.3	9%
Studio Tour	32.0	26.1	23%
Other	12.0	4.6	
Total Filmed Entertainment	389.0	307.1	27%
Records and Music	150.0	136.2	10%
Retail and Mail Order	45.0	56.1	-20%
Book Publishing	42.0	43.2	-3%
Toys	32.0	27.5	16%
WOR-TV and USA Network	45.0	35.5	27%
Other Operations	30.0	37.7	-20%
Total Revenues	733.0	643.6	14%
Operating Income			
Filmed Entertainment			
Theatrical (E)	15.0	5.0	
Television (E)	12.0	15.0	-20%
Home Video & Pay TV (E)	15.0	25.0	-40%
Studio Tour (E)	10.0	7.0	-43%
Other (E)	3.0	2.3	30%
Total Filmed Entertainment	55.0	54.3	1%
Records and Music	13.0	10.3	26%
Retail and Mail Order	(3.0)	(5.3)	
Book Publishing	6.0	5.5	9%
Toys	(4.0)	(33.7)	
WOR-TV and USA Network	5.0	2.2	
Other Operations	7.0	15.3	-54%
Total Operating Income	79.0	48.6	63%
Operating Margins			
Filmed Entertainment			
Theatrical (E)	16.7%	8.8%	
Television (E)	8.0%	12.0%	
Home Video & Pay TV (E)	14.3%	26.0%	
Studio Tour (E)	31.3%	26.8%	
Other (E)	25.0%	50.0%	
Total Filmed Entertainment	14.1%	17.7%	

MCA, INC.
QUARTERLY RESULTS AND FORECAST
 -----(\$ millions)-----

	2Q89A	2Q88A	Change
Records and Music	8.7%	7.6%	
Retail and Mail Order			
Book Publishing	14.3%	12.7%	
Toys			
WOR-TV and USA Network	11.1%		
Other Operations	23.3%	40.6%	
Total Operating Margin	10.8%	7.6%	
Corporate G&A	(5.0)	(5.0)	0%
Investment Income	5.0	(12.3)	
Interest Expense	(17.0)	(18.9)	-10%
Pretax Income	62.0	12.4	
Taxes	(22.3)	(4.3)	
Tax Rate	36.0%	34.7%	
Net Income	39.7	8.0	
Average Shares	73.0	72.9	0%
EPS	\$0.54	\$0.11	



Universal's "Field of Dreams," with Kevin Costner, Amy Madigan, Gaby Hoffman and Dwier Brown, has added to the improvement in filmed entertainment results for MCA.

Paramount - The July (FY3Q) report won't be out until late August/early September, but it's shaping up pretty well so far. Seasonally, this is a strong quarter for publishing, and the recent sensational box office performance will help filmed entertainment. Look for EPS from continuing operations to be somewhere in the range of \$0.75 versus last year's \$0.53. The

momentum at Associates continues, and EPS there (booked as discontinued operations) should add another \$0.59 or so, versus last year's \$0.50, bringing final net to \$1.35 versus \$1.03. Street consensus in somewhat lower, so this could be a pleasant surprise if investor focus has returned to fundamentals by then.

PARAMOUNT COMMUNICATIONS, INC.
QUARTERLY RESULTS AND FORECAST
-----(\$ millions)-----

	3QFY89A	3QFY88A	Change
Net Sales			
Publishing/Information	425.0	385.4	10%
Entertainment	500.0	409.7	22%
Total Sales	925.0	795.1	16%
Operating Income			
Publishing/Information	130.0	105.1	24%
Entertainment	60.0	38.7	55%
Corporate Expenses	-14.8	-14.5	2%
Total Operating Margin	175.2	129.3	35%
Operating Margins			
Publishing/Information	30.6%	27.3%	
Entertainment	12.0%	9.4%	
Total Operating Margin	18.9%	16.3%	
Other Income	0.0	3.6	
Interest Expense	-27.0	-27.3	-1%
Pretax Income	148.2	105.6	40%
Taxes	-59.3	-42.2	40%
Tax Rate	40.0%	40.0%	
Earnings from Cont. Ops.	88.9	63.4	40%
Discontinued Operations	70.0	60.0	17%
Net Earnings	158.9	123.4	29%
Dividends on Preferred Stock	0.2	0.2	0%
Average Shares	118.0	119.9	-2%
Fully Diluted EPS -			
Cont. Ops.	\$0.75	\$0.53	43%
Discont. Ops.	\$0.59	\$0.50	19%
Net	\$1.35	\$1.03	31%

Warner - 2Q results here should show very impressive growth in each of WCI's three major segments, although note that 1988 results have been restated to reflect the Lorimar acquisition, so comparisons in filmed entertainment look even better than they are. Also, the stellar gains seen in recorded music in the last few quarters won't be matched. Generally, business looks good all around; combined operating profit growth of 70%

will attest to that. Merger costs and SARs will cause a hiccup in the G&A line, and interest costs relating to the Lorimar acquisition will make for difficult comparisons there, resulting in EPS from continuing operations of \$0.45 versus last year's \$0.17. Last year's final net of \$0.38 per share included a gain on the sale of Viacom securities.

WARNER COMMUNICATIONS, INC.
QUARTERLY RESULTS AND FORECAST
-----(\$ millions)-----

	2Q89A	2Q88A	Change
Revenues			
Filmed Entertainment	550.0	497.6	11%
Records & Music Publishing	570.0	483.1	18%
Cable and Broadcasting	140.0	112.2	25%
Publishing/Distribution	40.0	35.9	11%
Total Revenues	1300.0	1128.8	15%
Operating Income			
Filmed Entertainment	65.0	13.7	374%
Records & Music Publishing	91.0	72.7	25%
Cable and Broadcasting	24.0	19.5	23%
Publishing/Distribution	2.0	1.4	43%
Total Operating Income	182.0	107.3	70%
Operating Margin			
Filmed Entertainment	11.8%	2.8%	
Records & Music Publishing	16.0%	15.0%	
Cable and Broadcasting	17.1%	17.4%	
Publishing/Distribution	5.0%	3.9%	
Total Operating Margin	14.0%	9.5%	
Corporate G&A	-50.0	-25.8	94%
Interest Expense, Net	-24.0	-16.6	45%
Gain on Sale of Investments		35.0	
Pretax Income	108.0	99.9	8%
Taxes	-27.0	-30.0	-10%
Tax Rate	25.0%	30.0%	
Net Income Cont. Ops.	81.0%	69.9%	
Extraordinary Gain			
Net Income	81.0	69.9	16%
Preferred Dividend Payment	0.0	-10.8	
Average Shares	179.0	156.0	15%
EPS			
From Continuing Operations	\$0.45	\$0.17	
From Sale of Hasbro stock			
From Atari IPO		\$0.21	
From Sale of Viacom securities		\$0.38	19%
Net	\$0.45		

Outtakes

What a difference a month can make. Consider Paramount's relative box office performance before and after "Indiana Jones":

Domestic Box Office Market Shares
1989, through April 30 1989, through May 29

UNI	15%	UNI	17%
MGM	15%	PAR	15%
WAR	14%	MGM	14%
DIS	13%	WAR	12%
PAR	11%	DIS	11%
FOX	10%	COL	10%
ORI	9%	FOX	9%
COL	9%	ORI	8%

Source: Variety.



The phenomenal (and not entirely unexpected) success of "Indiana Jones and the Last Crusade," with Harrison Ford, has done wonders for Paramount's box office performance.

after the film's release, the recording still is climbing the charts, and is now in the No. 2 position according to Billboard Magazine.

One can debate the pros and cons of a licensing program such as the one for "Batman," but the bottom line is that the \$15 million to \$20 million Warner stands to make in royalties (from the expected \$250 million in merchandise sales of Bat-products) will go a long way in covering the \$40 million negative cost of the film.

Disney is contemplating what many studios feel they may have to do to get around the inevitable quotas in Europe: set up shop there themselves. Disney is researching a London and/or Paris site for a European animation production facility; the

Bette Midler's "Beaches" film did well, but wasn't a huge success for Disney; the soundtrack album, however, has emerged as a blockbuster for Warner's label Atlantic Records. Six months



Even if Warner's "Batman" (with Michael Keaton as the Caped Crusader) is not an overwhelming success, the studio expects to recoup some of its costs through merchandising.

company already has facilities in Japan and Australia. A bigger step would be a European feature film production operation, but no American studio has proposed that yet. Paramount apparently was considering doing that with the acquisition of MGM, before Qintex got to it.

MCA's Universal Studios Tour posted all-time record attendance during the Memorial Day weekend this year. Management attributes the recent high level of interest in the tour to new attractions, especially "The Earthquake." Another factor, ironically, may be Disney's promotion of its own new tour in Florida, which may have created heightened awareness of the concept. And certainly the current environment at the national box office -- so many big "event"-type pictures -- can't hurt.

Production activity is down 20% year-to-date, as several major studios and independents have cut back.

FILM STARTS, YEAR-TO-DATE

Studio	This Year	Last Year
Columbia	7	14
Walt Disney	7	10
MGM/UA	1	10
Orion	6	3
Paramount	8	6
20th Fox	6	10
Universal	13	5
Warner	7	10
Other	2	3
Independent	131	165
TOTAL	193	242

Source: Variety

Among the majors, Columbia and MGM have seen the biggest declines. At Columbia, Tri-Star still is active, but Columbia itself hasn't rolled on a single picture yet in 1989. MGM has ground to a halt in the wake of the Qintex deal. Disney, Fox, and Warner are down moderately, but this could be attributable to timing. Orion, Paramount and especially MCA's Universal (13 versus 5), on the other hand, are all ahead of last year's levels.

The new fall TV lineups show one way in which the networks may be creating some leverage for themselves in the fin/syn (financial

interest/syndication) rules negotiations: more of their own product. CBS announced nine new series; two will be made in-house. Of NBC's five new series, two will be in-house. All in all, 11 of the 66 hours in prime time will come from production entities affiliated with a network -- that's 17%, up from the 11% (seven in-house hours) seen last year. Might this make the studios more conciliatory?

In an effort to get viewers interested in its new shows this fall, ABC will begin showing 60-second commercials for them at movie theatres. The network also will give away free 15-minute videos highlighting the new programs. This plan is similar to NBC's decision to give away videocassettes of entire episodes of its new fall shows.

Signs are emerging that the stations which bought "Cosby" in syndication did indeed overpay for the top-rated sitcom: current demand for the new crop of off-network sitcoms is not nearly as strong as expected. The most immediate example of this is Columbia's "227," which is not selling and generally has been deemed overpriced by stations that have looked at it. Other shows that have not done as well as syndicators hoped: MCA's "Amen," Warner's "ALF" and Disney's "Golden Girls." Consider also the quantity of product that will become available for 1991 and 1992:

Warner:	"The Hogan Family"
	"Full House"
	"Murphy Brown"
	"Just The 10 Of Us"
Columbia:	"Designing Women"
	"Married... With Children"
	"My Two Dads"
Viacom:	"A Different World"
	"Roseanne"
	"It's Garry Shandling's Show"
Paramount:	"Dear John"
	"Duet"
Disney:	"Empty Nest"
New World:	"The Wonder Years"
Fox:	"The Tracey Ullman Show"

Fox will compete against Disney in the afternoon with its new plan to launch a "Kids' Network" in the fall of 1990. Disney already has targeted the 3 to 5 p.m. weekday time period with its "Disney

Afternoon," a two-hour block of four animated shows that has had unprecedented acceptance by stations: 80% already have signed up for 1990. The series are high-quality and expensive -- averaging \$400,000 per episode -- and DIS is spending \$30 million to promote them. But, given its past record of innovation (and success), Fox could prove a strong competitor.

The chairman of Home Box Office, which is launching a comedy channel, had this to say in response to a competitor's plan for a similar venture: "Viacom has no sense of humor, so how could they start a comedy channel?" The reference was to Viacom's recent lawsuit against HBO.

The mood at this year's early June gathering of the American Booksellers Association was not exactly buoyant, as publishers complained of high costs and weak sales, even for bestseller titles. This is similar news to the cautionary note being sounded at Simon & Schuster, Paramount Communications Inc.'s publishing arm, where the FY2Q (April) loss was greater than expected and where full-year results may wind up flat.

Sequel with a twist: word is that MCA's "Twins" Arnold Schwarzenegger and Danny DeVito will be joined by Roseanne Barr (!?) for "Triplets" as a follow-up to the original hit.



Fox's "The Abyss" is the third underwater film this year -- the other two haven't worked. (See "Upcoming Movies," page 21.)

Stock Price Performance

The entertainment stocks continue to deliver superior price performance, with every issue but Disney outpacing the market over the past month. The leader was Warner Communications, up 20% during the period, bolstered by Time's \$70 tender offer. I expect continued strength in the stock in the coming month. Orion Pictures rose 13% on good earnings and in sympathy with the takeover activity in the industry; the stock has had a good move and may build a base at current levels, but there is additional upside here, particularly with a takeout which could occur at any time. Paramount advanced 10% on unusually heavy volume since its bid for Time, as speculation increased that PCI stock was under accumulation and that Paramount itself could become a target. This remains the cheapest of the three (PCI, WCI, TL) in terms of asset value relative to stock price, and the one story that may yet unfold in the Time/Warner/Paramount situation could be Paramount going into play. MCA stock also continues its march upward, partly in sympathy with the group, partly due to improving fundamentals (box office, especially), and most recently due to speculation that Disney was contemplating a stock tender for MCA (not all that likely). If discipline stays with me, I will downgrade MCA to an ACCUMULATE rating if it's to \$65 (unless, of course, there's clear evidence that a deal is under way).

As noted, Disney lost 3% during the past month, but that's after a 14% gain in the prior period, so some plateauing in the price is to be expected. The stock continues to be driven by the latest news on park attendance, which, while still strong, is no longer the positive surprise it may have been in the past two quarters. The next major news here is likely to be the FY3Q (June) report, but recent discussions with management suggest that there will be no unexpected good news.

Columbia, Cineplex Odeon and King World shares all kept pace with the market. Columbia is still consolidating the near-double increase it's had since January; the stock is holding remarkably well after running up on speculation that has never had any real confirmation. But the move in KPE is not behind us: this stock is headed for 30 or higher; the only thing I can't call is the timing. Cineplex is drifting as investors wonder about what will happen here and if there's really any upside, even in a sale of the company; I don't see any reason to own this stock. Finally, King World had a good move to 30 during the month on talk that the family was considering sale, but that speculation has abated. The stock continues to present excellent value with such a low P/E, and should be accumulated for the intermediate term.

<u>Company</u>	<u>Symbol</u>	<u>Price 5/17/89</u>	<u>Price 6/16/89</u>	<u>Change From Last Month</u>
Cineplex Odeon Corp.	CPX	12 7/8	13 1/8	+2%
Columbia Pictures Entertainment	KPE	20 1/4	20 3/8	+1%
Walt Disney Company	DIS	93	90 3/8	-3%
Paramount Communications Inc.	PCI	53	58 1/8	+10%
King World Productions	KWP	27 1/4	27 3/4	+2%
MCA, Inc.	MCA	55 3/4	60	+8%
Orion Pictures Corp.	OPC	20 1/4	22 7/8	+13%
Warner Communications, Inc.	WCI	49 1/4	59 1/4	+20%
 S&P 500		 317.48	 321.35	 +1%

Half an Hour With...



Michael J. Fuchs
Chairman and CEO, Home Box Office

Mara: Let's start with a general assessment of the pay TV market -- describe how you see the industry right now.

Michael: HBO and Cinemax have had a lot of growth in the last two years -- '87 and '88. We've been a little sluggish so far in '89. Part of the reason is that we took a lot of units out of the marketplace with aggressive promotion and operating incentives. We are looking at '89 to see if there is a different way to run this business -- a different way to market.

Mara: So, would you characterize it as a mature business?

Michael: People have called pay TV mature for the last couple of years. It is certainly mature compared to the early days, when it came in in barrels without even working at it -- it was a much different business then. But no business continues like that.

Mara: Is the growth now going to be in finessing the operating margins?

Michael: I think there certainly still is unit growth left. Pay units tend to grow in bursts -- you have sluggish years and then big years. A lot of it has to do with what your distributors are focusing on. We found a way to market very effectively in the last few years, but I would say that we may now need a new approach, which we are working on.

Mara: What is happening to pricing? As basic has become a more important part of the package, have pay rates leveled off or come down?



Michael: HBO is in the pole position as the first pay service, so it doesn't really get discount -- no one really moves the retail price around very much. Most of the adjustments in pay retail pricing have been in the second, third, and fourth positions. One of the things we are wrestling with is that the number of pay households hasn't been increasing dramatically, but households taking more than one pay unit continue to grow. So there's a certain amount of heavy discounting at the retail level in your second, third and fourth positions. That doesn't affect HBO too much. It affects Cinemax, but Cinemax is built for that. Obviously the challenge to us is to make pay households grow, because HBO is the foundation pay service.

But we think our pay services are damn good products. If you take the wire down the street, only 25% of the customers on the block have pay TV, so there's an awful lot of room to grow. We have to make the services more attractive, more compelling to those homes that are not yet pay homes -- that's our challenge.

Mara: Is price a way to do that?

Michael: We don't control the retail price.

Mara: But indirectly, through wholesale rates?

Michael: An operator gets a pretty good wholesale price. We are not equipped to do anything dramatic on our wholesale price, unless it were to mean enormous new volume. If we could have pay carried universally, we would obviously offer a different rate structure. I am not sure that is an impossibility sometime in the future, but I couldn't say when.

Mara: What's happening to your costs, particularly as you move from just movies to a mix of original product and movies?

Michael: Our programming costs as a percentage of our revenues continue to go down. We are still spending more and more on programming, but revenues are also growing, so programming costs as a percentage are going down, which is a healthy sign for our business. We have gone through another era of motion picture wars -- exclusivity wars -- in which the buying has not been as efficient as we would have liked it. We are paying a lot of money for not as many movies. We are hoping that we can, in the next generation of pay TV licensing deals, bring a little more logic to the process.

Mara: How will the movie deals look going forward?

Michael: We haven't done a deal in a while and those were all long-term deals. We are just now starting to look at the next series of deals. We haven't made any decisions yet, but as I said to you, the way things are going right now, we certainly must make more economical movie deals. Our business cannot carry the exclusivity wars. I can't believe that the Disney deal was a very economical deal for Showtime. Those mega, mega, hundreds-of-millions-of-dollars multi-year deals are over for us. It's not in the cards anymore.

We've learned something -- we lived without Paramount and without Disney while they were the two hottest studios and our business grew. It's no longer necessary to have every studio, or the hottest studio -- we've known that for years. Either it goes back to the old-time licensing deals or we have a new type of deal. These deals will move to a different level -- there's no doubt about that. And I think a lot of the motion picture companies understand that.

Mara: So what are you saying about exclusivity?

Michael: We have never found exclusivity to be worth it.

Mara: Is Showtime coming to the same conclusion?

Michael: I don't think Showtime's business has improved at all in the last three or four years. They are putting out some growth numbers, but we don't know what they are based on, except possibly free subs. Exclusivity may be the only hook they can use because right now there is not much in the way of original programming or anything else to sell over there. Showtime has focused on exclusivity but HBO does a lot of other things better, including servicing

customers, and every other type of programming. You can't do just one thing in the pay TV business.

Mara: Let's talk a little more about programming -- how has the mix of movies and original product changed in the last five years, and where do you see it going?

Michael: The mix of product has not changed that dramatically; what has changed is our emphasis -- what we promote, what does better on HBO, what gets HBO ratings and numbers. What we create from an original programming point of view is becoming more and more important -- these ratings make your month, make your week. That's really been the change. You are always going to see an enormous amount of movies. We probably have more movies under license now than ever before. This month is an interesting time to talk about it because this is the month we start our new Paramount deal, ironically. We probably have more movie predominance since the industry went to exclusives than we've ever had. We have the best run of movies that we've had since the first exclusivity deal. That will make a big difference for us. Movies are still a strong part of what we do. But if you want to expand the category and get into homes that don't have pay TV, you can't say "movies": if they don't know that movies are on pay TV by now, they've been on another planet. So you've got to offer them something else -- you have to offer them Mike Tyson, "Tales from the Crypt," family programming, comedy, etc.

Mara: That's what I hear most about from people who have "rediscovered" HBO: sports and comedy, not necessarily films. How do you think -- net/net -- the video business has impacted Home Box Office?

Michael: It was an incredible franchise to be the only source of movies in the home. There is no doubt about that. In a way, I think the video business has taken a little topspin off the business, but we have a much higher percentage of VCR owners in pay homes than the overall population. And once you have a customer who has his VCR wired to his cable, they sit still. It puts some stability in our business. We have always said that the VCR is like a supercharger on your television -- it is not a separate type of programming. So, it has taken a little topspin off, but back in '84 and '85 people said it was going to kill the business. Obviously, that was not the case.

Mara: The same goes for the theatrical business. I would even argue that VCRs have heightened people's awareness of movies, bringing people to theatres that never would have been going otherwise.

Michael: I am sure that more people in the world are watching movies now than ever before.

Mara: Is pay-per-view finally shaping up to be a business, and could you get in on it?

Michael: We look to get in on it when we think it is a business. It still looks a little elusive to us. I don't know who is really making money in pay-per-view. Studios don't make much money if you subtract out their investments in Request TV. Cable operators, if they really allocate what it costs them, are not making any money. Occasionally they make money on an event. I was surprised to read that mid-range boxing doesn't even make money on cable -- it's only the mega events. And mega events, by definition, don't come down the pike but once or twice a year. You also have the studios facing off against the operators. It is a business that doesn't seem to be able to get out of its own way. The media, however, have always thought it an incredibly sexy business.

Mara: Is the concept flawed or is there just difficulty in the execution?

Michael: I am not trying to be overly negative. I have gotten a reputation of being somewhat negative about pay-per-view and maybe people think that is self-interest. But it is a little bit flawed. First, the cost to the operator of equipping for pay-per-view really is quite high. Second, the costs of running a pay-per-view business are high. This is not a business that has shown it can market and sell. It even has trouble selling monthly services, and pay-per-view is like selling tickets to a movie theatre. That requires a lot of marketing, a lot of expense, a lot of attention. I am not insulting this business, but I have not seen the returns that would justify gearing up in a big way. Pay TV is a \$4 billion business at retail, and pay-per-view is still a hundred-and-something-million dollars. It is not much of a business. And there seems to be a little dropoff in the drum-beating on pay-per-view. Even my close friend, the motion picture guru of pay-per-view, Ed Bleier, has become quiet about pay-per-view. It is a very tough business. The seller and the buyer don't share the same philosophy at this point. Someone like John Malone, whose opinions we respect in this business, feels that he doesn't necessarily want a heavy movie-selling pay-per-view business. He has a great subscription business. What does he have to duplicate a business for? He doesn't mind pay-per-view selling a couple of movies -- big movies and big events.

Three years ago at the NCTA in Dallas, pay-per-view was said to be flourishing. Get on board the train, it's pulling out of the station. I kept saying, "Where's the train and where's the station?" And you know something? Things have hardly changed in the past three years.

People like Sugar Ray Leonard and Mike Tyson have gotten rich from pay-per-view, and it has taken some boxing business away from closed circuit. But you can't really say that it's much of a business.

Mara: So, pay-per-view is still on the horizon, after five years of being on the horizon.

Michael: There are a lot more potential customers, but not a lot more of a business yet.

Mara: How would you describe your relationship with cable operators?

Michael: I think HBO's relationship with cable operators is really strong. First of all, the cable industry realizes our parent company is, emotionally and monetarily, heavily invested in cable -- one of the charter companies in this industry. HBO has been a pretty good citizen for the last 15 or 16 years. I think the industry is embracing The Comedy Channel. It is a crowded environment out there now, so things aren't happening as fast as they used to. But we are getting a terrific reception.

We are in as nice and comfortable a place with our customers as we've been in a long time. There are no jarring issues. We are all watching the legal environment and the Washington environment. We are all in this together. I think they view the pay category as an extremely important part of their cash flow. More and more operators are now thinking of their 1990 plans, and we must reinvigorate the category. We have to sell harder.

Mara: You mentioned earlier the cable operators' shift in focus from pay to basic in the last couple of years.

Michael: They had a chance to raise some rates. Basic had been an underleveraged category, to say the least.

Mara: But isn't basic also getting better, in terms of the quality of product?

Michael: Yes, sure. There is much more money being spent on programming.

Mara: Is there any residual value building up at HBO in terms of the original product -- your own programming? Could you sell it to other markets? Are you building up a little library?

Michael: Yes, but it really is little compared to the values in commercial television. We don't have any Bill Cosbys sitting around. A lot of what we do are one-shots, but the way the world is now, we can sell it overseas and put it on video. Very often, what happens is that we save money up front. You know, this "Tales from the Crypt" that we just did is a very interesting,

first-of-its-kind situation. We are doing six half-hour episodes, with the finest motion picture directors. Each episode is \$800,000-\$900,000 for a half hour, which is above the network price for a half hour. We paid part of that license fee, but the first three episodes will go as a foreign theatrical movie by MCA, and the second three will go as a foreign theatrical movie by Warner. That's the first time we've had episodes turn into foreign theatricals. But we do variations on that type of configuration all the time. Many of our movies go foreign theatrical. We are always trying to put more and more money on the screen. We carry a heavier burden. Because people that buy HBO are very often film buffs who are used to seeing the most expensive type of programming in the world, we can't get away with three-camera video. We do a "Tales from the Crypt" with Bob Zemeckis. We are financing more and more of our own product because the ancillary markets are exploding and we are looking to realize more of a residual value.

Mara: It looks as if the operating numbers at HBO have really flattened out in the past few years.

Michael: We have been growing 10% in profits each year.

Mara: Do you think that is sustainable?

Michael: Yes, I certainly do.

Mara: Should HBO be overseas? Should you be in the U.K. or should you get on the coming satellite in Japan?

Michael: We'd love to, but right now we can't clear the motion picture rights. If Warner does a big deal with Sky Television for exclusive rights in England, for instance, HBO can't put its services in that market.

Mara: Should you be hooking up with Sky, or somebody else?

Michael: We spent a lot of time looking and talking over there. And the Warner combination has focused us even more on the foreign market, in that we will now merge with someone with a very big film inventory. Yes, we should. But other than selling libraries and doing licensing deals, no American company has really been able to go over there and crack that market.

Mara: Because of nationalistic concerns?

Michael: That's certainly part of it.

Mara: Might it be easier in Japan, where there is such a love affair with American movies?

Michael: Yes, but there is not a love affair with foreigners operating in the market; there's not a love affair with foreigners in general. In Europe, there are limitations to what we can do. The answer is yes, I wish we could make more money in the foreign territories, and we try like hell.

Mara: So, as much as you are able to lay off some of your investment in original product overseas, the domestic market is where HBO will grow. What is the cross-promotion that you are doing with Fox? Is this something experimental and could it be significant?

Michael: It is experimental because it is being done on a networking basis. We've done this with local stations before, and it is not unlike what we do on cable, where we have a preview -- we open up all the cable homes and show them HBO and tell them to call an 800 number. This time, with Fox, we are just doing this on a commercial network. Fox gets several hours of good programming for no cost, and we get good exposure and spend some money on advertising. We'll see how it goes.

Mara: Are you still dead set against ever having advertising on HBO?

Michael: Yes, because it just doesn't make financial sense. Philosophically, I don't like it either, because one of the only things that sets HBO apart from the rest of a very crowded television market is the fact that it is commercial-free. You probably would have to change your deals with your motion picture suppliers and your cable operators. By the time you got through slicing it up, and losing a number of your customers, I think you'd be in the hole. No one has ever been able to show us how we could make that kind of a move.

Mara: How is Cinemax doing? What are your plans for it?

Michael: Cinemax is stronger than we ever thought it would be. Cinemax is right up there next to Showtime.

Mara: How do you differentiate HBO and Cinemax qualitatively?

Michael: HBO is a broader-based channel. Cinemax is primarily a movie channel, with a high volume of films. We do a lot of festivals -- it's really a moviegoer's channel. We usually play the big movies on HBO first. Cinemax makes up for it in volume. Whatever original programming it has is somewhat experimental, such as Comedy Experiment Sessions. 10%-20% of Cinemax is single pay -- not just piggybacked on HBO -- and Cinemax has its own identity. We had a number of instances where we thought the channel would not survive, but it has developed a life of its own.

Mara: What is your home video operation? Don't you have the Thorn EMI library?

Michael: We were in partners with Thorn EMI. They sold to Cannon, so we were partners with Cannon, and now we have the operation ourselves. I would say that we are the home of the independents: Hemdale, Kings Road, Aaron Russo, and our own motion picture financing deal, Cinema Plus. We are certainly not the biggest home video company, but it is a money-maker for us. Strategically, with as much as we license in the motion picture business, it's something that you have to be in. It is a way for us to lay off some of our costs of those movies.

And also, we help finance some of our original programs. The most successful example of that is when we did the Sports Illustrated bathing suit tape -- we shipped 670,000 cassettes. We hope to do more of that. We are never going to be Warner Home Video, but it's a nice business, and it's a particularly well-run company.

Mara: So when you buy pay rights from an independent producer, you try to get video rights at the same time?

Michael: We offer to buy both.

Mara: It seems there is no longer much rights splitting in this business. Let's move on to the Comedy Channel -- describe it.

Michael: That's like describing a movie without seeing it. It is short-form, irreverent, with a very high energy level.

Mara: By short-form do you mean clips? As in MTV?

Michael: Yes, but more multi-dimensional than just that. It is a classic, vertical channel. It is the hottest idea we have had here. The tapes are wonderful. Everyone -- heads of motion picture companies, affiliates, ad agencies -- who has seen this tape instantly understands what we are doing, why we think it is so good, why we think it is so strong. I think it is HBO's manifest destiny, because comedy has always been one of our most important identifying elements.

Mara: There seems to be a huge renaissance in comedy in general -- the movies, the clubs, etc. Is this a demographic phenomenon?

Michael: I think comedy has been the most important element in U.S. entertainment for decades -- it's not new. But there does seem to be a bit of a bull market right now. We have all those statistics: in 1980, there were 50 comedy clubs, and now there are 350. I think we had a lot to do with it. Stand-up comedy was dead until HBO started doing it, and it's been building ever since. If you talk to people in the comedy industry, and it now has become an industry,

they'll tell you the role HBO has played. We have cultivated that business and we have great relationships. This is the way to make something like that pay off. And it'll be a great boon to the industry. We are uniquely positioned to take advantage of all the contacts we now have.

Mara: How do you envision the rollout, in terms of timing and numbers?

Michael: We are planning to go November 1. I can't give you a real grasp on the numbers. We are in the midst of affiliate negotiations now, but there is no doubt that the operators don't control their inventory as much as they would like to. The issue is not, would we like to clear a channel, the issue is, can we clear a channel? So, it will probably go a little slower than we would like it to, but it will be there. And I think once it gets on the air -- once a channel is a channel and you can look at it -- it changes the destiny of that channel. We think this will come out of the box pretty hot.

Mara: By mid-1990, how many subs would you guess you might have?

Michael: I don't know. We could be looking at tens of millions of subs at that point.

Mara: Is channel capacity a big issue?

Michael: Yes.

Mara: But out of all the potential players in the comedy arena, I would imagine you would have an easier time than anyone else.

Michael: I don't think there is going to be more than one comedy channel -- there is not really room for more than one comedy channel. It isn't that there are channel availability problems because there are so many comedy channels, because there really aren't that many comedy channels. There is one other guy trying to do everything we do. But the problem is really channel availability in general.

Mara: Are there incentives that could be offered through HBO to get this channel on the air?

Michael: No.

Mara: Is that illegal?

Michael: I don't know. We are just not cross-leveraging or cross-negotiating. There is obviously an HBO ruboff, in that cable operators know that the people who have done HBO are doing this channel; there is a certain amount of respect for what we do.

Mara: Where will you be sourcing product from? In addition to stand-up clips, will you use TV sitcoms and library product?

Michael: Movie libraries, everything. Whatever you can think of. Bloopers, out-takes, home movies, whatever we think is funny.

Mara: You are not going to air half-hour comedies in their entirety?

Michael: There may be a little bit of that, but we will probably have some fun with it. We may occasionally, like once a day, air a movie. But the real shape of the channel is going to be short-form.

Mara: What is the situation with Movietime? You and Warner are part owners. Who are the others?

Michael: As currently structured, Warner, HBO, and ATC own about 44%. The other partners are United, New Channels, Continental and Cox.

Mara: Do you and Warner control it?

Michael: Well, we don't control it because it has a separate and independent management.

Mara: But you and Warner now have the largest stake.

Michael: When we did the original Movietime deal there, there was no Time-Warner. But I do think Movietime will have another reconfiguration somewhere along the line.

Mara: I take it you wouldn't mind running it?

Michael: As one of the partners, we have volunteered if anyone needs us to help out.

Mara: How broad is its reach right now?

Michael: It is in a little more than 11 million homes.

Mara: What about Bob Pittman [the founder of MTV]? What is he up to?

Michael: He has some kind of a deal with Warner. I don't know exactly, but he is spending a lot of time on the foreign market right now.

Mara: What other possibilities are there? Is Comedy Channel the first of several other basic channels you may want to do?

Michael: I don't know. Getting a basic channel up and launched these days is a big job. That's going to occupy us for a little bit of time. I don't know what is going to happen with Movietime. We are going to have a hell of a lot more involvement in basic cable than we ever had before. We don't have a whole stack of new channels coming up. It is not such an easy thing to do and it is not such an easy thing to launch. But we wouldn't be running around the industry,

knocking our heads up against every door, if we didn't think this was something special. A marginal basic cable channel is not something that we want to spend a lot of time working on. How many good, new and interesting channels have come out in the last five, six or seven years?

Mara: Do you see most of the existing large-scale basic channels, like USA and ESPN, as having exciting futures?

Michael: I certainly think they are viable -- they are more than viable, they are doing fine. There's an advertising boom going on in cable right now. I think the classic vertical channels have more value and appeal to the operator. It isn't just the ratings.

Mara: What would you include in that category?

Michael: ESPN, CNN, MTV, Comedy Channel. One subject. The television world is so complicated. If I were selling to advertisers, I would tell them that when they go to The Comedy Channel, they know where they are going. It is not a haphazard situation. You can spin the cable dial and you don't know where you are. That may not have anything to do with ratings or advertising. If you've got "Miami Vice," you are delivering three rating points and you could sell them. But when the customer decides whether to retain, sign up, take a rate increase -- when they survey customers and ask them which channels they find most valuable, it is usually the vertical channels, or a channel like HBO or TBS, both of which have a long history of providing a variety of programming to the industry under a very well-known name. But the vertical channels, like CNN, which may be a .6, still has that type of cable-unique reputation. That is important to the operator. Those are, as they call them in the business, must-carries.

Mara: What about your investment in Turner? Between yourselves and Warner, what is the percentage ownership?

Michael: Warner didn't have that much. I think Time had 14%. Combined, it's somewhere between 15% and 17%. It's hard to keep track of because we get dividends every year in stock instead of cash, so we are never quite sure.

Mara: Are there too many cooks in the kitchen over there, or have all of these equity investors neutralized each other to the point where Ted Turner has kept more power than people thought he would?

Michael: I don't think that is the case. We never expected to go in and run the place. I think the changes have had a stabilizing influence on Ted. This board, which is a real board, makes things be discussed and worked out, and I think that has

been a great benefit. The company is in great shape. Whatever we invested originally has more than doubled, or tripled; it has been a terrific investment.

Mara: Has the MGM library [purchased by Ted] turned out to be a bargain?

Michael: I wouldn't go so far as to call it a bargain.

Mara: Well, the TNT channel has exceeded everybody's expectations.

Michael: A lot of that has to do with the fact that the cable industry gave it a good birth. Ted has done all that is possible with that library, to amortize it and to realize value.

Mara: Are you concerned about the internal politics in the cable industry right now? Is the government moving away from its laissez-faire stance? And are these issues going to be significant in the coming year, or are we talking about something that is three to five years out?

Michael: It's hard to say. I don't have much experience in how the government works and acts, and I am not sure this administration is much more regulatory or less laissez-faire than the Reagan administration. But I don't think there is any doubt that Washington is the major issue for the cable industry right now.

Mara: Isn't it troublesome that what used to be a brothers-in-arms business has turned into an industry with an awful lot of infighting? Has Viacom opened a tinderbox with its suit [against HBO]?

Michael: The only thing I would say about Viacom is that they are sore losers. I can't characterize the suit specifically, but nothing has changed from HBO's point of view. All of those people who cut their teeth here know that our approach to the business has not changed almost from day No. 1. Nothing has happened in the last two years that justifies the claims in that suit. Quite honestly, Showtime has less and less to do with our future and our success. We are competing with the VCR. Your first question was not "how are we doing versus Showtime?" but "has the VCR had any impact on your business?" We are concerned about pay-per-view; we are concerned about network television, and Fox, and all of these things.

To answer your question about the suit, is it good for the business? It is not good for the business. I think the business was shocked and has not even

fully realized what all of this is going to mean. It may be the final straw that the people who are trying to restructure or re-regulate the cable business needed. For that to come from the inside is very unfortunate.

Mara: Anything else you would like to comment on?

Michael: In selling the Comedy Channel I've noticed some things. Every channel out there is potentially gold, but shelf space is a very valuable commodity. Ironically, for historical reasons and other reasons, the cable industry doesn't control its own inventory. They don't necessarily have on their channels what they want on their channels. And they don't have the wherewithal politically or legally to alter that dramatically. It can be altered over time -- I think that's where the big upside in the cable business is. There's got to be room for better channels. The days of having channels of informercials back to back, shopping channels back to back, those days are over. The cable industry is realizing now that there is no such thing as too much good programming. The inventory control, to me, has been one of the more distressing aspects of the cable business. Their hands are tied.

Mara: In what ways?

Michael: Contracts, politics, a lot of things. It is not easy to take a channel off these days. But it's happening more and more -- it's got to happen. They must have more control. And that has been a dose of reality for me, because I've never quite had to worry about that before.

The other thing is the talk about the pay category maturing. HBO has been through every war, every scenario, and HBO is still there. And it continues to grow. Five or six or seven years ago, people expected HBO to be the new Japan, to eat everyone, and when it didn't do that, everyone said "it's a mature business." It is a mature business, but it is one of the major players. We are going to see a television horizon where everything has been democratized -- it's no longer three networks up there, and the little guys down here. So it is an interesting time now. HBO will always be a trendsetter. We will always be a big player in this business, and I am now more motivated to try and make HBO, Inc., a broader business, whether it is through a new basic channel, or through video operations, or something else. We are not just two networks, we are hopefully a broader-based entertainment company. That is what we want to be.

Upcoming Movies

Studio	Release Date	Title	Estimated Negative Cost (\$ millions)	Notes
Columbia	Jun 23	Karate Kid III	\$25	Sequel to the hits.
	Jul 21	Loose Cannons	NA	Dan Aykroyd and Gene Hackman.
	Jul 28	The Bear	dist.	Nature story of bear cub.
	Aug 2	When Harry Met Sally	NA	Rob Reiner project from Castle Rock.
	Aug	Family Business	NA	Dustin Hoffman, Sean Connery.
	Aug	Escape	NA	Sylvester Stallone in action movie.
	Aug	The Big Picture	NA	Directed by Christopher Guest.
	Aug	Casualties of War	\$25	De Palma directs Michael J. Fox, Sean Penn in Vietnam War story.
	Sep	Old Gringo	\$25	Jane Fonda, Gregory Peck.
	Fall	Immediate Family	\$15	Glenn Close, James Woods.
	Fall	Steel Dawn	\$17	Star female ensemble cast.
	Christmas	Glory (aka The Freshman)	NA	Matthew Broderick as white leader of black regiment in Civil War.
	Christmas	I Love You to Death	NA	Larry Kasdan ("Big Chill," "Silverado," "Accidental Tourist").
Disney	Jul 14	Peter Pan	reissue	Animated classic.
	Jul 28	Turner & Hooch	NA	Tom Hanks and dog in action comedy.
	Aug 4	Cheetah and Friends	NA	"Born Free" genre.
	Aug	Hard Rain	NA	Tom Selleck in actioner.
	Thanksgiving	The Little Mermaid	NA	Latest animated project from Disney.
	Christmas	What About Bob?	NA	Screwball comedy.
Fox	Jul 5	The Abyss	NA	Underwater adventure from James Cameron.
	Jul 5	Weekend at Bernie's	NA	Andrew McCarthy.
	Jul 26	Worth Winning	NA	Mark Harmon as weatherman engaged to three women on a bet.
	Aug 25	Millenium	NA	Big budget science-fiction.
	Christmas	Burgerville	NA	Airplane! Zuckers produce re: stupidest town in America.
	Christmas	War of the Roses	NA	James Brooks with Danny DeVito and Michael Douglas in divorce story.
MGM/UA	Jul	License to Kill	NA	Timothy Dalton as Bond.
	Christmas	Letters	\$18	Jane Fonda, Robert DeNiro.
New Line	Jul 28	A Nightmare on Elm Street 5: The Dream Child	NA	Robert Englund - Freddy Krueger.
Orion	Jun 30	Great Balls of Fire	\$13	Dennis Quaid as Jerry Lee Lewis; potentially big.
	Jul 21	UHF	\$5	Weird Al Yankovic.
	Aug	Eric the Viking	\$6 (dom. rights)	John Cleese comedy.
	Aug	Heart of Dixie	\$6	Ally Sheedy, Treat Williams.
	Sep	The Package	\$12	Gene Hackman, Tommy Lee Jones.

Studio	Release Date	Title	Estimated Negative Cost (\$ millions)	Notes
Paramount	Fall	Rude Awakening	\$10	Aaron Russo's social comedy; ensemble cast includes Eric Roberts, Robert Carradine.
	Fall	Miami Blues	\$8	Psychotic killer produced by Jonathan Demme.
	Fall	Street Legal	\$12	Brian Dennehy.
	Fall	Untitled	\$9	Woody Allen.
	Christmas	Valmont	\$8 (dom. rights)	Meg Tilly, Colin Firth in Milos Forman's version of "Les Liaisons Dangereuses"
	Christmas	She-Devil	\$14	Meryl Streep, Roseanne Barr.
	Aug 4	Friday the 13th Part 8	NA	Jason takes Manhattan.
	Aug 11	Black Rain	\$25	Michael Douglas in action drama; Japanese "Godfather".
	Fall	Fat Man and Little Boy	NA	Paul Newman in film re: birth of Atomic age.
	Thanksgiving	Harlem Night	NA	Eddie Murphy directs himself, Arsenio Hall and Richard Pryor.
	Christmas	The Hunt for Red October	NA	Tom Clancy novel adaption.
	Christmas	The Two Jakes	NA	Jack Nicholson in "Chinatown" sequel.
Universal	Jun 30	Do the Right Thing	NA	Spike Lee film.
	Jul 21	Uncle Buck	NA	John Candy.
	Aug 11	Parenthood	NA	Imagine film with Steve Martin.
	Aug 25	Return of the Musketeers	\$17 dist.	Richard Chamberlain, Michael York, Oliver Reed.
	Sep	Sea of Love	\$20	Al Pacino, Ellen Barkin; 'personal' killer.
	Fall	Dad	\$12	Jack Lemmon directed by Gary Goldberg.
	Fall	Shocker	NA	We Craven horror pic.
	Thanksgiving	Back To The Future II	NA	Sequel to the blockbuster.
	Christmas	Always	NA	Romantic comedy with Holly Hunter and Richard Dreyfuss.
	Christmas	Born on the 4th Of July	NA	Oliver Stone directs Tom Cruise, Willem DaFoe, Rob Camilletti.
	Christmas	Jetsons: The Movie	NA	Animated feature.
Vestron	Jul 14	Little Monsters	NA	Fred Savage thinks there's a monster in his bed.
	Aug 11	S.P.O.O.K.S.	NA	A madcap adventure with Brian Kerwin.
Warner	Jul 14	Lethal Weapon 2	\$22	Sequel to the hit.
	Aug 18	Cookie	\$16	Seidelman directs Emily Lloyd; Nora Ephron script.
	Aug	Young Einstein	NA	Stars Yahoo Serious.
	Sep	Men Don't Leave	NA	Jessica Lange in drama.
	Oct	Next of Kin	\$12	Patrick Swayze as southerner turned Chicago cop.
	Oct	Witches	\$8	Anjelica Huston comedy adventure; Jim Henson produces; Nicholas Roeg directs.
	Nov	In Country	NA	Bruce Willis, Emily Lloyd directed by Norman Jewison.
	Christmas	Christmas Vacation	NA	Chevy Chase.
	Christmas	Set Up	NA	Sylvester Stallone, Kurt Russell.

Note: "dist." indicates distribution deal.

Source: Companies, Variety, Hollywood Reporter, SBHU.

Billboard Chart Action

HOT 100 SINGLES BY LABEL

May 6		May 13		May 20		May 27	
LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART
WARNER	36	CBS/SONY	21	WARNER	33	WARNER	34
CBS/SONY	15	WARNER	20	CBS/SONY	14	CBS/SONY	14
BERTELSMANN	11	BERTELSMANN	12	BERTELSMANN	12	BERTELSMANN	12
POLYGRAM	11	MCA	12	POLYGRAM	11	THORN-EMI	11
THORN-EMI	8	THORN-EMI	10	THORN-EMI	10	POLYGRAM	9
MCA	7	POLYGRAM	7	MCA	6	MCA	6
VIRGIN	5	VIRGIN	5	VIRGIN	5	VIRGIN	3
ISLAND	3	ISLAND	5	ISLAND	3	ISLAND	2
CHRYSALIS	2	CHRYSALIS	0	CHRYSALIS	1	CHRYSALIS	1
OTHER INDEPENDENTS	0	OTHER INDEPENDENTS	4	OTHER INDEPENDENTS	0	OTHER INDEPENDENTS	1

BLACK BY LABEL

May 6		May 13		May 20		May 27	
LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART
CBS/SONY	20	WARNER	34	WARNER	21	WARNER	20
WARNER	20	CBS/SONY	14	CBS/SONY	20	CBS/SONY	18
MCA	14	POLYGRAM	11	BERTELSMANN	12	MCA	12
BERTELSMANN	12	BERTELSMANN	10	MCA	12	BERTELSMANN	11
THORN-EMI	10	THORN-EMI	9	THORN-EMI	11	THORN-EMI	9
POLYGRAM	8	VIRGIN	7	POLYGRAM	7	POLYGRAM	7
VIRGIN	4	MCA	6	VIRGIN	5	VIRGIN	7
ISLAND	3	ISLAND	3	ISLAND	2	ISLAND	3
CHRYSALIS	0	CHRYSALIS	2	CHRYSALIS	0	CHRYSALIS	3
OTHER INDEPENDENTS	4	OTHER INDEPENDENTS	0	OTHER INDEPENDENTS	4	OTHER INDEPENDENTS	3

COUNTRY BY LABEL

May 6		May 13		May 20		May 27	
LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART	LABEL	NO. OF TITLES ON CHART
BERTELSMANN	17	MCA	18	BERTELSMANN	18	CBS/SONY	18
MCA	17	CBS/SONY	16	CBS/SONY	16	BERTELSMANN	17
WARNER	16	BERTELSMANN	16	MCA	16	WARNER	15
CBS/SONY	15	WARNER	13	WARNER	14	MCA	13
THORN-EMI	11	THORN-EMI	10	THORN-EMI	11	THORN-EMI	8
POLYGRAM	3	POLYGRAM	4	POLYGRAM	5	POLYGRAM	5
VIRGIN	1	VIRGIN	1	VIRGIN	1	VIRGIN	1

Source: Billboard May 6 - 27

TOP 20 POP ALBUMS

WEEK OF 5/6	WEEKS ON CHART	ARTIST	TITLE	LABEL
1	13	FINE YOUNG CANNIBALS	THE RAW & THE COOKED	MCA
2	9	MADONNA	LIKE A PRAYER	WARNER
3	20	SOUNDTRACK	BEACHES	WARNER
4	25	GUNS N' ROSES	G N' R LIES	WARNER
5	46	BOBBY BROWN	DON'T BE CRUEL	MCA
6	46	PAULA ABDUL	FOREVER YOUR GIRL	VIRGIN
7	41	NEW KIDS ON THE BLOCK	HANGIN' TOUGH	CBS/SONY
8	16	TONE LOC	LOC-ED AFTER DARK	ISLAND
9	4	TOM PETTY	FULL MOON FEVER	MCA
10	6	THE CULT	SONIC TEMPLE	WARNER
11	40	LIVING COLOUR	VIVID	CBS/SONY
12	35	BON JOVI	NEW JERSEY	POLYGRAM
13	2	JOHN COUGAR MELLENCAMP	BIG DADDY	POLYGRAM
14	11	MILLI VANILLI	GIRL YOU KNOW IT'S TRUE	BERTELSMANN
15	17	DEBBIE GIBSON	ELECTRIC YOUTH	WARNER
16	3	THE CURE	DISINTEGRATION	WARNER
17	3	RICHARD MARX	REPEAT OFFENDER	THORN-EMI
18	5	GREAT WHITE	TWICE SHY	THORN-EMI
19	93	GUNS N' ROSES	APPETITE FOR DESTRUCTION	WARNER
20	8	JODY WATLEY	LARGER THAN LIFE	MCA

Source: Billboard June 3, 1989



Fine Young Cannibals' "The Raw and the Cooked," on MCA, has slipped into the No. 1 position on the Billboard chart.

THE SMITH BARNEY ENTERTAINMENT UNIVERSE

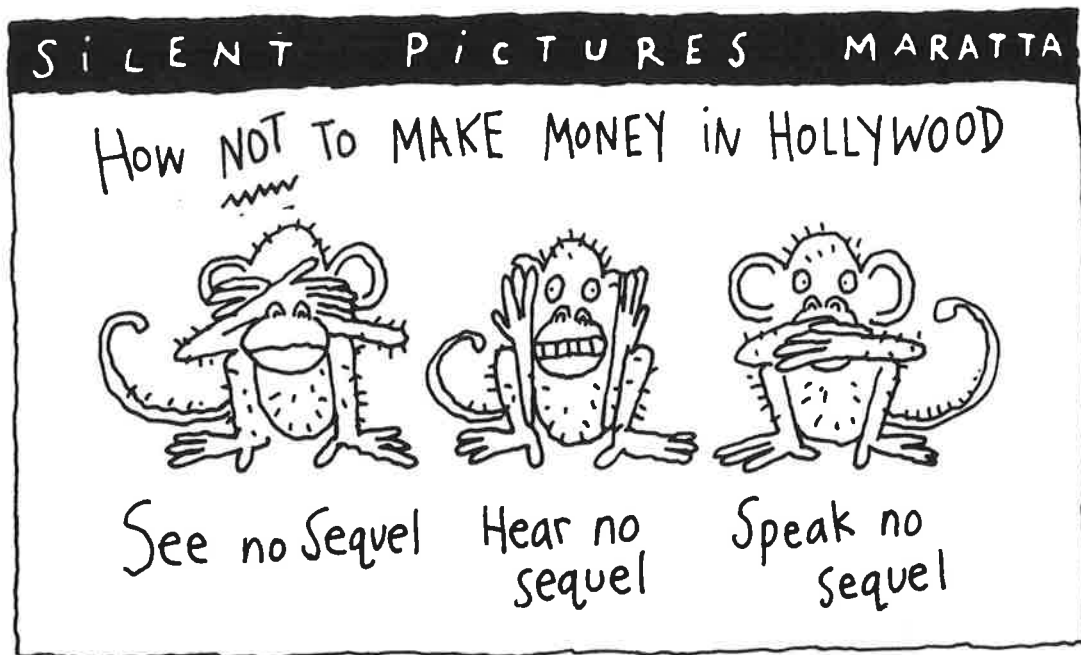
	Analyst's Opinion	Price		Earnings Per Share		Price /90E	Est. 5-Year EPS Growth Rate	QTR End	Quarterly EPS		Indicated Dividend Cur Yr	Shr. Out. (Mil)
		6/32/89	52-Wk Range	1988A	1989E				Cur	Prv Yr		
Cineplex Odeon	N	\$13	16- 8	\$0.85	\$0.50	\$0.50	26.0x	Jun	\$0.10	\$0.15	\$0.0	50.8
Columbia Pictures* FY-Feb	B	22	22- 8	NA	0.25	0.40	NM	May	0.05	0.03	0.0	112.6
Disney, Walt FY-Sep	N	94	96-60	4.14	5.00	5.50	17.1	Jun	1.45	1.20	0.48	137.5
King World Productions FY-Aug	AC	28	30-17	2.58	2.90	3.45	8.1	May	0.40	0.36	0.0	25.5
MCA Inc.	B	60	62-39	2.26A	2.85	3.50	17.1	Jun	0.57	0.11	0.68	72.3
Orion Pictures FY-Feb	B	22	23-13	0.65	0.90	1.20	18.3	May	0.20	0.14	0.0	17.5
Paramount-Communications FY-Oct	B	60	61-37	3.40	3.85	4.65	12.9	Jul	1.35	1.03	0.70	116.7
Warner Communications	AC	59	60-32	2.44b	2.85b	3.70	15.9x	Jun	0.45	0.38	0.68	178.3

NM = NOT MEANINGFUL

- (a) Includes \$0.38 of earnings from discontinued operations (ARVIDA).
 (b) 1988A before Lorimar Acquisition; 1989E after Lorimar acquisition.

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EXHIBIT D

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Minutes of a Special
Meeting of the Board of
Directors (the "Board") of
TIME INCORPORATED, a Delaware
corporation, held in the Board
Room on the 34th floor of the
Time & Life Building,
Rockefeller Center, New York,
New York on the 16th day of
June, 1989, at 8:00 a.m.

The following directors were present:

James F. Bere,
Michael D. Dingman (by telephone),
Edward S. Finkelstein (by telephone),
Matina S. Horner,
David T. Kearns (by telephone),
Gerald M. Levin,
Henry Luce III,
Jason D. McManus,
J. Richard Munro,
N. J. Nicholas, Jr.,
John R. Opel (by telephone), and
Donald S. Perkins

being all the members of the Board. The following
executives of the Corporation and its subsidiaries also were
present: Reginald K. Brack, Jr., Chairman of the Board,
President and Chief Executive Officer, The Time Inc.
Magazine Company (the "Magazine Company"); Glenn A. Britt,
Vice President and Chief Financial Officer; Joseph J.
Collins, Chairman and Chief Executive Officer, American

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Television and Communications Corporation ("ATC"); Philip R. Lochner, Jr., Vice President, General Counsel and Secretary; and Kelso F. Sutton, Chairman of the Board, Chief Executive Officer and President, The Time Inc. Book Company (the "Book Company").

The following representatives of the Corporation's legal and financial advisers were also present: Samuel C. Butler and Allen Finkelson of Cravath, Swaine & Moore ("Cravath"); Joseph H. Flom and Peter A. Atkins of Skadden, Arps, Slate, Meagher & Flom ("Skadden Arps"); Bruce Wasserstein, Alan C. Stephenson and Mack Rossoff of Wasserstein, Perella & Co., Inc. ("Wasserstein Perella"); J. Tomilson Hill, III and Frederic M. Seegal of Shearson Lehman Hutton Inc. ("Shearson Lehman"); Arthur Fleischer, Jr., Gary Cooperstein and Gail Weinstein of Fried, Frank, Harris, Shriver & Jacobson, attended as legal advisers to the financial advisers.

Mr. Munro, Chairman of the Board, presided and Mr. Lochner acted as Secretary of the Meeting.

Mr. Atkins updated the directors regarding the status of negotiations and documentation relating to the revised Time/Warner transaction. He indicated that efforts had been ongoing throughout the night and that, as a result, the revised Merger Agreement had been finalized and related documentation was substantially completed.

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Mr. Atkins next referred to the material that had been provided to the directors at yesterday's meeting, including a draft revised Merger Agreement and a draft Schedule 14D-9, and asked if any of the directors had any questions or comments. In connection with one comment from Mr. Opel that the Schedule 14D-9 should expressly identify the directors' concern that the PCI offer would adversely affect Time's cable television franchises, the directors were advised that the current Schedule 14D-9 draft, a copy of which was available at the meeting, had been revised to reflect more specifically the Board presentations and discussions which had taken place the preceding day, including this point. Mr. Perkins indicated he believed it was important to be clear in the cover letter to the Corporation's stockholders transmitting the Schedule 14D-9 that the Board had concluded that Time was not for sale and as to specific benefits which the Board believed would accrue to Time and its stockholders from the revised Time Warner transaction. Messrs. Finkelson and Atkins advised that these comments would be incorporated in the final Schedule 14D-9.

Mr. Britt then described the negotiations with the commercial banks during the previous evening. He outlined the discussions and noted that the Corporation had now received commitment letters from Bankers Trust Company and

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Manufacturers Hanover Trust Company committing themselves to loans of \$650 million and \$875 million, respectively, to finance the WCI tender offer and stating that each is highly confident that a total of \$14 billion can be successfully syndicated with other commercial banks. Mr. Britt stated that the Corporation had to raise these funds within 90 days after the tender offer commences next Monday and that the bankers had expressed the view that the bank loans could be fully syndicated within 60 to 75 days if the securities to be issued by the Corporation in the back-end merger were specified during the next few weeks.

Messrs. Wasserstein and Hill also stated that they believed the bank financing arrangements or alternative financing arrangements would likely be completed well within the 90 day period.

Mr. Butler then noted that he had met with the representatives of Bankers Trust Company last night at the request of Messrs. Nicholas and Britt and that he thought it important to re-emphasize to the Board the nature of the Corporation's commitment. At the insistence of WCI, the tender offer has no condition whereby Time can terminate the offer if Time cannot raise the necessary financing, a so-called "financing out".

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Both financial advisers, and Mr. Britt, confirmed their view that it is very likely that the financing would be obtained, noting among other things that the principal issue to be cognizant of and avoid is a process where too much time is spent in resolving between Time and Warner what the appropriate financial structure should be. All concurred that to the extent there was a material concern, it related to rate and other terms, not availability.

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Mr. Perkins asked for examples of other corporations which had announced tender offers without financing outs. Messrs. Wasserstein and Hill replied that there were a number of examples, particularly where the acquiror was an operating company as in this case, and cited Philip Morris/Kraft as an example.

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Mr. Butler also reported that, in exchange for WCI's agreeing to extend the period during which the Corporation must obtain the necessary financing for the WCI tender offer, the Corporation had agreed that, if the purchase of stock occurs more than 60 days after the commencement of the offer, the Corporation will pay interest on the \$70 per share purchase price at the rate of 9% per annum based on the actual number of days after such 60th day less any cash dividends paid on the WCI shares after August 17, the date on which WCI's regular quarterly dividend would normally be paid. He noted that, however, if there is any day during such 60 day period or thereafter when purchase of the WCI shares is not possible because of an injunction, then each such day postpones the date on which interest begins to accrue. He noted that the same arrangement with respect to interest applies to the back-end merger.

Mr. Butler also noted that, in accordance with the Board's action yesterday, the exchange of shares between Time and WCI pursuant to the Share Exchange Agreement had been completed before the meeting commenced today.

At the request of a director, Mr. Butler described the periods following the purchase of shares in the tender

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offer during which the consideration to be paid by the Corporation in the back-end merger would be determined. He noted that the Corporation and WCI first had 30 days after the purchase to determine that consideration which could be in any form whatsoever. If they did not agree, then for the next 15 days the Corporation and WCI will try to determine the form of the consideration in the back-end of the merger, but during this period the consideration must include at least 40% (or at the Corporation's option 60%) of the \$70 per share merger price in equity securities of the Corporation and the balance in cash. If the Corporation and WCI do not reach agreement within that 15 day period, then the equity securities component is to be determined by a so-called "baseball" arbitration pursuant to which, during the first seven days thereafter, an investment banking adviser for each party proposes the equity securities of the Corporation which in the opinion of such adviser have a value equal to such 40% (or 60%); if they do not agree, then during the next seven days a third investment banking firm selected by the first two firms is to select the proposal which in its opinion has a value equal, as nearly as practicable, to such 40% (or 60%) of the \$70 per share merger price but such third firm may, if in its opinion neither proposal is so equal, adjust the yield or change the

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amount (but not the type) of the equity securities included in the proposal selected by it.

Mr. Finkelson then stated that, if there were no further questions, it was time for the Board to consider the various actions to be taken. He stated that the first action was to reduce the Corporation's Board of Directors to 12 persons, giving effect to the resignations of Messrs. Goodrich, Grum and Dr. Wharton and to elect Mr. Dingman as a director of the class of 1991. He also reported that, pursuant to the revised Employment Agreements, Mr. Ross and Mr. Munro would become Co-Chief Executive Officers and Co-Chairmen of the Board of the Corporation effective on the date of acceptance of WCI stock for purchase pursuant to the tender offer and that the revised Merger Agreement provided that the 12 WCI directors would be elected to the Corporation's Board and to the respective Board committees at the same time. It was also noted that the By-laws of the Corporation, as previously amended, were now proposed to become effective at the same time as the purchase of WCI Common Stock in the tender offer. Thereupon on motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED that, effective as of their respective dates, the resignations of Clifford J. Grum, Henry C. Goodrich and Clifton R. Wharton, copies of which have been submitted to this Meeting and directed to be filed with the records of the Corporation, be, and they

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hereby are, accepted; and that the number of directors constituting the Board of Directors be, and it hereby is, fixed at 12;

RESOLVED that, effective as of the date hereof, the resignation of Michael D. Dingman from the class of directors of the Corporation to serve until the 1990 Annual Meeting of Stockholders be, and it hereby is, accepted; and that, effective as of the date hereof, Mr. Dingman be, and he hereby is, elected a director of the Corporation to serve until the 1991 Annual Meeting of Stockholders, and until his successor shall have been elected and qualified.

RESOLVED that the resolutions adopted by the Board of Directors at a meeting on March 3, 1989, relating to (i) the rescission at the Effective Time (as defined in the Agreement and Plan of Merger dated as of March 3, 1989 between the Corporation, Warner Communications Inc. ("WCI") and TW Sub Inc. ("Sub") (the "Original Merger Agreement"), of the resolution providing for a transition plan for directors of the Corporation, (ii) the dissolution at the Effective Time of existing committees of the Board of Directors, (iii) the establishment at the Effective Time of an Executive Committee, Audit Committee, Finance Committee, Compensation Committee, Editorial Committee-Time Operations and Entertainment Committee-WCI Operations, (iv) the appointment of officers at the Effective Time and (v) the expansion of the number of directors constituting the Board of Directors to 24 at the Effective Time be, and they hereby are, amended so that the Effective Time as used in such resolutions shall be deemed to mean the earlier of (a) the Effective Time, (b) the Purchase Time (as defined in the Merger Agreement, as amended and restated as of May 19, 1989, as further amended and restated as of June 16, 1989 (the "Restated Merger Agreement")), and (c) the date on which the Corporation otherwise acquires a majority of the outstanding voting shares of WCI (the earlier of (a), (b) and (c) being referred to herein as the "Commencement Time").

RESOLVED that the resolution adopted by the Board of Directors at a meeting on May 16, 1989, electing twelve persons to the Board of Directors of the Corporation, effective as of the Effective Time, be, and it hereby is, rescinded; and that, effective as of the Commencement Time, each of the following persons be,

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and each of them hereby is, elected a director of the Corporation to fill the vacancies resulting from the expansion of the number of directors constituting the Board of Directors at the Commencement Time to 24, each to hold office for the period indicated, and until his or here successor shall have been elected and qualified:

Directors to serve until 1990 Annual Meeting of Stockholders:

Allan B. Ecker
Deane F. Johnson
Steven J. Ross
William J. vanden Heuvel

Directors to serve until 1991 Annual Meeting of Stockholders:

Lawrence B. Bittenwieser
Benjamin D. Holloway
Martin D. Payson
Bert W. Wasserman

Directors to serve until 1992 Annual Meeting of Stockholders:

Merv Adelson
Hugh F. Culverhouse
Beverly Sills Greenough
Raymond S. Trough

RESOLVED that, at the Commencement Time, the By-laws for the regulation of the business, property and affairs of the Corporation be, and they hereby are, amended and restated to read in their entirety as provided in the form of the By-laws submitted to this Meeting and directed to be filed with the records of the Corporation.

Mr. Butler stated that the next matter to be considered dealt with the Annual Meeting of Stockholders. He noted that the plan was to convene the Annual Meeting on June 23 as scheduled but to cause all proxies received by then to be voted in favor of adjourning the meeting until

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Friday, June 30 at the same time and place, at which adjourned meeting the Corporation's stockholders would be asked to consider and vote only on the election of directors, the ratification of auditors and a stockholder proposal to elect directors annually. Mr. Butler noted that the Corporation's stockholders would not be asked to vote at the adjourned meeting on any matters relating to the WCI merger or the 1989 Stock Incentive Plan. He noted that a letter would be sent to the Corporation's stockholders early next week in the form presented to the meeting and enclosing a revised proxy card. Mr. Butler reported that the proxy solicitors for the Corporation believed it possible to obtain a quorum at the June 30 meeting so that the regular annual meeting actions could be taken by a vote of the stockholders in accordance with usual procedures. Mr. Butler also noted that, depending on the amount of Common Stock included in the back-end merger with WCI, Time might be required by the New York Stock Exchange rules to have a special meeting of stockholders to approve such issuance of Common Stock. Thereupon on motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED that the 1989 Annual Meeting of the Stockholders of the Corporation (the "Annual Meeting"), which was scheduled to be held on June 23, 1989, pursuant to a resolution adopted by the Board of Directors at a meeting on May 16, 1989, should be

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adjourned on June 23, 1989, without any action being taken, to be reconvened on June 30, 1989, at 10:00 a.m., local time (the "Adjourned Annual Meeting") at the Time & Life Building, Rockefeller Center, New York, New York.

RESOLVED that, at the Adjourned Annual Meeting, the only agenda items that shall be submitted to the stockholders are (i) the election of four directors for a term of three years and until their successors are duly elected and qualified; (ii) the approval of the appointment by the Board of Directors of Ernst & Whinney as independent auditors of the Corporation for the year 1989; and (iii) the consideration of a proposal by a stockholder to elect directors annually; and that the stockholders shall not be asked to consider at the Adjourned Annual Meeting (a) the Original Merger Agreement or the Restated Merger Agreement; (b) the amendment to the Corporation's Restated Certificate of Incorporation set forth as Exhibit 3.2(c)(ii) to the Original Merger Agreement; or (c) the Time Warner 1989 Stock Incentive Plan set forth as Exhibit 5.20 to the Restated Merger Agreement.

RESOLVED that, if deemed advisable by the General Counsel of the Corporation, the Registration Statement on Form S-4 (the "Form S-4") filed by the Corporation pursuant to the Securities Act of 1933 (the "Act") and declared effective by the Securities and Exchange Commission (the "Commission") on May 22, 1989, may be withdrawn from registration under the Act and that the Chairman of the Board, the President, the Vice-Chairman, the Chief Financial Officer, each Vice-President, the Controller, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary be, and each of them hereby is, authorized to execute, in the name and on behalf of the Corporation, any documents required in connection with the withdrawal of the Form S-4 from registration under the Act, provided, however, that such withdrawal shall have no effect on the Corporation's Proxy Statement dated as of May 22, 1989, for use in connection with the Adjourned Annual Meeting.

RESOLVED that the form, terms and provisions of the revised proxy and voting instructions and the letter to the stockholders of the Corporation to accompany such cards and instructions, copies of which have been submitted to this Meeting and directed to be

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filed with the records of the Corporation, be, and they hereby are, approved; and that the proper officers of the Corporation shall authorize the mailing of such letter and proxy to each stockholder of the Corporation of record as of the close of business on May 1, 1989 and the mailing of such voting instructions to each benefit plan participant as of the close of business on May 1, 1989.

Mr. Atkins then stated that the next action to be considered by the Board was its response to the tender offer by Paramount Communications Inc. ("PCI"). Mr. Hill stated that the Corporation's investment banking advisers, Wasserstein Perella and Shearson Lehman, each are of the opinion that the PCI offer is inadequate to the Corporation's stockholders from a financial point of view. Copies of such opinions were distributed to the directors present at the meeting. The directors then asked questions of the investment bankers present regarding the PCI offer and the Schedule 14D-9. During this discussion Messrs. Wasserstein and Hill provided additional comments during which they reiterated that the Corporation's businesses reflected values substantially in excess of the PCI offer; they also noted that they thought it likely that the PCI price would be increased to the neighborhood of \$200 sometime before the July 11 hearing in Delaware.

Mr. Atkins stated that the Board should consider whether to recommend to the Corporation's stockholders that they reject the PCI offer and not tender any of their shares

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pursuant to that offer and whether to adopt the proposed Schedule 14D-9 (to be revised pursuant to the earlier discussions) and the reasons for the determinations and recommendations set forth therein. He also noted the Board should respond to the request by PCI that the Corporation redeem the rights outstanding under the Shareholder Rights Plan. Finally, he stated that the Board should consider whether disclosure of any transactions or proposals of the type referred to in Item 7(a) of Schedule 14D-9 would jeopardize the institution or continuation of any discussions or negotiations that the Corporation may conduct. Thereupon on motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED that based upon the presentations by the Corporation's financial advisors, Wasserstein Perella & Co., Inc., and Shearson Lehman Hutton Inc., and the knowledge of the Corporation's management and Board of Directors about the business, financial condition and prospects of the Corporation, the Board of Directors determines that the offer by KDS Acquisition Inc. ("KDS"), an indirect wholly owned subsidiary of Paramount Communications Inc., a Delaware corporation ("PCI"), to purchase all outstanding shares of common stock, par value \$1.00 per share ("Time Common Stock"), including the associated rights to purchase Time Common Stock ("Rights"), of the Corporation for \$175 cash per share on the terms and subject to the conditions set forth in the Offer to Purchase dated June 7, 1989, as amended, (the "PCI Offer") is inadequate and not in the best interests of the Corporation, the Corporation's stockholders and other constituencies and is hereby rejected.

RESOLVED that the Board of Directors hereby recommends that the stockholders of the Corporation reject the PCI Offer and not tender any of their shares

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of Time Common Stock or Rights pursuant to the PCI Offer.

RESOLVED that the request by KDS that the Board of Directors cause the Corporation to redeem the Rights be, and it hereby is, rejected.

RESOLVED that the Board of Directors hereby determines that in light of the business, financial condition and bright future prospects of the Corporation, it would be in the best interest of the Corporation, the Corporation's stockholders and other constituencies for the Corporation to continue as an independent, publicly owned Corporation and that the sale of the Corporation would not be appropriate.

RESOLVED that the form, terms and provisions of the draft dated the date hereof of the Corporation's Solicitation/Recommendation Statement on Schedule 14D-9 relating to the PCI Offer (the "Schedule 14D-9"), a copy of which has been submitted to this Meeting and directed to be filed with the records of the Corporation, be, and they hereby are, approved and adopted in all respects and that the proper officers of the Corporation be, and each of them hereby is, authorized, empowered and directed to file the Schedule 14D-9 under the Securities Exchange Act of 1934 (the "Exchange Act") in substantially such form with such additions, deletions and changes therein and modifications thereof, if any, as the officer executing the same shall approve (the execution thereof by any such officer to be conclusive evidence of his or her approval of any additions, deletions, changes or modifications); and to take any and all such further action, including the commencement or defense of litigation, and to execute and deliver any and all such further documents, instruments and agreements and make and execute any and all other filings with the Commission, the Federal Communications Commission and any court, or otherwise, in the name and on behalf of the Corporation, and under its corporate seal or otherwise, as in their judgment shall be necessary, proper or advisable in order fully to carry out the intent and accomplish the purposes of the resolutions adopted hereby with respect to the PCI Offer and that any and all such action heretofore taken and the execution of any and all such filings be, and each of them hereby is, ratified and confirmed as the act and deed of the Corporation.

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RESOLVED that the Board of Directors hereby determines that disclosure at this time with respect to any parties to, and the possible terms of, any transactions or proposals of the type referred to in Item 7(a) of the Schedule 14D-9 would jeopardize the institution or continuation of any discussions or negotiations that the Corporation may conduct, and hereby instructs management of the Corporation not to disclose the possible terms of any such transactions or proposals, or the parties thereto, unless and until an agreement in principle relating thereto has been reached.

Mr. Atkins stated that the next matters to come before the meeting was to consider the revised WCI Merger Agreement, including the cash tender offer for 100,000,000 WCI Common Shares. He stated that these matters included approval of the amendment to the Merger Agreement, of the Offer to Purchase and a determination that Article V of the Restated Certificate of Incorporation of the Corporation and Section 203 of the Delaware General Corporation Law should not apply to either the tender offer or the WCI merger. He also noted that the Board should consider authorizing all actions necessary in connection with the tender and merger, including filing a Schedule 14D-1 and an amendment to the Corporation's Schedule 13D, agreements with the Depositary and Information Agents and with the Dealer/Managers and preparing the necessary documentation for the financing arrangements.

Mr. Hill then stated that it was the opinion of both investment banking advisers that the financial terms of the proposed acquisition of WCI, including the tender offer

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and the back-end merger, are fair to the Corporation and its stockholders from a financial point of view. Copies of such opinions were distributed to the directors present at the meeting. In response to questions from the directors, Mr. Wasserstein provided additional commentary, including that while there was a reasonable debate regarding how one might choose between the original and the revised Time Warner transaction, the latter was fair, from a financial point of view, to the Corporation's stockholders and, in the view of the financial advisers, preferable for the Corporation's stockholders.

Mr. Butler then noted that the employment agreements of Messrs. Ross, Munro and Nicholas should be amended to provide that they would become effective on the acceptance of shares for purchase under the tender offer rather than at the completion of the merger. He reported that Mr. Ross' contract was also being modified with respect to the bonus provisions as discussed yesterday and to provide that he would receive interest on the payments for his phantom stock units on the same basis as the WCI stockholders and the holders of WCI options, SARs and bonus units are receiving such interest.

Thereupon on motion duly made and seconded, the following resolutions were unanimously adopted:

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RESOLVED that the Board of Directors hereby reaffirms its determination that the combination of the Corporation and WCI is in the best interests of the Corporation, the Corporation's stockholders and other constituencies for, among other reasons, the reasons set forth in the Schedule 14D-9.

RESOLVED that the form, terms and provisions of the draft of the Restated Merger Agreement, a copy of which has been submitted to this Meeting and directed to be filed with the records of the Corporation, be, and they hereby are, approved in all respects; and that the Chairman of the Board, the President, the Vice-Chairman, the Chief Financial Officer, each Vice-President, the Controller, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary be, and each of them hereby is, authorized to execute, in the name and on behalf of the Corporation, the Restated Merger Agreement in such form.

RESOLVED that the Corporation be, and it hereby is, authorized to make a tender offer (the "Offer") for 100,000,000 issued and outstanding shares of Common Stock, par value \$1 per share (the "Shares"), of WCI and on such other terms and conditions as shall be approved by the duly authorized officers of the Corporation and that any amendments, revisions or waivers by the duly authorized officers of the Corporation of any such terms or conditions after the commencement of the Offer be, and they hereby are, approved;

RESOLVED that pursuant to the Restated Merger Agreement the Corporation be, and it hereby is, authorized to cause Sub to effect a merger (the "Merger") subsequent to the Offer in which each Share (other than Shares held by stockholders who exercise and perfect stockholders appraisal rights in compliance with the General Corporation Law of the State of Delaware) will be converted into the right to receive cash or debt or equity securities of the Corporation which may include Time Common Stock, preferred stock of the Corporation or securities convertible into, or exchangeable for, Time Common Stock or preferred stock of the Corporation (the "Merger Securities"), or a combination of cash and Merger Securities, the form of such consideration to be agreed upon by the Corporation and WCI pursuant to procedures set forth in the Restated Merger Agreement having a value as set forth in the Restated Merger Agreement.

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RESOLVED that the Chairman of the Board, the President, the Vice Chairman, the Chief Financial Officer, each Vice President, the Controller, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary be, and each of them hereby is, authorized, in the name and on behalf of the Corporation, to take such action as they shall deem necessary or advisable to permit the Corporation to commence and consummate the Offer and thereafter to effect the Merger or otherwise acquire the entire equity interest in WCI in accordance with the Restated Merger Agreement (collectively, the "Acquisition"), including, without limitation, (i) to finance the Acquisition; (ii) to retain Wasserstein Perella & Co., Inc. and Shearson Lehman Hutton Inc. in connection with the Acquisition and to enter into agreements (including indemnities) with them for that purpose with such terms and provisions as the executing officer or officers shall approve, the execution thereof by such officer or officers to be conclusive evidence of such approval and of the intent of the Corporation to be bound thereby; (iii) to make such filings or reports on behalf of the Corporation as may be required or advisable in connection with the Acquisition to be filed with or submitted to any governments or governmental authorities, instrumentalities or agencies or stock exchanges, domestic or foreign, including, without limitation, the filing of (a) a combination statement on Schedule 14D-1 and Amendment to Statement on Schedule 13D, including any amendments and exhibits thereto, with the Commission, the New York Exchange, Inc. and the Pacific Stock Exchange Incorporated under the Exchange Act, (b) any other filings, reports or materials which may be required under the Exchange Act and the rules and regulations thereunder, (c) any registration statement, report, application or other material required under any state "Blue Sky" or "takeover" statute deemed to be applicable in the case of a tender offer and (d) any Notification and Report Form and any other reports and materials required to be filed with the Federal Trade Commission and the Antitrust Division of the Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (iv) to execute, deliver and cause the Corporation to perform its obligations under such documents and agreements in connection with the Acquisition as such officer or officers shall deem appropriate, including, without limitation, (a) stock option or stock purchase agreements for Shares, (b) Offer to Purchase (as defined below) for the

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Shares, (c) acquisition or merger agreement, including, without limitation, the Restated Merger Agreement, (d) dealer manager agreements with dealer managers for tender offers, (e) information agent agreements with the information agents for tender offers (f) commitment letters, guarantees and loan agreements, or other purchase agreements relating to the issuance of securities of the Corporation, on commercially reasonable terms to finance the Acquisition and notes or other instruments evidencing borrowing or guarantees thereof; and (g) depositary agreements with the depositaries for tender offers; (v) to commence or defend such litigation in such courts as such officer or officers may determine to be necessary or advisable in connection with such acquisition; and (vi) to deliver such offers and enter into such negotiations and such officer or officers shall deem necessary or advisable and to take all such further actions and execute and deliver all such further instruments and documents in the name and on behalf of the Corporation and under its corporate seal or otherwise and to pay all such expenses as in their judgment shall be necessary or advisable in order fully to carry out the purposes of the foregoing resolutions;

RESOLVED, that the form, terms and provisions of the Offer to Purchase (the "Offer to Purchase") 100,000,000 Shares by the Corporation (as contained in the draft dated as of the date hereof) be, and they hereby are, approved, and that the Chairman of the Board, the President, the Vice Chairman, the Chief Financial Officer, each Vice President, the Controller, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary be, and each hereby is, authorized, in the name and on behalf of the Corporation, and directed to cause copies of the Offer to Purchase and any related Letters of Transmittal and other documents to be appropriately completed and mailed to stockholders of WCI, with such changes therein as any such officer or officers shall approve, to waive any conditions of the Offer, and to cause to be prepared and distributed such amendments and supplements to the Offer to Purchase as any such officer or officers shall approve;

RESOLVED that if the Offer, the Merger or any of the transactions contemplated by these resolutions renders WCI an "interested stockholder" of the Corporation within the meaning of Section 203 of the General

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Corporation Law of the State of Delaware ("Section 203") or Article V of the Corporation's Restated Certificate of Incorporation ("Article V"), the foregoing resolutions (i) shall constitute approval in all respects by the Board of Directors of the transaction in which WCI became an interested stockholder for the purposes of Section 203, (ii) shall constitute approval by a majority of Disinterested Directors for the purposes of Article V and (iii) shall constitute an agreement or understanding approved by the Board of Directors prior to the time the Interested Stockholder became an Interested Stockholder for the purposes of Article V.

RESOLVED that, in furtherance of the foregoing resolutions, each of the proper officers of the Corporation is authorized to arrange for, negotiate and borrow under a senior debt facility aggregating \$14 billion for the purposes of the Offer, the Merger and related transactions upon the terms and subject to the conditions set forth in the commitment letters issued by Bankers Trust Company and Manufacturers Hanover Trust Company, dated June 15, 1989, copies of which have been submitted to this Meeting and directed to be filed with the records of the Corporation, with such additions, deletions and changes therein and modifications thereof, if any, as the officer executing the same shall approve (such execution by such officer to be conclusive evidence of his or her approval of any additions, deletions, changes or modifications).

RESOLVED that any and all action heretofore or hereafter taken by the proper officers of the Corporation relating to and within the terms of the foregoing resolutions be, and it hereby is, ratified and confirmed as the act and deed of the Corporation.

RESOLVED that the form, terms and provisions of the drafts of letter agreements dated as of June 16, 1989, amending the Amended and Restated Employment Agreements (the "Original Employment Agreements") dated as of March 3, 1989, between the Corporation and each of J. Richard Munro and N.J. Nicholas, Jr., respectively, and the draft of the Amended and Restated Employment Agreement dated as of March 3, 1989, as amended and restated as of June 16, 1989, between the Corporation, WCI and Steven J. Ross (collectively, the "Amended Employment Agreements"), copies of which have been submitted to this Meeting and directed to be filed

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with the records of the Corporation, be, and they hereby are, approved in all respects; and that the Chairman of the Board and the President be, and each of them hereby is, authorized to execute, in the name and on behalf of the Corporation, each Amended Employment Agreement (except that none of J. Richard Munro, N.J. Nicholas, Jr. or Steven J. Ross may execute his own Amended Employment Agreement on behalf of the Corporation or, in the case of Mr. Ross, WCI) in substantially such form, with such additions, deletions and changes therein and modifications thereof, if any, as the officer executing the same shall approve (the execution thereof by any such officer to be conclusive evidence of his or her approval of any additions, deletions, changes or modifications).

RESOLVED that, from and after the Commencement Time, the powers, duties, authorities and compensation of any kind whatsoever of J. Richard Munro, Steven J. Ross and N.J. Nicholas, Jr., shall be exclusively set forth in or pursuant to the Original Employment Agreements, as amended by the Amended Employment Agreements, except as a majority of the Board of Directors may otherwise determine; provided, however, that the employment of J. Richard Munro, N.J. Nicholas, Jr., and Steven J. Ross may not be terminated for cause and such agreements may not be amended, modified or rescinded without an affirmative two-thirds vote of the entire Board of Directors.

Mr. Finkelson stated that, in light of the commencement of the PCI offer and the significantly revised terms of the Merger Agreement, including the cash tender offer for WCI shares, the investment banking advisers had requested that their fee agreements be revised to take into account the additional services of acting as financial advisers to the Corporation in connection with the PCI offer, acting as dealer/managers of the WCI tender offer, evaluating the securities to be issued in the back-end merger and assisting the Corporation in the financing of the

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transaction. He noted that pursuant to their original fee agreements, Wasserstein, Perella & Co. Inc., and Shearson Lehman Hutton Inc. had each been paid \$6,000,000 to date for acting as financial advisers in connection with the original WCI merger and that the Corporation has now agreed, subject to Board approval, to pay each of them an additional fee of \$10,000,000 if by February 14, 1990, the proposed WCI merger is completed, PCI acquires the Corporation or one of a number of specified transactions by the Corporation and certain other parties is completed or if no such transaction is consummated. Mr. Finkelson noted that the fee was not in any way contingent on defeating the PCI offer or completing the WCI tender offer and merger. Thereupon on motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED that the form, terms and provisions of the Amendment dated as of June 15, 1989, to the Engagement and Indemnity Agreement dated as of February 14, 1989, between the Corporation and Wasserstein Perella & Co., Inc. and the form, terms and provisions of the Amendment dated as of June 15, 1989, to the Engagement and Indemnity Agreement dated as of February 14, 1989, between the Corporation and Shearson Lehman Hutton Inc. (collectively, the "Engagement Agreements"), copies of which have been submitted to this Meeting and directed to be filed with the records of the Corporation, be, and they hereby are, in all respects approved and adopted; and that the actions of any of the Chairman of the Board, the President, the Vice-Chairman of the Board, the Chief Financial Officer, each Vice-President, the Controller, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary of the Corporation in executing, in the name and on behalf of the Corporation, the Engagement Agreements

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be, and they hereby are, ratified and approved in all respects.

Thereupon the meeting adjourned at 9:15 A.M.

Secretary

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EXHIBIT E

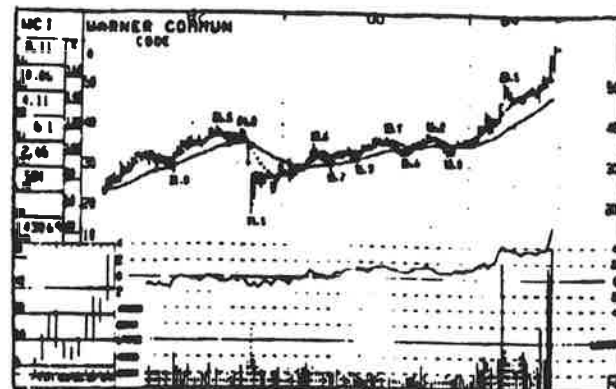
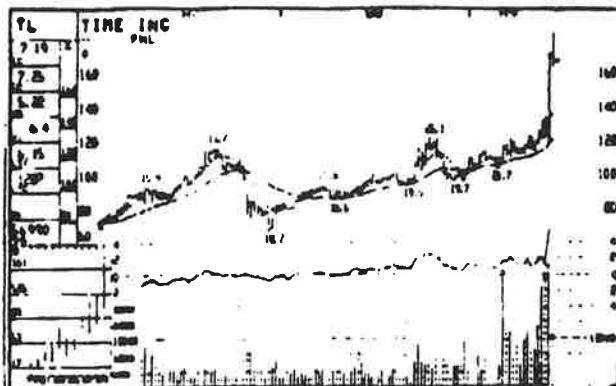
SCHRODER

RECOMMENDATION

David J. Londoner, CFA
212/492-6420

Francine S. Blum
212/492-6417

June 19, 1989



(Courtesy, Mansfield Chart Service)

TIME - WARNER

Where Should Time Stock Sell?

Time's tender for Warner shares has commenced. Time will buy 100 million shares at \$70, and then conclude a back end merger for cash, securities or stock with a value of \$70 or more.

If this transaction is consummated - or a Paramount bid for Time is ultimately successful - the appropriate means for analyzing the stocks will be based on pretax cash flow, not earnings. This paper presents the relevant cash flow projections and our evaluation to determine an anticipated price level at which the shares will trade post-acquisition.

We believe that the appropriate way to look at the resulting company is to look at Net Cash Flow Pretax, double underlined in the spread sheets. This is pretax earnings plus depreciation and amortization, but after interest. In summary form, TL's cash flow per share would be \$18 in 1990 by itself, and rise to \$43 by 1995. With Warner, 1990 cash flow would be \$15, but rise to \$46 - \$51, depending on the range of alternatives for Time's purchase of the remaining shares (back-end).

We would be buyers of Time stock at \$160 and Warner at \$60 or thereabout. There is no implication that this is the final word; the next round may be a still higher offer for Time by Paramount. This would put increased pressure on the Time board not to go through with the tender.

WERTHEIM SCHRODER & CO. *Not a recommendation* EQUITABLE CENTER 767 SEVENTH AVENUE, NEW YORK, N.Y. 10019-1600 212-492-6400
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Time and Warner Pre Acquisition

WERTHEIM SCHRODER MODEL

CASH FLOW IN \$ MILLIONS

PHV

		1989	1990	1991	1992	1993	1994	1995	Multiple	1990	1995
Warner											
*****	Growth										
Film	15%	275	360	414	476	548	630	724	10.0	3,600	7,241
Records	14%	377	430	490	559	637	726	828	10.0	4,298	8,275
Cable	16%	220	255	296	343	398	462	536	12.5	3,190	6,700
Publishing	10%	12	13	15	16	18	19	21	12.0	158	255
		-----	-----	-----	-----	-----	-----	-----		-----	-----
Total		884	1,058	1,215	1,394	1,600	1,837	2,109		11,246	22,471
SG&A	10%	(70)	(77)	(85)	(93)	(102)	(113)	(124)	Debt	(421)	6,085
Interest	12%	(78)	(11)	79	196	345	534	770		-----	-----
		-----	-----	-----	-----	-----	-----	-----		10,826	28,556
Net Cash Flow Pretax		736	970	1,209	1,497	1,843	2,258	2,755		-----	-----
		-----	-----	-----	-----	-----	-----	-----	P/S	\$60	\$160
		-----	-----	-----	-----	-----	-----	-----		179.0 mil shs	
Capital Exp		(200)	(200)	(200)	(200)	(200)	(200)	(200)			
Taxes		(129)	(176)	(226)	(287)	(361)	(450)	(557)			
Net Chg W/C		(35)	(35)	(35)	(35)	(35)	(35)	(35)			
Dividends		(122)	0	0	0	0	0	0			
		-----	-----	-----	-----	-----	-----	-----			
Avail for Debt Rept		251	559	747	975	1,247	1,574	1,963			
(Debt)/Cash	(1,230)	(979)	(421)	327	1,301	2,549	4,122	6,085			
		-----	-----	-----	-----	-----	-----	-----			
179 mil shs: CF/Shr		\$4.11	\$5.42	\$6.75	\$8.36	\$10.30	\$12.62	\$15.39			

Time Inc.		1989	1990	1991	1992	1993	1994	1995	Multiple	1990	1995

Magazines	9%	335	365	398	434	473	515	562	11.0	4,017	6,180
Cable	16%	365	423	491	570	661	767	889	13.0	5,504	11,561
Programming	13%	175	196	223	253	285	322	364	8.5	1,681	3,097
Books	13%	160	181	204	231	261	295	333	11.5	2,079	3,831
		-----	-----	-----	-----	-----	-----	-----		-----	-----
Total		1,035	1,167	1,317	1,487	1,680	1,899	2,149		13,281	24,669
SG&A	10%	(70)	(77)	(85)	(93)	(102)	(113)	(124)			
Interest	12%	(83)	(45)	7	77	167	282	425	Debt	(912)	3,007
		-----	-----	-----	-----	-----	-----	-----		-----	-----
Net Cash Flow Pretax		882	1,045	1,239	1,470	1,744	2,068	2,450		12,369	27,676
		-----	-----	-----	-----	-----	-----	-----			
Capital Exp		(300)	(300)	(300)	(300)	(300)	(300)	(300)	P/S	\$217	\$486
Taxes		(270)	(325)	(390)	(469)	(563)	(675)	(808)	57.0 mil shs		
Net Chg W/C		(45)	(45)	(45)	(45)	(45)	(45)	(45)			
Dividends		(57)	(63)	(69)	(76)	(83)	(92)	(101)			
		-----	-----	-----	-----	-----	-----	-----			
Avail for Debt Rept		210	313	435	580	753	956	1,196			
(Debt)/Cash	(1,435)	(1,225)	(912)	(477)	103	855	1,811	3,007			

57 mil shs: CF/Shr		\$15.48	\$18.33	\$21.74	\$25.79	\$30.60	\$36.28	\$42.98			

The tables overleaf use our best estimates of cash flow by division for the two companies on their own. We have assumed that interest costs are 12 1/2% on the acquisition debt, although in the case of a high-cash back end offer, that may be too low.

The Tables on pages 4 and 5 show the combined Time-Warner cash flow model, in two cases. Example I of the combined company is the case where Time issues .43 shares of stock to Warner holders remaining after the tender. Cash flow per share in 1995 (pretax cash flow after interest charges) is about \$3 per share above what Time would have shown on its own without Warner (\$43 a share). Under the hybrid securities case (Example II), 1995 cash flow is materially enhanced - to a level of \$51 a share. We suspect the outcome - if this deal goes through - is a hybrid of debt and equity securities for the back end, quite possibly including a warrant as part of the consideration.

The Probable Rejoinder

Paramount can be expected to fight back with an injunction against the tender, and quite possibly a statement that it is willing to pay a higher price, maybe as much as \$200 a share, if certain conditions are met, including a friendly merger with Time. This would put increased pressure on the Time directors to listen to a deal. It is for that reason that we think there is probably further upside in Time stock.

Time is not unfairly valued on its own if the acquisition of Warner goes smoothly. It will be valued on a cash flow basis, giving due credence to the rapidity with which cash flow will expand with leverage. We think that Time would still around \$155 a share on completion of this deal if all the other suitors were to vanish. This would represent a multiple of 10-10.5 times 1990 cash flow per share, and a 10% discount from private market value. We believe this valuation is appropriate because of the high growth rate in the ensuing years - 25% - 30%.

The 10 - 10.5 multiple of pretax cash flow we project for Time-Warner compares with slightly lower multiples - around 8x - for unleveraged media companies such as Gannett, CBS and Capital Cities/ABC, and higher multiples - 17x - 19x - for the highly leveraged one such as Viacom and Turner Broadcasting. The leveraged ones have the rapid growth rates.

On this basis, risk in the stock is not severe, although there could be some periods of softer prices while the arbitrage community leaves the scene. On balance, we have positive trading opinions on both Time and Warner (see below).

The Implications for Warner

The concentration on the strategy aspects of the battle has focused attention in one direction. There is another side, which is the implication of the Time-Warner stock swap.

Time has issued 7.1 million of its shares to Warner in exchange for 17.3 million shares of Warner. If TL does not end up combining with Warner (and the potential swap is not subsequently rescinded in court), Warner's consolation prize for losing out in the merger will be a massive profit on its TL stock. If Paramount or someone else succeeds in getting Time for cash between \$175 and \$200 a share, Warner will receive total proceeds of \$1.3-\$1.4 billion, which is enough to wipe out its entire long term debt.

There is more, however. Even with the additional 17.3 million shares of WCI outstanding, Warner's \$3.50 or so of 1990 EPS would not be diluted, because of the reduced interest cost. Net of taxes, this result could at the high end add as much as \$0.20 per share, depending on accounting treatment for capitalized interest.

The swap puts another large block of Warner stock in potentially unfriendly hands if the Time-Warner deal were to fall apart. An ultimate acquirer of Time, whether it is Paramount or someone else, will very possibly have little loyalty to Warner, which had been trying to help out its agreed-upon merger partner.

Time Buys Back End for Stock

WERTHEIM SCHRODER MODEL
Example 1

CASH FLOW IN \$ MILLIONS

PMV

1990 1995

		1989	1990	1991	1992	1993	1994	1995		
COMBINED									Assets	
Avail for Debt Rept		461	871	1,182	1,555	2,000	2,530	3,158	WCI	11,246 22,471
									TL	13,281 24,669
Acquisition Debt	100.00	7,000	7,306	7,932	8,599	9,322	10,106	10,956	Debt/Cash	
	\$70.00								WCI	(421) 6,085
Interest Cost	12.5%	438	894	952	1,033	1,120	1,214	1,316	TL	(912) 3,007
Less Tax Effect		(131)	(268)	(286)	(310)	(336)	(364)	(395)	AccDebt	(7,306) (10,956)
									PMV	15,888 45,276
Shares Out Time	57	93	93	93	93	93	93	93		
Shs Exch	79.00 mil E	0.45 shs TL								
Per Share Pretax CF		\$14.18	\$15.01	\$19.24	\$24.24	\$30.29	\$37.56	\$46.28	Per Shr	\$172 \$489

Private Mkt Value	1990	1991	1992	1993	1994	1995
WCI	\$5.42	\$6.75	\$8.36	\$10.30	\$12.62	\$15.39
TL Alone	\$18.33	\$21.74	\$25.79	\$30.60	\$36.28	\$42.98
TL/WCI	\$15.01	\$19.24	\$24.24	\$30.29	\$37.56	\$46.28

Internal Cash Flow is assumed to pay down debt of each company, not acquisition debt.

Time Buys Back End for Cash and Stock

WERTHEIM SCHRODER MODEL
Example 11

CASH FLOW IN \$ MILLIONS

Example 11		*****							PMV		
		1989	1990	1991	1992	1993	1994	1995	1990	1995	
COMBINED											
Avail for Debt Rept		461	871	1,182	1,555	2,000	2,530	3,158	Assets		
									WCI	11,246 22,471	
									TL	13,281 24,669	
Acquisition Debt		130.00	9,100	9,498	10,312	11,178	12,119	13,138	14,243	Debt/Cash	
\$70.00										WCI	(421) 6,085
Interest Cost		12.5%	569	1,162	1,238	1,343	1,456	1,379	1,711	TL	(912) 3,007
Less Tax Effect			(171)	(349)	(371)	(403)	(437)	(474)	(513)	AcqDebt	(9,498) (14,243)
									
Shares Out Time		57	79	79	79	79	79	79	79	PMV	13,696 41,989
.....											
She Exch		49.00 mil @	0.45 sha TL								
..											
Per Share Pretax CF		\$15.44	\$15.20	\$20.00	\$25.64	\$32.49	\$40.75	\$50.68	Per Sh.	\$173 \$531	
Private Mkt Value			1990	1991	1992	1993	1994	1995			
WCI			\$5.42	\$6.75	\$8.36	\$10.30	\$12.62	\$15.39			
TL Alone			\$18.33	\$21.74	\$25.79	\$30.60	\$36.28	\$42.98			
TL/WCI			\$15.20	\$20.00	\$25.64	\$32.49	\$40.75	\$50.68			

Internal Cash Flow is assumed to pay down debt of each company, not acquisition debt.

WERTHEIM SCHRÖDER & CO
Investment

The Warner stock issued in the swap carries special restrictions, including the mandate that voting rights - if exercised by Time and presumably its acquiror - must be exercised in proportion to the vote of public shareholders. Warner also has a right of first refusal on any sale of those shares. That protects Warner to some extent against the possibility that Chris-Craft gets control over these new shares, but would still put Warner in an increasingly vulnerable position regarding a hostile tender for its shares.

Quite obviously, if the proposed Time-Warner combination were to fall apart by virtue of a successful hostile attack on Time, Warner itself would be in play. WCI has agreed to be acquired for \$70 a share; its directors must now listen to any bid at a higher price. Warner's strategy, in this case, lies in its expectation that \$70 is a price - 13 times 1990 pretax cash flow - that will not attract higher bids. We think that is a good bet regarding American companies and LBO specialists, but we are less certain about foreign entities.

Our thinking on Warner is that if the Time bid goes through, holders will receive \$70 a share, a nice move from \$58. It may take some months if there is a protracted court battle. After a period, however, the \$70 earns interest, as stipulated in the tender offer.

If the tender by Time is disallowed, Warner stock will probably not sell off materially. Warner will be in play, with 33 million of its almost 200 million shares controlled by Chris-Craft, and another 17 million by Time's acquiror. This is an unstable situation which seems bound to keep the share price up. If the Time bid at \$70 goes away, Warner will probably drop to \$56 or so, then go higher as rumors start. Warner is still on our Recommended List.

Time is a less clear buy case, but we think it has further upside. (Interestingly, we told clients to switch Time into Warner when the stocks were \$135 and \$50 about a week prior to the Paramount bid. There was a better opportunity to make that switch, obviously, but the two stocks have very close to the same gain now.)

If Time gets a higher bid from Paramount, as we expect, it should perform accordingly. We think Paramount can offer as much as \$200 and still make the deal economically. If Paramount loses its expected lawsuit or simply leaves the battle, and no one else bids for Time, we think Time stock will settle around 155. It may be lower with a heavy equity back end to the deal, as Warner holders sell out, or higher if the back end is mostly financed with fixed income securities.

Accordingly, we think the risk/reward ratio favors Time around \$160, enough to make new trading commitments. Warner below \$60 is even more attractive.

Recent prices of stocks mentioned in this report are:

Time (TL - 158)
Warner (WCI - 59)
Paramount (PCI - 57)
Chris-Craft (CCN - 42)
Capital Cities/ABC (CCB - 462)
CBS (CBS - 199)
Gannett (GCI - 46)