

#155

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

PARAMOUNT COMMUNICATIONS INC.. and
KDS ACQUISITION CORP.,
Plaintiffs,
-against-
TIME INCORPORATED, TW SUB INC.,
JAMES F. BERE, HENRY C. GOODRICH,
CLIFFORD J. GRUM, MATINA S.
HORNER, DAVID T. KEARNS,
GERALD M. LEVIN, J. RICHARD
MUNRO, N.J. NICHOLAS, JR.,
DONALD S. PERKINS, CLIFTON R.
WHARTON, MICHAEL D. DINGMAN,
EDWARD S. FINKELSTEIN, HENRY
LUCE III, JASON D. McMANUS,
JOHN R. OPEL, and WARNER
COMMUNICATIONS INC.,
Defendants.

Civil Action
No. 10866

AFFIDAVIT OF MACK F. ROSOFF

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

MACK F. ROSOFF, being duly sworn, deposes and
says:

1. I am a Managing Director of Wasserstein
Perella & Co., Inc. ("Wasserstein Perella"). We, along with
Shearson Lehman Hutton Inc. ("Shearson Lehman"), acted as
financial advisors to Time Incorporated ("Time") in
connection with the development of Time's strategic

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alternatives and Time's proposed merger transaction with Warner Communications Inc. ("Warner"). We have also acted as financial advisor to Time in connection with the tender offer for Time announced by Paramount Communications Inc. ("Paramount"). I have seven years of experience as an investment banker in the fields of corporate finance and mergers and acquisitions, and have specialized in, among other things, transactions involving media companies. I have been a personal participant in the matters set forth in this affidavit.

A. The Original Time Warner Merger.

2. In early 1988, Wasserstein Perella and Shearson Lehman were retained by Time to assist it in identifying and evaluating the best means of realizing certain strategic objectives that had been formulated by Time's management and operating personnel. The underlying goal, as presented to us, was to maximize Time's shareholder value by exploring opportunities for growth. We were informed that one key strategic objective for Time in pursuing that goal was to become a worldwide media and entertainment company and to compete on a global basis in the media and entertainment marketplace.

3. Over the period from May through July 1988, we proceeded to identify and evaluate a wide range of strategic acquisitions. Among other alternatives, we evaluated each

company that owned a major motion picture studio, including Warner and Paramount. In this connection we looked not only at whether a particular candidate could bring to Time a major film and entertainment business, but also at whether the candidate's other assets complemented Time's existing businesses and expertise and could offer new business opportunities in combination with Time's existing activities.

4. We understood that over the years, Time had had preliminary discussions with most media and entertainment companies, including Warner and Paramount. We were informed that Time had concluded that Warner, in particular, presented both a unique fit with Time's existing businesses and significant opportunities for expansion in the entertainment business and in international markets.

5. Warner had consistently been one of the leading producers and distributors of filmed entertainment in the United States. It is the only major American motion picture company with its own international distribution capability and is consequently a significant force in the distribution of international film rights. It was apparent to us that a combination of Time with Warner could provide important benefits to Time's existing business. For example, Warner has the fifth largest cable television business in the United States and, when combined with Time's

cable operation (the second largest), was expected to provide synergies and cost savings associated with a larger scale operation.

6. In addition, we recognized that the combination of Time and Warner presented several other opportunities for potential synergy and the creation of new businesses. Time is one of the leading direct marketing companies in the world, and although Warner is the largest provider of recorded music and one of the largest home video companies, it does not have its own record club or home video club. Warner's position in the recorded music and filmed entertainment business, when combined with Home Box Office ("HBO") and the combined cable television operation, would offer significant possibilities for the launching of additional cable television services. In addition, Warner's international presence provided a unique vehicle for access to international markets, not only for Warner's products but also for Time's. Other candidates, including Paramount, did not present the same broad range of opportunities and overall business fit.

7. By July 1988, Time's discussions with Warner, which had commenced as an exploration of a potential cable joint venture and progressed to a discussion of a joint venture that included cable, programming and filmed

entertainment, had reached the stage where a merger of the two companies was under consideration.

8. At a meeting of Time's Board of Directors (the "Board") in July 1988, Wasserstein Perella and Shearson Lehman compared for the Board the merits of an acquisition of Warner with the merits of the other potential strategic acquisitions we had analyzed. In addition, we discussed preliminarily some of the issues that could be expected to arise in structuring a transaction with Warner. Among other things, we reviewed the advantages and disadvantages of the alternative methods of acquiring a company through a cash purchase, a common stock merger, or some combination of the two.

9. It was my understanding that the Board considered Warner to be a uniquely attractive acquisition candidate, but that numerous governance issues had to be resolved before a transaction could proceed. I understood that discussions broke down in August 1988 over these issues.

10. Wasserstein Perella and Shearson Lehman resumed work on a potential Time Warner merger in January 1989, when Time advised us that they had resolved with Warner the issues that they had been unable to resolve the preceding summer. We were advised that Time and Warner had decided to pursue the combination in the form of a common

stock merger, which decision we understood to be made partly for accounting reasons and partly to preserve a strong balance sheet. As part of our engagement we revisited the analysis of a range of candidates that we had discussed with the Board in July and found that Warner remained a uniquely attractive acquisition candidate for Time. At a Board meeting on March 3, 1989, we reviewed the proposed transaction and evaluated for the Board the pros and cons of a common stock merger. We also discussed with the Board, as we had in July, that a cash tender offer might become the most efficient way of consummating the transaction. (In the light of this contingency, our engagement letter specifically contemplated the possibility of a cash tender offer).

11. A common stock merger is a transaction in which one company acquires the other by issuing new shares which it exchanges, in some stated ratio, for the shares of another company. If certain tests are met, such transactions are accounted for as a "pooling of interests", which means that the balance sheets of the two companies are added together without the creation of goodwill (the difference between the market value and the book value of the assets acquired). Because goodwill must be charged against earnings over a fixed number of years, one of the

benefits of a pooling transaction is that this charge against earnings is avoided.

12. A second benefit of a common stock merger in this case was that it would create a company with a capital structure consisting of common equity with a market value approaching \$20 billion and debt in the amount of approximately \$3 billion. With this balance sheet, the combined company would be in a position to undertake substantial strategic acquisitions or a recapitalization. Any recapitalization, however, would have to be deferred for at least two years in order to preserve the accounting benefits of pooling under the SEC rules governing pooling transactions. We advised the Board that the two year restriction represented one of the drawbacks of a common stock pooling. Shareholders might have to wait two years for a special dividend or major share repurchase and therefore may be receiving the full benefits of the Time Warner balance sheet in the form of a delayed gratification. We also advised the Board that the larger number of shares issued in the common stock merger could cause the stock to trade below its potential in the near term.

13. A practical difficulty presented by a common stock merger is that it can take an extended period of time to complete, may involve various contingencies and could be subject to potential interference. Consequently, we

discussed with the Board that it might be necessary to switch to a purchase transaction at some point if it appeared that a common stock merger could not be completed within a reasonable period of time.

14. We advised the Time Board on March 3 that an exchange ratio of .465 Time share for each Warner share was fair to Time shareholders from a financial point of view. (A copy of our opinion is attached hereto as Exhibit A). In forming that opinion, we reviewed several factors and performed a number of financial analyses. We examined both the level and growth rates of historical and projected financial performance of the two companies, the historic and current trading levels of their stock and the pre-tax valuations of each by major operating segment. The purpose of our analysis was to assess the relative expected contributions by Time and Warner to the combined entity as an ongoing, publicly traded company. In that regard, we took into account that Warner had been growing at a faster rate than had Time historically and was projected to continue to grow more rapidly in the future. As a result of those factors, we concluded that the earnings per share of Time Warner would be higher than the earnings per share of Time on a stand-alone basis. For example, this analysis indicated that the earnings per share of Time Warner would be \$7.85 in 1990, compared to \$6.65 for Time alone. Based

on these considerations, as well as the potential benefits from synergies, we concluded that Time's shareholders would clearly be better off owning a share of Time Warner than a share of Time alone.

15. As is discussed below, in June we performed an entirely separate evaluation of Time in connection with our opinion that the price offered by Paramount in its tender offer for Time was inadequate. It is important to note that one major difference between our March and June analyses was that in March we were not evaluating a transaction that involved a change in control of Time, whereas in June we were evaluating what Time would be worth if it were sold.

16. From the point of view of the Time shareholders, their company would be merging effectively with two companies, Warner and Lorimar, since Warner and Lorimar had merged subsequent to the initiation of the Time Warner negotiations. Based on the exchange ratio that was finally agreed to, the shares of Time Warner would be distributed roughly as follows: 39% to Time's shareholders, 55% to Warner's shareholders, 6% to Lorimar's shareholders. (The percentage to be received by Time's shareholders was also affected by the fact that Time had repurchased approximately 8% of its stock in the period preceding the transaction). The share ownership percentages are a mathematical result of the ratio at which shares of stock

are exchanged. Since the share ownership of all three companies was widely dispersed, there was no question of a change in control as a result of the exchange. The percentage of stock to be issued to Warner's stockholders is irrelevant where the stock is being issued in a broad public distribution. There would be no single shareholder or affiliated group that could, as a practical matter, thereafter have prevented Time Warner's public stockholders from receiving a control premium in a later sale of the company.

17. To illustrate the point that there was no change in control of Time, the original merger can be compared to an acquisition by Time of Warner for cash with the cash being financed through a public offering of Time stock. As discussed above, the original merger was structured as an acquisition through a public offering of Time stock to the public Warner stockholders in order to obtain the benefits of pooling accounting treatment.

18. In this connection, I note that plaintiffs confuse the import of the .465 exchange ratio by asserting that when Time subsequently made a tender offer for Warner at \$70 per share, it was thereby valuing Time at \$150 a share. The number .465 was a fair ratio of the trading values of Time and Warner stocks based primarily on the relative contributions of each company to the earnings of

Time Warner. The exchange ratio did not reflect the ratio of the acquisition values of the two stocks, which would require a different analysis, and one cannot be extrapolated from the other.

19. We did advise the Time Board that any large transaction, such as the Time Warner merger, might cause the companies involved to be highly visible and possibly attract a hostile offer. We advised the Time Board that the proposed transaction could have this possible result. However, the fact that a company's stock becomes active and is therefore considered "in play" does not necessarily reflect any determination by its board that the company is for sale. Paramount, for example, is considered by the market to be "in play". No one, however, has suggested that the Paramount board has put Paramount up for sale.

20. After Paramount announced its tender offer for Time, Time's Board of Directors reviewed its alternatives, considered Paramount's offer and decided to continue to pursue its business combination with Warner through a cash tender offer for 51% of Warner's stock (the "Revised Transaction"). We advised the Board that Time's acquisition of Warner at a price of \$70 per share was fair to Time shareholders from a financial point of view. (A copy of our fairness opinion is attached hereto as Exhibit B). In connection with our evaluation of the revised transaction,

we analyzed the acquisition value of Warner and assessed the levels at at which Time Warner would likely trade subsequent to the completion of the transaction. On the basis of our analysis, we advised the Board that greater immediate value for the Time shareholders would likely be achieved through this transaction than through the original merger. The critical difference between the transactions was that fewer shares would be issued in the Revised Transaction, thereby reserving greater value for the Time shareholders in the near term.

21. We advised the Board that, as a result of its tender offer, Time will assume substantial debt and goodwill, which will effectively eliminate reported earnings. Thus, upon the completion of its tender offer, Time stock will be valued by the market on a cash flow basis rather than on an earnings basis.

C. The Affidavit of Mr. Phillips Incorrectly Values Time Warner.

22. I have reviewed the affidavit of Mr. Charles Phillips of Dillon Read & Co., which attempts to criticize the estimates of the expected trading range for Time Warner made by Wasserstein Perella and Shearson Lehman. In attempting to estimate the future trading value of a combined Time Warner entity, Mr. Phillips agrees that cash flow multiples (rather than earning multiples) are the

relevant benchmark. (Phillips Aff. ¶ 9.) As we explained to Time's Board on June 15, the market has valued other highly leveraged companies on the basis of a multiple of cash flow, that is, earnings before interest, taxes and depreciation (EBITD) rather than earnings. Indeed, Paramount has valued itself pro forma following an acquisition of Time on this basis because of the high levels of debt associated with such an acquisition.

23. However, Mr. Phillips is wrong in suggesting that the market would value a combined Time Warner by looking at projected cash flow over a "three to five year horizon". (Phillips Aff. ¶ 9.) In the case of many highly leveraged companies, the total debt levels will typically exceed asset values in the short term (i.e., in the months following the consummation of the transaction) such that if the methodology were applied to near term cash flows, it would yield a negative number--a meaningless result. Therefore, in valuing such companies, analysts look forward three to five years--to a period where the methodology yields a positive result--and then discount those long-term projected equity values back to present value using a discount rate that appropriately reflects the risk involved.

24. In the case of Time's proposed acquisition of Warner the cash flow multiple methodology yields a positive result from the outset, equalling, in the aggregate, between

\$6 billion and \$11 billion of equity value. Mr. Phillips has apparently misunderstood the economic character of the Time Warner company, which although leveraged, will have a substantial equity base. He has compared Time Warner to the most highly leveraged companies, such as FMC, Owens Corning, USG and INTERCO, which have an average ratio of debt to equity at market value of 8.8x. Time Warner's pro forma ratio of debt to equity at market value, by contrast, is 2.1x. Mr. Phillip's methodology, although appropriate for many highly leveraged companies, is inappropriate for Time Warner.

25. Accordingly, it is unlikely that the market will find it necessary to discount long-term project cash flow in order to value the stock of a combined Time Warner. Instead, it is expected that the market will look to near-term cash flow, i.e., that in 1990, and apply the appropriate multiple to such cash flow, but without a discount factor.

26. However, even if the market were to value Time Warner based on discounted long-term cash flows, the 25-30% discount rates applied by Mr. Phillips in his analysis (Phillips Aff ¶ 13) would be inappropriate. As I have indicated above, the proposed acquisition of Warner by Time, while highly leveraged, is relatively less leveraged than

those chosen by Mr. Phillips as being comparable. (See Phillips Aff. ¶¶ 11-12.)

27. Mr. Phillip's analysis is also flawed in that it relies on cash flow multiples which are lower than those presented to the Board on June 15 by Wasserstein Perella and Shearson Lehman. Indeed, the cash flow multiples used by Mr. Phillips--9 to 11x--are lower than the multiples employed in his own back-up analysis. (See Phillips Aff. Ex. B) The average cash flow multiple for highly leveraged companies cited in Mr. Phillip's backup is approximately 16x, indicating that Mr. Phillips chose to skew his multiples to the very lowest end of the range. It should be noted that a difference of one multiple point can result in a \$40 per share difference in value.

28. Mr. Phillips is also incorrect in questioning the magnitude of the cost savings expected to be achieved as a result of Time's acquisition of Warner. Time's management has estimated that it can easily increase its cash flows based on assumed cost reductions of \$50 million and \$100 million. We consider cost reductions of that level to be conservative -- in the context of the combined expenses of approximately \$10 billion of Time and Warner they represent reductions of between 0.5% and 1%. Based on our experience, highly leveraged companies are usually able to effect substantially greater costs savings.

29. The market has already begun to value Time Warner at the high end of the range that we predicted. As shown in the list below, a number of independent research analysts have indicated that they expect Time Warner to trade in the range of \$120 to \$173 -- consistent with the analysis we presented to the Time Board, rather than the analysis Mr. Phillips has used:

<u>Date</u>	<u>Analyst</u>	<u>Firm</u>	<u>Trading Range</u>
June 19	David J. Londoner	Wertheim Schroder	\$155
June 19	Kendrick Nobel	Paine Webber Group	\$173
June 20	Jeffrey Russell	Drexel Burnham Lambert	\$145 - \$160
June 27	Richard MacDonald	First Boston	\$120 - \$150

Obviously, an appropriate acquisition value including a premium for control of the combined entity would be at a substantial premium to its trading value.

D. Paramount's Tender Offer for Time is not Adequate.

30. After Paramount announced its tender offer for Time at \$175 per share, we performed a valuation of Time for the purpose of assisting the Time Board in assessing the adequacy of Paramount's tender offer. For this analysis, we utilized a variety of valuation techniques, including a

preliminary leveraged buyout analysis, a preliminary recapitalization analysis, a pre-tax valuation analysis of each individual business within Time's broader operating segments, and an updated analysis of comparable acquisitions and comparable publicly traded companies. (Copies of the valuation summaries are attached hereto as Exhibit C.) The most meaningful of those valuation techniques is the pre-tax segment valuation range because, in my experience as an investment banker, publicly traded companies are typically sold at prices within that range. We advised the Time Board that, given the quality and desirability of Time's assets, the acquisition price of Time would likely be in the mid to high end of the pre-tax segment value range, which is to say that the price would likely be greater than \$250 per share.

31. It was appropriate to use the pre-tax segment valuation of Time, rather than the after-tax segment valuation as suggested by Mr. Phillips, because we were valuing Time as it presently exists as an independent company. Moreover, there is no reason to assume that a buyer of Time would sell its assets. For example, Paramount has asserted publicly that it does not intend to sell Time's

assets. Therefore, the after-tax values would be irrelevant. 1/

32. Because the purpose of our analysis in June was fundamentally different from the purpose of the analysis we performed in March, we employed different techniques. In the March analysis, we were evaluating the relative contributions of the two companies to Time Warner as an ongoing, publicly traded company for the purpose of evaluating the fairness of the .465 share exchange ratio. Both Time and Warner shareholders would retain an upside potential in their shares. In a cash transaction, the recipient of cash does not. The most important analysis that we performed in March concerned the relative contributions of Time and Warner to the reported earnings of

1/ We also do not agree with Mr. Phillip's contention that our comparable company analysis is flawed because of timing differences between our valuation multiples and Time's operating numbers. However, in response to this concern we performed our analysis using the methodology Mr. Phillips suggested and the impact on our valuation is less than 1%. We also disagree with Mr. Phillips' assertion that the weighted average costs of capital used in our discounted cash flow analysis are too low. The discount rates we used were determined on the basis of standard methodologies and are appropriate to the business segments to which they were applied. We disagree with Mr. Phillips' assertion that the historical weighted average cost of capital for the company as a whole provides the appropriate discount rates for future cash flow of individual business segments.

the combined entity, because the Time Warner stock after the original merger would be likely to continue to trade as a multiple of earnings. Accordingly, we did not then perform a detailed pre-tax asset valuation by individual business within each of Time's major operating segments.

33. Since the original Time Warner Merger was not a transaction that involved a change in control of Time, the valuation of Time and Warner in March was made solely to consider the relative contributions of Time and Warner to the Merger. Thus, in March it was not necessary to determine the full value at which Time or Warner could be sold but rather to value the two companies on a consistent basis for the purpose of judging the fairness of the exchange ratio.

34. In order to assess the adequacy of Paramount's offer for Time, in June we valued each of Time's individual businesses separately. In connection with this analysis, we valued each of Time's 12 magazine units and each of Time's book businesses (Scott Foresman, Time Life Books, Book of the Month Club and Little Brown) individually rather than as a whole, as we had in March. We also analyzed each of the divisions of ATC, Time's cable television subsidiary in June, while in March we valued the cable unit as a whole. (A copy of the relevant portions of the June 15 Board presentation is attached as Exhibit D hereto.)

35. In addition, as we explained to the Time Board, material events that occurred between March and June caused the value of media companies to increase. (A copy of that portion of our Board presentation is attached as Exhibit E hereto.) For example, there were several significant media and cable acquisitions announced at very high valuation multiples--McFaddens's acquisition of the National Enquirer, Reed International's acquisition of Murdoch Travel Magazines, Cablevision System's acquisition of Republic Cable Partners and the sale of Centel Cable Corp. The market prices of equities--particularly equities of media companies--also increased generally. In addition, in the intervening three months, Time's operating units had updated their projections for the remainder of 1989 and 1990.

36. In assessing the adequacy of Paramount's offer, we discounted the value of Paramount's \$200 offer because the delay that is likely to occur before the consummation of Paramount's offer due to, among other things, the time required to obtain the necessary regulatory approvals. We discounted the value of the \$200 offer using different time periods, ranging from 3 to 12 months, and different annual discount rates, ranging from 12% to 24%. The discount rates were chosen to reflect differences in the

costs of capital for institutional investors and
arbitrageurs respectively.

Mack F. Rossoff

Sworn to before me this
day of July, 1989.

Notary Public

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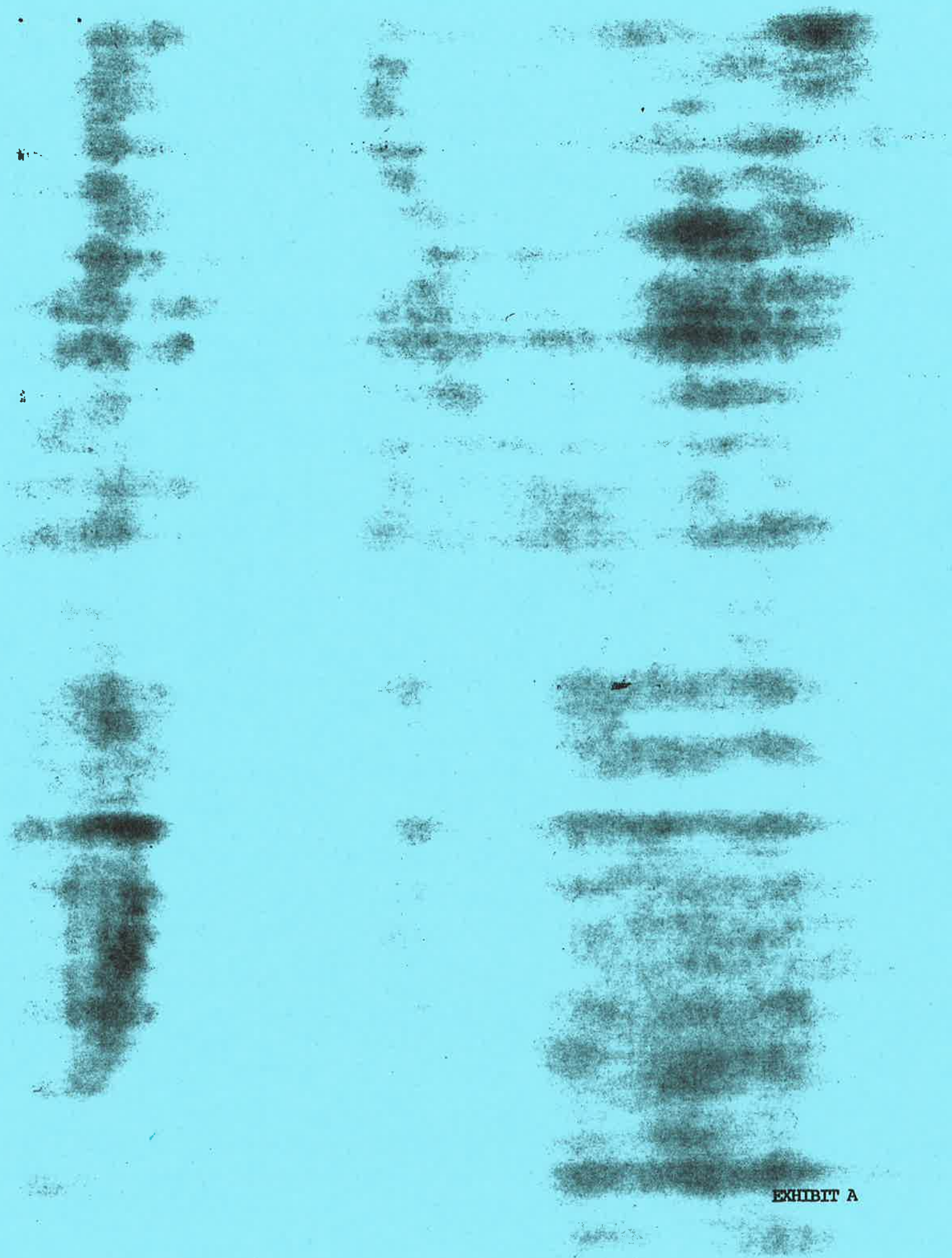


EXHIBIT A

**WASSERSTEIN
PERELLA & CO**

Chicago

Los Angeles

Houston

London

Tokyo

March 3, 1989

**The Board of Directors
Time Incorporated
Rockefeller Center
New York, New York 10020**

Dear Sirs:

You have asked our opinion as to the fairness, from a financial point of view, to Time Incorporated (the "Company") and its stockholders of the acquisition by the Company of Warner Communications Inc. ("WCI"). We understand that the acquisition will be effected through the merger (the "Merger") of TW Sub Inc., a wholly-owned subsidiary of the Company ("TW Sub"), with and into WCI in accordance with the terms set forth in the draft of the Agreement and Plan of Merger, dated as of March 3, 1989 (the "Agreement"), among the Company, TW Sub and WCI. The proposed terms of the Agreement provide that in the Merger: (i) each outstanding share of common stock of WCI not owned directly or through a wholly-owned subsidiary by the Company or WCI will be converted into the right to receive 0.465 of a share of common stock of the Company; and (ii) each outstanding share of preferred stock of WCI not owned directly or through a wholly-owned subsidiary by the Company or WCI will be converted into the right to receive one share of a corresponding series of preferred stock of the Company. The foregoing clauses (i) and (ii) are referred to in this letter as the "financial terms of the Merger."

In arriving at our opinion, we have reviewed the publicly available consolidated financial statements of the Company and WCI for recent years and interim periods to date and certain other relevant financial and operating data of the Company and WCI made available to us from published sources and from the internal records of the Company and WCI. We have reviewed certain internal financial and operating information, including certain projections, relating to the Company and WCI and their respective principal operating subsidiaries. We have also

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Board of Directors
Time Incorporated
March 3, 1989
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reviewed materials prepared and delivered to the Board of Directors of WCI by Lazard Freres & Co. in connection with WCI's recent acquisition of Lorimar Telepictures Corporation. In addition, we have had discussions with the senior managements of the Company and WCI concerning their respective companies' businesses, operations, assets, financial condition and future prospects.

We have considered certain financial and stock market data of the Company and WCI and their operating subsidiaries and have compared that information from a financial point of view to similar data for other publicly held companies in businesses similar to those of the Company and WCI and have considered the financial terms, to the extent publicly available, of certain business combination transactions. In addition, we have reviewed the Agreement, drafts of proposed employment agreements with senior management of the Company and WCI and the terms of executive succession following the Merger, in each case in the forms presented to the Board of Directors of the Company. We have also considered such other information, financial studies, analyses and investigations and financial, economic, and market data which we deemed relevant.

In connection with our review, we have not independently verified any of the information concerning the Company or WCI which is publicly available or which has been provided by the Company or WCI, and have assumed and relied on its being complete and accurate in all material respects. With respect to the financial forecasts and projections, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of the Company and WCI as to the expected future financial performance of their respective companies. In addition, we have not made an independent evaluation or appraisal of the assets of the Company or WCI, nor have we been furnished with any such appraisals. Our opinion is necessarily based upon market, economic, financial and other conditions as they exist and can be evaluated as of the date of this letter.

W200011

Board of Directors
Time Incorporated
March 3, 1989
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We have acted as financial advisor to the Board of Directors of the Company in connection with this transaction and will receive a fee for our services. In the past we have provided financial advisory services for the Company and have received fees for the rendering of these services.

It is understood that this letter is for the information of the Board of Directors of the Company only and, without our prior written consent, is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other written document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, other than in connection with the Joint Proxy Statement-Prospectus of the Company and WCI relating to the Merger and the Registration Statement of which such Proxy Statement - Prospectus forms a part. In addition, this letter may be delivered to WCI in accordance with Section 3.2(n) of the Agreement.

Based upon the foregoing and other matters which we consider pertinent, it is our opinion that, as of the date hereof, the financial terms of the Merger are fair to the Company and its stockholders from a financial point of view.

Very truly yours,



WASSERSTEIN PERELLA & CO., INC.

W200012

EXHIBIT B



**WASSERSTEIN
PERELLA & CO**

Wasserstein Perella & Co., Inc.
11 West 52nd Street
New York, New York 10019
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June 16, 1989

**The Board of Directors
TIME INCORPORATED
Rockefeller Center
New York, New York 10020**

Dear Sirs and Madam:

You have asked our opinion as to the fairness, from a financial point of view, to Time Incorporated (the "Company") and its stockholders of the terms of the proposed acquisition by the Company of Warner Communications Inc. ("WCI"). We understand that the acquisition (the "Acquisition") will be effected pursuant to the terms and conditions set forth in the Agreement and Plan of Merger, as amended and restated as of May 19, 1989 and June 16, 1989 (the "Merger Agreement"), among the Company, TW Sub Inc., a wholly-owned subsidiary of the Company ("TW Sub"), and WCI. The terms of the Agreement provide for the acquisition of WCI by the Company pursuant to a tender offer (the "Offer") by the Company for 100,000,000 shares of common stock of WCI at a price of \$70 per share in cash, subject to adjustment in certain events as set forth in the Merger Agreement, plus additional consideration equal to an interest factor of 9% per annum, payable in certain events, to be followed by a merger of TW Sub with WCI (the "Merger") pursuant to which (a) each then outstanding share of common stock of WCI (other than shares of common stock of WCI that are then held by WCI as treasury stock or by any majority-owned subsidiary of WCI and shares of common stock of WCI held by TW Sub or any of its affiliates, including the Company, all of which will be cancelled, and, if appraisal rights are available with respect to the shares of common stock of WCI, those shares of common stock of WCI held by holders who exercise and perfect appraisal rights under Delaware law) will be converted into the right to receive cash or debt or equity securities of the Company, or a combination thereof, the form of such consideration (the "Merger Consideration") to be agreed upon by the Company and WCI pursuant to procedures set forth in the Merger Agreement, having a value (in the case of any non-cash consideration to be paid in the Merger, on a fully distributed basis) per share equal, as nearly as practicable, in the opinion of two investment banking firms of national reputation, one selected by the Company and one selected by WCI, to the Merger Consideration Amount (as defined in the Merger Agreement), subject to adjustment in certain events as set forth in the Merger Agreement, plus additional consideration equal to an interest factor of 9% per annum, payable in certain events, and (b) each outstanding share of Series B Variable Rate Cumulative Convertible Preferred Stock of WCI (other than if appraisal rights are available with respect to the shares of Series B Variable Rate Cumulative Preferred Stock of WCI, those shares of Series B Variable Rate Cumulative Preferred Stock of WCI held by holders who exercise and perfect appraisal rights under Delaware law) will be converted into the right to receive one share of Series BB Variable Rate Cumulative Convertible Preferred Stock of the Company. The Merger Agreement specifies the amount and the components of the Merger Consideration in the event of disagreements with respect thereto and the interest payable thereon in certain events. The terms set forth in the preceding two sentences are referred to in this letter as the "financial terms of the Acquisition."



**WASSERSTEIN
PERELLA & CO**

In arriving at our opinion, we have reviewed the publicly available consolidated financial statements of the Company and WCI for recent years and interim periods to date and certain other relevant financial and operating data of the Company and WCI made available to us from published sources and from the internal records of the Company and WCI. We have reviewed certain internal financial and operating information, including certain projections, relating to the Company and WCI and their respective principal operating subsidiaries. We have also reviewed materials prepared and delivered to the Board of Directors of WCI by Lazard Frères & Co. in connection with WCI's recent acquisition of Lorimar Telepictures Corporation. In addition, we have had discussions with the senior managements of the Company and WCI concerning their respective companies' businesses, operations, assets, financial condition and future prospects.

We have considered certain financial and stock market data of the Company and WCI and their operating subsidiaries and have compared that information from a financial point of view to similar data for other publicly held companies in businesses similar to those of the Company and WCI and have considered the financial terms, to the extent publicly available, of certain business combination transactions. In addition, we have reviewed the Agreement, the forms of proposed employment agreements with senior management of the Company and WCI and the terms of executive succession following the Acquisition, in each case in the forms presented to the Board of Directors of the Company. We also reviewed the Stipulation and Order of Final Judgment dated May 19, 1989 entered on behalf of Chris-Craft Industries, Inc., BHC, Inc., WCI, Time and TW Sub. We have also considered such other information, financial studies, analyses and investigations and financial, economic, and market data which we deemed relevant. We also reviewed the Tender Offer Statement on Schedule 14D-1 filed by KDS Acquisition Corp. and Paramount Communications Inc. with the Securities and Exchange Commission (the "Commission") on June 7, 1989.

In connection with our review, we have not independently verified any of the information concerning the Company or WCI which is publicly available or which has been provided by the Company or WCI, and have assumed and relied on its being complete and accurate in all material respects. With respect to the financial forecasts and projections, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of the Company and WCI as to the expected future financial performance of their respective companies. In addition, we have not made an independent evaluation or appraisal of the assets of the Company or WCI, nor have we been furnished with any such appraisals. Our opinion is necessarily based upon market, economic, financial and other conditions as they exist and can be evaluated as of the date of this letter.

We have acted as financial advisor to the Board of Directors of the Company in connection with this transaction and will receive a fee for our services. In the past we have provided financial advisory services for the Company and have received fees for the rendering of these services.

It is understood that this letter is for the information of the Board of Directors of the Company only and, without our prior consent, other than as required by law or judicial process, is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other written document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, other than in connection with a proxy statement of the Company or WCI relating to the Acquisition and any registration statement with respect to the Merger Securities and the Tender Offer Statement on Schedule 14D-1 and any amendments thereto to be filed by the Company with the Commission in



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PERELLA & CO**

connection with the Acquisition. In addition, this letter may be delivered to WCI in accordance with Section 3.2(n) of the Agreement.

Based upon the foregoing and other matters which we consider pertinent, it is our opinion that, as of the date hereof, the financial terms of the Acquisition are fair to the Company and its stockholders from a financial point of view.

Very truly yours,

WASSERSTEIN PERELLA & Co., Inc.

EXHIBIT C

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VALUATION METHODOLOGIES

March 1989 Reference Range:

Not relevant to question of adequate sale price. Developed solely for comparative purposes with WONDER, using consistent assumptions for contribution analysis in WONDER merger.

Preliminary Recapitalization Range⁽¹⁾:

- Minimum cost savings⁽²⁾:
\$185 - \$200 + per share**
- Broader cost savings⁽³⁾:
\$210 - \$225 + per share**

(1) Assumes divestiture of SFN and 1.5 million Cable subscribers

(2) Assumes \$50 million in cost cuts, growing at 5% per year, and \$50 million in capital expenditure cuts for two years

(3) Assumes cost cuts of \$75 million, \$100 million and \$200 million for first three years and \$200 million per year thereafter. Also assumes capital expenditure cut of \$50 million for first three years and \$25 million for next two years

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VALUATION METHODOLOGIES (Cont.)

Preliminary Leveraged Buyout Range⁽¹⁾:

- **Minimum cost savings⁽²⁾:** **\$180 - \$195 + per share**
- **Broader cost savings⁽²⁾:** **\$210 - \$225 + per share**

Pretax Segment Valuation:

\$233 - \$274 per share

Estimated Price from Strategic Buyer:

\$225 + per share

- **Pluses may be significant amounts**
- **Generally, acquisition price is in Pretax Segment Valuation Range**

(1) **Same divestitures as in Recapitalization Analysis**

(2) **Same cost and capital expenditure cuts as in analogous Recapitalization Analysis**

EXHIBIT D

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TANGO

Summary Segment Valuation Backup
(\$MM except per share)

	Value Range	1989E				Multiple of 1989E			
		Sales		Reported Op. Income		Sales		Reported Op. Income	
									Buyer's Op. Income
Magazines									
TANGO/Life	\$1,000 -	\$1,250	\$560.0	\$47.0	\$47.0	1.8 x	2.2 x	21.3 x	26.6 x
People	1,800 -	2,100	397.0	145.0	145.0	4.5	5.3	12.4	14.5
Sports Illustrated	1,100 -	1,300	380.0	91.0	91.0	2.9	3.4	12.1	14.3
Fortune	300 -	350	132.0	24.0	24.0	2.3	2.7	12.5	14.6
Southern Family	500 -	600	129.0	38.0	38.0	3.9	4.7	13.2	15.8
Money	350 -	400	107.0	32.0	32.0	3.3	3.7	10.9	12.5
Oxmoor House	200 -	250	66.0	19.0	19.0	3.0	3.8	10.5	13.2
AFP	200 -	230		33.0	33.0			6.1	7.0
Asiaweek/Parenting/Hipp	50 -	50							
Overhead Adjustment	(500)	(500)							
Total	5,000 -	6,030							
Books									
Scott, Foresman	450 -	500	\$266.0	\$47.0	\$40.0			9.6 x	10.6 x
TANGO-Life Books	400 -	450	330.0	32.0	35.0			12.5	14.1
Book-of-the-Month Club	300 -	350	215.0	27.0					
Little, Brown	150 -	200	91.0			1.6 x	2.2 x		
Total	1,300 -	1,500							

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Cable Divisional Summary (\$MM) - Wholly Owned Divisions

	Subscribers 12/31/89 (000s)	Revenues (May Reestimate)	Revenues/ Subscriber	Penetration (May Reestimate)	'88-'89 Penetration Growth	Cash Flow (May Reestimate)	Margin
Albany	61.7	20.7	335.9	70.1%	0.1%	9.3	45.0%
Austin	144.5	42.1	291.1	57.6%	9.3%	18.0	42.7%
Birmingham	74.7	19.9	267.2	51.1%	1.5%	9.1	45.6%
Charlotte	147.1	42.2	286.9	65.9%	-0.7%	19.1	45.4%
Fayetteville	87.6	25.5	291.0	69.5%	1.2%	12.3	48.0%
Florida	318.6	82.8	259.9	68.9%	1.0%	40.0	48.4%
Centel	104.0			55.9%	55.9%	3.6	
Green Bay	51.8	13.6	262.5	57.3%	3.4%	6.3	46.3%
Greensboro	98.9	30.0	302.7	66.2%	2.3%	15.1	50.4%
Hawaii	209.9	74.5	354.9	72.2%	1.6%	40.0	53.7%
Indianapolis	82.7	26.9	324.8	50.4%	1.1%	12.2	45.2%
Jackson	102.3	27.8	271.6	66.4%	1.5%	12.1	43.6%
Manhattan	236.5	92.9	392.6	54.8%	1.2%	46.0	49.5%
Memphis	153.4	49.1	319.9	50.3%	0.4%	23.3	47.4%
National	656.6	186.8	284.4	68.3%	0.6%	91.0	48.7%
Portland	55.0	15.7	286.5	79.1%	0.4%	7.5	47.6%
Queens	67.0	26.4	394.3	31.3%	0.7%	8.0	30.2%
Raleigh	117.6	34.4	292.6	63.4%	2.5%	16.2	47.0%
Reading	97.8	27.5	281.6	80.4%	0.7%	14.3	52.0%
Rochester	182.5	54.9	300.7	62.8%	3.6%	25.7	46.9%
San Diego	140.8	42.7	303.7	72.2%	2.1%	22.6	53.0%
Savannah	53.8	15.4	287.1	60.3%	-2.3%	7.4	48.1%
Shreveport	59.5	17.9	301.2	56.4%	-0.3%	8.1	45.2%
Hedge - Austin/Other					(38.1)		
Wholly Owned Total/Avg.	3,304.3	969.7	304.2	62.2%	3.8%	429.1	46.8%

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Cable Divisional Summary (\$MM) - Affiliated Divisions

	Subscribers 12/31/89 (000s)	Revenues (May Reestimate)	Revenues/ Subscriber	Penetration (May Reestimate)	'88-'89 Penetration Growth	Cash Flow (May Reestimate)	Margin
<u>Division Total</u>	<u>77.2</u>	<u>20.1</u>	<u>260.3</u>	<u>56.2%</u>	<u>5.4%</u>	<u>7.3</u>	<u>36.5%</u>
Colorado Springs	16.2	5.0	312.3	70.0%	1.9%	2.3	45.3%
Council Bluffs	83.4	26.7	319.8	38.5%	4.6%	9.7	36.5%
Denver							
Kansas City	159.1	49.2	309.1	48.4%	2.1%	20.3	41.3%
Paragon L.A. County	59.2	20.4	344.9	49.8%	3.3%	7.1	34.7%
Paragon Northeast	125.8	34.2	272.0	83.5%	-1.7%	15.0	43.8%
Paragon Southwest	164.1	42.1	256.4	50.2%	3.2%	17.0	40.3%
Paragon Tampa Bay	293.0	75.6	258.1	60.1%	1.8%	34.3	45.4%
Paragon Upper Manhattan	149.1	48.7	<u>326.5</u>	<u>49.1%</u>	<u>-2.0%</u>	<u>16.0</u>	<u>33.0%</u>
Paragon Corporate/Other	<u>21.0</u>	<u>0.1</u>				<u>(2.7)</u>	
Unconsolidated Total/Avg.	<u>1,148.1</u>	<u>322.1</u>	<u>295.5</u>	<u>56.2%</u>	<u>2.1%</u>	<u>126.4</u>	<u>39.6%</u>

ATC Interest

<u>ATC Interest</u>							
Colorado Springs	38.6	10.0	50.0%			3.7	
Council Bluffs	8.1	2.5	50.0%			1.1	
Denver	35.4	11.3	42.5%			4.1	
Kansas City	79.6	24.6	50.0%			10.2	
Paragon L.A. County	29.6	10.2	50.0%			3.5	
Paragon Northeast	62.9	17.1	50.0%			7.5	
Paragon Southwest	82.1	21.0	50.0%			8.5	
Paragon Tampa Bay	146.5	37.8	50.0%			17.2	
Paragon Upper Manhattan	74.6	24.3	50.0%			8.0	
Paragon Corporate/Other	<u>10.5</u>	<u>0.1</u>	<u>50.0%</u>			<u>(1.4)</u>	
Unconsolidated Total/Avg.	<u>567.8</u>	<u>159.1</u>				<u>62.4</u>	

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EXHIBIT E