IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

PARAMOUNT COMMUNICATIONS INC. and KDS ACQUISITION CORP., Plaintiffs,	)	
v.	)	C.A. No. 10866
TIME INCORPORATED, T.W. 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.	)	

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

CHARLES G. PHILLIPS, being duly sworn deposes and says:

1. I am a Managing Director at Dillon, Read & Co. Inc. ("Dillon, Read"). In that capacity I have responsibility for the High Yield Finance Group and I have also had broad experience in valuing, financing and selling media companies. During 1988, I was a member of the Board of Directors of TVX, Inc., one of the largest independent broadcasting companies in the United States and was responsible for leading the restructuring of that company.

2. Dillon, Read has been retained by Simpson Thacher & Bartlett as an independent financial analyst for the purpose of evaluating financial data prepared by the management of Time Inc. ("Time" or the "Company") and Time's financial advisors in connection with the Company's leveraged acquisition of Warner Communications Inc. ("Warner"). Simpson Thacher & Bartlett has also requested Dillon, Read to render its own opinion concerning the trading value of the common stock of a combined Time Warner entity following the proposed leveraged acquisition. On behalf of Dillon, Read, I have supervised both assignments and this affidavit reflects Dillon, Read's conclusions. I make this affidavit based upon personal knowledge, my review of documents produced in connection with this litigation, and my seventeen years of investment banking experience.

Overview

3. With the assistance of colleagues under my supervision I have:

(a) Reviewed in detail and evaluated the financial projections prepared by Time's management and financial advisors which set forth the pro forma results of Time's leveraged acquisition of Warner;1/

(b) Established a range of future prices for the common stock of Time Warner based on an analysis of comparable publicly-traded companies;

1/ In connection with this analysis, my colleagues and I have reviewed, among other documents, all presentations to the Boards of Directors of Time and Warner by their respective financial advisors that were produced in connection with this litigation.

(c) Derived the present value of this range by applying that band of discount rates which accurately reflects the returns over time required by institutional investors; and

(d) Calculated the present value of the estimated trading range of the common stock of a combined Time Warner entity based upon the projections of estimated trading range for the years ended 1990-93 provided to the Time Board by Time's financial advisors.

4. On the basis of this analysis, I believe that a Time Warner combination would trade in a range between $90 and $140 per share, on a fully distributed basis, after the completion of Time's contemplated $70 per share tender offer and second step merger. Absent changes in general market conditions or a specific offer for Time Warner, I would expect the shares of Time Warner to trade within this range for a minimum of six months. I further believe that the present value of the estimated trading ranges of Time Warner common stock for the years ended 1990-93 provided to the Time Board by Time's financial advisors is, almost without exception, within the $90 to $140 range.

The Importance of Cash Flow

5. The most common measure used to determine the relative value of common stocks is the Price-to-Earnings or P/E ratio. This ratio is computed by dividing the current price of the common stock of a particular company by the most recently reported 12 month earnings per share for that company. Accordingly, the P/E ratio reflects in summary fashion the sentiments of investors regarding a company's prospects for future growth.

6. Comparing market values for highly leveraged companies on the basis of P/E ratios is not generally meaningful as most highly leveraged companies have little or no reported net income. As a result, highly leveraged companies are more typically valued on the basis of earnings before interest and taxes ("EBIT" or "Operating Income") or earnings before interest, taxes and depreciation ("EBITD" or "Cash Flow").

7. After incurring the high degree of leverage required to consummate the planned Warner acquisition, I believe that Time Warner's share price would be established by reference to its cash flow. Mr. Nicholas, the current President of Time, himself uses a company's free cash flow in making relative valuations between businesses in the same field. Nicholas Tr. at 98-99. In the case of the contemplated Time Warner combination, however, the financial community may value the combined company based upon prospective earnings (prior to goodwill charges) rather than on a cash-flow basis. Such a method of valuing Time Warner would depress the anticipated trading range of the new company's stock.

Methodology

8. There are relatively few publicly-traded, highly leveraged companies. My analysis has therefore focused upon those major publicly-traded companies which have been recapitalized through the incurrence of high levels of indebtedness. The primary thrust of this analysis was to

derive the rates of return required by common equity investors in these highly leveraged companies; these required returns are indicative of the expectations that institutional investors will have for the proposed Time Warner entity and for leveraged transactions in general.

9. To value the common stock of a highly leveraged company, the market typically evaluates management's estimates of the future cash flow anticipated for the business and supplements management's projections with their own views. The market then generates a range of future values for a company over a three to five year horizon based upon the company's and its own assessments. These future values are calculated by applying the appropriate multiples of EBIT or EBITD derived from comparable publicly-traded companies to the corresponding EBIT or EBITD projections for the highly leveraged company.

10. The resulting future market value of the net assets of the company must be adjusted by subtracting projected indebtedness to derive the expected future equity value for the company. This future equity value must, in turn, be discounted back to present value to estimate the current trading price for the common stock (the "Stub Value") of the company under consideration. As previously stated, the range of appropriate discount rates is the range of rates of return required by equity investors in other highly leveraged companies. In other words, for highly leveraged companies with freely traded common stock, the

implied rate of return required by investors is that discount rate which, when applied to projected future equity values, will produce a result equal to the current price of the company's common stock.

11. For the companies I have studied in connection with this project, the required rates of return were above 30% one month after the leverage was incurred. The required rates of return when recalculated based on current share prices vary substantially depending upon company performance relative to its projections. For example, the required rate of return for FMC Corporation, which has achieved its projections, remains in the 25%-30% range. On the other hand, common equity investors in Owens-Corning, a company which has substantially exceeded its projections, require returns in the 20-25% range.

12. Significantly, the two companies in the comparison group that incurred high leverage most recently, Interco and USG, are trading at levels which suggest that investors are discounting future performance by more than 50%. These high discount rates may reflect the lack of recent performance data with which to judge the prospects of both companies.

<u>Application of Methodology to Time Warner</u>

13. In establishing the expected trading values for highly leveraged companies, the multiples used to compute the future value of net assets and the discount rate used to derive the present common equity value should be established

with reference to comparable companies. While the range of discount rates used for determining Stub Values generally is 25%-35%, the multiples of Cash Flow and Operating Income used to establish future value vary widely by industry and the character and quality of assets. In applying this methodology to determine the expected trading value of Time Warner stock I have used a discount rate range of 25%-30% and a range of multiples of 9-11 times EBITD and 10-12 times EBIT. These multiple ranges are consistent with those used by Time's financial advisors and were determined by:

- examining the trading multiples of Time and Warner prior to the announcement of the proposed transaction; and
- examining the current trading multiples for comparable companies in each of Time's and Warner's business segments.

14. The historical trading levels of Time and Warner stock prior to the announcement of the transaction are shown in the graphs in Exhibit A annexed hereto. These graphs show that, for the past 18 months, Time (Company A) and Warner (Company B) have each traded in a range of approximately 8-12 times EBIT and 6-11 times EBITD. More recently, prior to the announcement of the Paramount offer, the range for both companies narrowed to 9-11 times EBIT and 7-9 times EBITD. I believe that these historic valuation ranges for Time and Warner will have a major impact on future valuations for the combined company.

15. Summary financial statistics for companies comparable to each of Time's business segments reviewed to

assist in determining the trading multiples are shown in Exhibit B annexed hereto.

16. Based upon financial projections for Time and Warner prepared for Time management by their financial advisors, I examined the pro forma impact of the business combination of the common stock of Time and Warner. On the basis of this analysis and the multiples and discount rates derived above, I believe that Time Warner would trade in a range between $90 and $140 per share, on a fully distributed basis, for a period of at least six months after the transaction is consummated. The business combination analyzed assumes that the consideration paid in connection with the combination (after giving effect to the back-end merger) consists of 75% cash and 25% preferred stock. This combination of cash and preferred stock was used by Time's financial advisors as an illustrative financing alternative in their June 26, 1989 presentation to Time's Board. A copy of this presentation is annexed as Exhibit C hereto.[2/]

Long Term Market Value

17. Over the long term the principal determinant of the value of Time Warner's common stock will be the

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2/ At the Time Board's June 15 meeting, the Company's financial advisors also presented four other financing alternatives for the transaction and the associated estimated trading levels of Time Warner stock. Copies of these projections are annexed as Exhibit D hereto. I do not believe that the common stock in the proposed Time Warner entity would exceed a trading range of $90-140 per share if any of the alternatives described in Exhibit D are pursued.

combined company's performance and its relationship to Time's current financial projections. Time's financial advisors, in preparing an estimated trading range for the common stock assumed substantial cost savings ($50 million in 1990 and $100 million per year thereafter) and the sale of significant assets of the combined entity at very favorable prices.

18. There is no documentation to support the dramatic cost savings assumed in the presentations by the Company's financial advisors for the purpose of establishing the trading range of Time Warner stock. These projected savings are so large that, if they are not achieved, the trading range estimated by Time's financial advisors will be substantially lower than the advisors currently predict.

19. Failure to realize the prices projected for assets sales will also adversely affect trading range.

20. In assessing Time's projections, I would further note that the growth rates and improvements in operating margins in the magazine and cable segments seem aggressive and are higher than what I believe the financial community anticipates. If the increases in growth rates and operating margins are materially lower than those set forth in the projections prepared by Time's management and financial advisors, then the trading range will be materially lower than the range estimated by Time's financial advisors.

21. Even assuming, for purposes of analysis, that the shares of a combined Time Warner entity will, for the

years ended 1990-93, trade in the estimated price ranges set forth in the June 26 Board presentation of Time's financial advisors, applying discount rates that I believe are appropriate for a highly leveraged investment yields the following discounted present value for each price range:

Year Ended	Price Range of June '26 Presentation	Implied Valuation Discount Rates 25%	27.5%	30%
1990	$106-188	($76-135)	($76-135)	($72-127)
1991	159-247	(91-141)	(87-135)	(83-128)
1992	230-332	(105-152)	(98-142)	(92-133)
1993	288-402	(106-147)	(97-135)	(88-123)

As indicated, the present values of the trading ranges estimated by Time's financial advisors for the years ended 1990-1993 are, almost without exception, no higher than the $90-140 trading range that I believe will be achieved following consummation of the business combination between Time and Warner.

The Flawed Opinion of Time's Financial Advisors Concerning the Value of Time

22. Time's financial advisors have opined that the offer of Paramount Communications Inc. ("Paramount") to acquire all shares of Time for $200 per share in cash is inadequate. In my review of the valuation materials relied upon by Time's financial advisors, I found flaws that would improperly increase the private market valuation of Time. Specifically:

(a) The rates used for the discounted free cash flow valuation are lower than Time's weighted average cost of capital, which I believe is the appropriate discount rate to apply for purposes of this valuation. The method employed by the Company's financial advisors serves to unduly increase the discounted free cash flow values.

(b) With respect to the comparable company analysis, in several instances the projected performance of the combined Time Warner entity was applied to multiples of various indicia of operating performance derived from the historic performance of comparable companies. I believe that it would have been more appropriate to apply multiples derived from the projected performance of comparable companies to Time Warner's projected financial performance. Such an approach would have resulted in lower valuations since trading multiples of projected performance are lower than multiples of historic performance for growth companies.

(c) The valuations of the business segments of Time on a pre-tax basis set forth in the presentation of Time's financial advisors tend to overstate Time's private market value. Since Time's overall tax basis appears to be on the order of 10% of fair market value, any purchaser who intends to divest significant assets following an acquisition would likely incur a substantial tax liability. As a result, most purchasers who would subsequently sell the assets of Time would not be willing to pay full market value for all of Time's components. Accordingly, I believe that any sale of the whole company would most likely occur at a significant discount to the pre-tax private market values of its segments.

I believe these flaws or oversights, combined with generally aggressive projections for Time as described herein, overstated Time's private market value.

Conclusion

23. On the basis of my analysis, I believe that Time Warner would trade in a range between $90 and $140 per share after the completion of the proposed transaction. Absent changes in general market conditions or a specific offer for Time Warner, I would expect the shares of Time Warner to trade within this range for a minimum of six months.

24. To the extent that the proposed Time Warner fails to realize growth rate projections and operating margin improvements or fails to achieve the anticipated prices for sales of assets, the long-term trading range of Time Warner stock will fall below the level predicted by Time's financial advisors. In any event, even assuming Time Warner meets the aggressive projections, the present value of the anticipated trading range for the combined entity is, almost without exception, within the $90 to $140 range.

25. Finally, I believe that the methods used by Time's financial advisors tend to overstate Time's private market value.

C.G. Phillips

Charles G. Phillips

Sworn to before me this
3rd day of July, 1989

Henry Fuoco

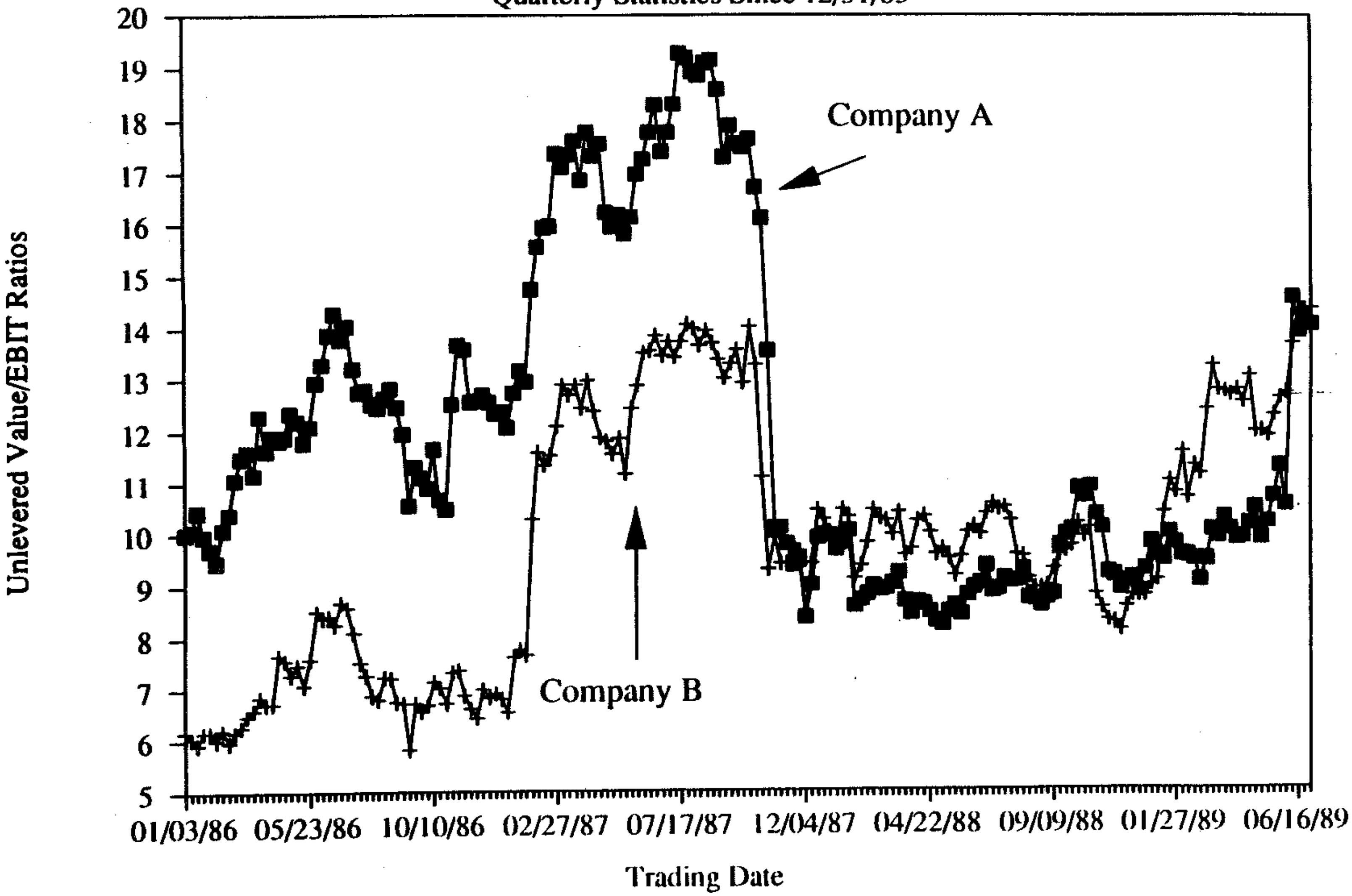
Notary Public

HENRY FUOCO
Notary Public, State of New York
No. 4915515
Qualified in Suffolk County
Certificate Filed in New York County
Commission Expires December 31, 1989

EXHIBIT A

Unlevered Market Value/EBIT Ratios

Quarterly Statistics Since 12/31/85



Unlevered Market Value/EBITDA Ratios

Quarterly Statistics Since 12/31/85

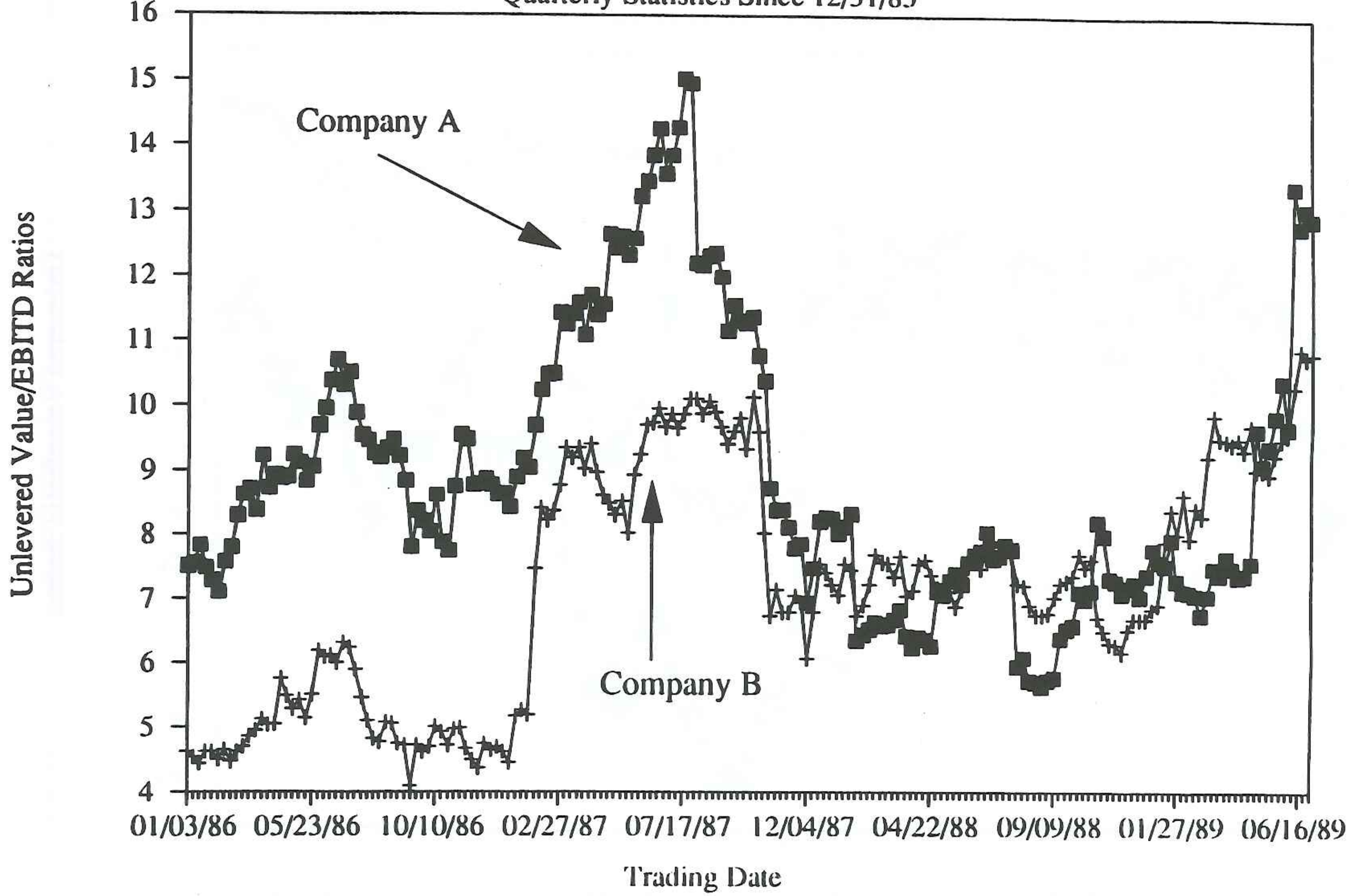


EXHIBIT B

DILLON, READ & CO. INC.

Project X

Market Data for Selected Cable Television Companies
(Dollars in millions, except per share data)

	Segment A	Segment B	Average	American Television & Communications	Cablevision Systems	Centel Cable	Comcast (e)	Tele-Communications, Inc.
CURRENT MARKET DATA								
Stock Price on 6/27/89	-	-		$53.000	$45.125	$45.125	$25.625	$36.375 Cl A 37.500 Cl B
52 Week Range	-	-		55.25-21.75	47.25-26.75	47.25-21.00	26.63-13.75	
Market Value of Equity	-	-		$5,777.0	$992.8	$1,128.1	$2,024.4 (c)	$6,444.2 (c)
Mkt. Val. of Net Assets (a)	-	-		$6,484.6	$2,878.3	$1,213.2	$4,311.6	$13,805.3
MARKET VALUE OF EQUITY TO:								
L.T.M. Net Earnings			NM X	79.5 X	NM X	127.4 X	NM	NM
Latest Book Value			10.4	20.4	NM	3.2	12.5	5.6
MARKET VALUE OF NET ASSETS TO:								
L.T.M. Sales			6.6 X	7.6 X	5.8 X	7.6 X	6.1	5.7
L.T.M. Operating Income + Dep.			17.3	17.9	18.9	19.4	15.5	14.8
L.T.M. Operating Income			37.4	29.8	NM	53.4	39.2	27.0
Basic Subscribers			1,754.2	1,605.1	2,398.5	2,049.4	1,444.4	1,273.8
Basic Subscribers Owned (d)			2,019.9	1,844.8	2,398.5	2,049.4	2,058.0	1,748.8
OPERATING PERFORMANCE								
Three Year Compound Growth:								
Sales	12.9%	18.4%	59.7%	12.9%	80.9%	31.2%	85.4%	88.0%
EBITD	20.1%	21.6%	57.8%	19.4%	50.3%	46.0%	94.8%	78.2%
EBIT	25.9%	112.1%	62.9%	17.8%	NM	104.8%	50.6%	78.3%
Net Income	NM	NM	15.4%	32.1%	NM	-1.3%	NM	NM

NOTES:
(a) Market value of assets is defined as market value of common stock plus net debt.
(b) Net assets is defined as total assets less current liabilities (excluding debt) less cash.
(c) Two classes of stock being traded.
(d) Basic affiliates less than 50% owned are accounted for based on the company's ownership.
(e) Revenue, cash flow, debt and subscribers have been adjusted for the Company's 50% interest in SCI.
(f) Includes $41.7 million charge for unfavorable jury verdict.
(g) All financial data are net of any extraordinary items.

DILLON, READ & CO. INC.

Project X

Market Data for Selected Cable Television Companies
(Dollars in millions, except per share data)

	Segment A	Segment B	Average	American Television & Communications	Cablevision Systems	Centel Cable	Comcast (e)	Tele-Communications, Inc.
CURRENT FINANCIAL DATA (g)								
L.T.M. Sales	-	-		$851.1	$492.4	$159.8	$703.5	$2,443.2
L.T.M. Operating Income + Dep.				361.5	151.9	62.6	278.9	935.2
L.T.M. Operating Income	-	-		217.3	(11.0)	22.7	109.9	510.4
L.T.M. Net Earnings				$72.7	($183.9)	$8.9	($78.6)	($178.8)
Latest Book Value				282.8	(333.2)	348.9	162.6	1,153.2
Latest Net Debt				707.6	1,885.5	85.1	2,287.2	7,361.1
Basic Subscribers				4,040	1,200	592	2,985	10,838
Basic Subscriber Owned				3,515	1,200	592	2,095	7,894
Common Shares Out. (MM)				109.0	22.0	25.0	79.0	152.3 Cl A 24.1 Cl B
Ticker Symbol				ATCMA	CVC	CNCAA	CMCSA	TCOMBA Cl A TCOMBB Cl B
Exchange				OTC	ASE	OTC	OTC	OTC
Latest Financials				3/31/89	3/31/89	3/31/89	3/31/89	3/31/89
HISTORICAL OPERATING DATA								
Sales								
Latest Fiscal Year	$812.0	$456.4		$811.9	$493.5	$153.7	$449.9	$2,282.0
LFY-1	714.4	387.0		714.4	299.5	130.1	309.3	1,709.4
LFY-2	637.3	325.7		637.3	150.8	89.3	130.9	645.7
Growth LFY - LFY-2	12.9%	18.4%	59.7%	12.9%	80.9%	31.2%	85.4%	88.0%
EBITD								
Latest Fiscal Year	$342.7	$156.0		$340.2	$140.1	$60.1	$176.9	$887.4
LFY-1	260.7	144.6		286.7	91.8	47.3	112.3	649.7
LFY-2	237.5	105.5		238.6	62.0	28.2	46.6	279.4
Growth LFY - LFY-2	20.1%	21.6%	57.8%	19.4%	50.3%	46.0%	94.8%	78.2%
EBIT								
Latest Fiscal Year	$206.6	$72.9		$182.6	($11.5)	$21.4	$65.3	$490.5
LFY-1	136.9	42.0		162.9	11.0	13.2	46.2	358.1
LFY-2	130.3	16.2		131.6	29.9	5.1	28.8	154.3
Growth LFY - LFY-2	25.9%	112.1%	62.9%	17.8%	NM	104.8%	50.6%	78.3%
Net Income								
Latest Fiscal Year				$70.4	($159.4)	$8.5	($47.6)	($49.9)
LFY-1				49.5	(58.7)	0.4	(9.4)	(18.4)
LFY-2				40.4	(4.9)	8.7	1.0	(20.1)(f)
Growth LFY - LFY-2			15.4%	32.1%	NM	-1.3%	NM	NM

DILLON, READ & CO. INC.

Project X

Market Data for Selected Book Publishing Companies
(Dollars in millions, except per share data)

	Segment A	Segment B	Average	Harcourt Brace Jovanovich	Houghton Mifflin	McGraw-Hill	Plenum Publishing	Western Publishing	John Wiley & Sons
CURRENT MARKET DATA									(Class A&B)
Stock Price on 6/27/89	-	-		$15.130	$40.880	$72.000	$27.000	$21.750	$59.000
52 Week Range	-	-		15.50-8.88	50.25-33.63	82.25-62.13	28.63-20.75	23.50-16.25	66.00-34.00
Market Value of Equity	-	-		$1,103.0	$580.5	$3,499.2	$148.5	$435.0	$253.7
Mkt. Val. of Net Assets (a)	-	-		$4,307.2	$595.5	$3,709.6	$100.1	$503.5	$273.5
MARKET VALUE OF EQUITY TO:									
L.T.M. Net Earnings	-	-	18.3 X	NM X	25.9 X	19.5 X	12.0 X	15.6 X	NM X
Latest Book Value	-	-	3.1	NM	3.4	3.8	3.2	2.6	2.6
MARKET VALUE OF NET ASSETS TO:									
L.T.M. Sales			1.7 X	2.4 X	1.6 X	2.0 X	2.3 X	1.0 X	1.0 X
L.T.M. Operating Income + Dep.			9.3	16.0	8.4	11.3	5.8	7.0	7.1
L.T.M. Operating Income			12.6	20.6	15.6	14.1	7.2	9.1	17.1
OPERATING PERFORMANCE									
Three Year Compound Growth:									
Sales	15.9%	2.3%	14.1%	26.3%	7.1%	7.4%	7.0%	31.1%	5.6%
EBITD	30.0%	-2.8%	16.7%	41.0%	6.5%	1.5%	8.8%	34.5%	8.1%
EBIT	17.0%	-3.6%	12.8%	33.2%	6.6%	-0.8%	11.6%	31.4%	-5.5%
Net Income	-	-	4.1%	NM	3.2%	9.8%	-4.1%	33.2%	-21.5%

NOTES:
(a) Market value of assets is defined as market value of common stock plus net debt.
(b) Net assets is defined as total assets less current liabilities (excluding debt) less cash.

Project X

Market Data for Selected Book Publishing Companies
(Dollars in millions, except per share data)

	Segment A	Segment B	Average	Harcourt Brace Jovanovich	Houghton Mifflin	McGraw-Hill	Plenum Publishing	Western Publishing	John Wiley & Sons
CURRENT FINANCIAL DATA (c)									
L.T.M. Sales	-	-		$1,820.9	$372.6	$1,838.4	$44.4	$527.0	$262.8
L.T.M. Operating Income + Dep.	-	-		269.4	70.6	328.9	17.1	71.9	38.4
L.T.M. Operating Income	-	-		208.7	38.2	262.9	13.9	55.6	16.0
L.T.M. Net Earnings	-	-		($132.7)	$22.4	$179.7	$12.4	27.8	$2.9
Latest Book Value	-	-		(1,528.3)	172.2	930.8	46.7	166.2	97.0
Latest Net Debt	-	-		3,204.2	15.0	210.4	(48.4)	68.5	19.8
Common Shares Out. (MM)	-	-		72.9	14.2	48.6	5.5	20.0	4.3
Ticker Symbol	-	-		HBJ	HTN	MHP	PLEN	WPGI	WILLA/WILLB
Exchange	-	-		NYSE	NYSE	NYSE	OTC	OTC	OTC
Latest Financials	12/31/88	12/31/88		3/31/89	3/31/89	3/31/89	3/31/89	4/29/89	1/31/89
HISTORICAL OPERATING DATA									
Sales									
Latest Fiscal Year	$891.0	$138.7		$1,782.1	$368.3	$1,818.0	$43.6	$548.9	$240.8
LFY-1	954.0	130.3		1,521.4	343.4	1,751.2	40.0	455.0	230.2
LFY-2	663.0	132.6		1,117.9	321.3	1,576.8	38.1	319.4	215.9
Growth LFY - LFY-2	15.9%	2.3%	14.1%	26.3%	7.1%	7.4%	7.0%	31.1%	5.6%
EBITD									
Latest Fiscal Year	$142.0	$11.8		$355.2	$72.8	$340.5	$17.4	$72.4	$37.3
LFY-1	125.0	12.8		279.1	71.3	333.8	16.0	60.9	40.0
LFY-2	84.0	12.5		178.7	64.2	330.5	14.7	40.0	31.9
Growth LFY - LFY-2	30.0%	-2.8%	16.7%	41.0%	6.5%	1.5%	8.8%	34.5%	8.1%
EBIT									
Latest Fiscal Year	$100.0	$10.5		$230.3	$40.6	$274.3	$14.2	$59.4	$15.9
LFY-1	85.0	11.6		169.7	38.9	268.2	12.6	47.8	20.8
LFY-2	73.0	11.3		129.8	35.7	279.0	11.4	34.4	17.8
Growth LFY - LFY-2	17.0%	-3.6%	12.8%	33.2%	6.6%	-0.8%	11.6%	31.4%	-5.5%
Net Income									
Latest Fiscal Year				($53.5)	$24.1	$185.5	$11.3	$29.9	$4.7
LFY-1				(70.3)	23.6	164.8	8.7	21.6	5.0
LFY-2				60.0	22.6	154.0	12.2	16.8	7.6
Growth LFY - LFY-2			4.1%	NM	3.2%	9.8%	-4.1%	33.2%	-21.5%

NOTE:

(d) All financial data are net of any extraordinary items.

DILLON, READ & CO. INC.

Project X

Market Data for Selected Filmed Entertainment Companies
(Dollars in millions, except per share data)

	Segment B	Average	Columbia Pictures	MCA Inc.	MGM/UA	Orion	Paramount Communications Inc.	The Walt Disney Company
CURRENT MARKET DATA								
Stock Price on 6/27/89	-		$22.625	$61.375	$18.375	$22.625	$59.500	$98.250
52 Week Range	-		23.13-11.88	61.88-45.38	19.00-13.13	23.00-14.00	60.88-39.50	98.25-64.88
Market Value of Equity	-		$2,505.4	$4,489.2	$927.6	$394.8	$6,985.0	$13,217.4
Mkt. Val. of Net Assets (a)	-		$3,941.2	$5,414.2	$1,476.0	$839.1	$8,303.0	$13,094.0
MARKET VALUE PER SHARE TO:								
L.T.M. Net Earnings	-	32.3 X	NM X	27.1 X	NM X	28.4 X	51.7 X	22.1 X
Latest Book Value	-	3.0	2.4	2.6	2.7	2.3	2.9	5.0
MARKET VALUE OF NET ASSETS TO:								
L.T.M. Sales	-	2.3 X	2.4 X	1.7 X	2.0 X	1.8 X	2.3 X	3.3 X
L.T.M. Operating Income + Dep.	-	6.8	3.8	4.5	3.5	2.4	16.4	10.2
L.T.M. Operating Income	-	15.9	26.7 (c)	15.8	NM	12.9	20.2	14.5
OPERATING PERFORMANCE								
Three Year Compound Growth:								
Sales	19.9%	20.8%	9.2%	11.5%	37.8%	19.6%	20.5%	26.0%
EBITD	19.5%	20.1%	9.2%	5.9%	35.0%	22.4%	24.3%	23.6%
EBIT	28.5%	10.3%	-19.3%	27.9%	-52.9%	49.0%	26.6%	30.7%
Net Income	26.5%	14.6%	-60.4%	4.5%	NM	18.9%	67.9%	56.5%

NOTES:
(a) Market value of assets is defined as market value of common stock plus net debt (total debt plus preferred stock less cash).
(b) Net assets is defined as total assets less current liabilities (excluding debt) less cash.
(c) Not included in average

Project X

Market Data for Selected Filmed Entertainment Companies
(Dollars in millions, except per share data)

	Segment B	Average	Columbia Pictures	MCA Inc.	MGM/UA	Orion	Paramount Communications Inc. (d)	The Walt Disney Company
CURRENT FINANCIAL DATA (c)								
L.T.M. Sales	NA		$1,615.7	$3,147.8	$747.3	$468.9	$3,575.3	$4,010.5
L.T.M. Operating Income + Dep. + Amort.	NA		1,040.5	1,199.2	422.6	347.9	506.0 E	1,279.9
L.T.M. Operating Income	NA		147.6	342.3	(37.1)	64.9	410.9	900.7
L.T.M. Net Earnings	-		$16.0	$165.4	($100.4)	$13.9	$135.2	$598.7
Latest Book Value	-		1,060.7	1,713.7	347.9	170.0	2,393.8	2,653.0
Latest Net Debt	-		1,435.8	924.9	548.4	444.3	1,318.0	(123.4)
Common Shares Out. (MM)	-		110.7	73.1	50.5	17.5	117.4	134.5
Ticker Symbol	-		KPE	MCA	MGM	OPC	PCI	DIS
Exchange	-		NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
Latest Financials	-		2/28/89	3/31/89	2/28/89	2/28/89	3/31/89	3/31/89
HISTORICAL OPERATING DATA								
Sales								
Latest Fiscal Year	$1,571.0		$1,615.7	$3,032.7	$674.9	$468.9	$3,055.9	$3,438.2
LFY-1	1,355.7		1,283.0	2,589.6	427.6	426.9	3,923.5	2,876.8
LFY-2	1,251.3		1,355.0	2,438.4	355.4	327.6	2,103.0	2,165.8
Growth LFY - LFY-2	12.0%	20.8%	9.2%	11.5%	37.8%	19.6%	20.5%	26.0%
EBITD								
Latest Fiscal Year	$212.3		$1,040.5	$1,137.2	$395.4	$347.9	$526.9	$1,126.9
LFY-1	180.7		807.4	961.5	198.1	306.2	542.9	1,083.2
LFY-2	175.8		872.8	1,013.3	217.0	232.1	340.8	738.0
Growth LFY - LFY-2	9.9%	20.1%	9.2%	5.9%	35.0%	22.4%	24.3%	23.6%
EBIT								
Latest Fiscal Year	$207.5		$147.6	$317.6	$8.0	$64.9	$431.8	$788.8
LFY-1	176.4		124.9	212.3	(51.8)	42.5	458.8	706.5
LFY-2	172.2		226.8	194.2	36.0	29.2	269.3	461.7
Growth LFY - LFY-2	9.8%	10.3%	-19.3%	27.9%	-52.9%	49.0%	26.6%	30.7%
Net Income								
Latest Fiscal Year	NM		$16.0	$164.9	($48.7)	$13.9	$146.9	$522.0
LFY-1	NM		(54.0)	137.3	(88.1)	12.2	159.7	392.3
LFY-2	NM		102.0	150.9	16.6	9.8	52.1	213.2
Growth LFY - LFY-2	NM	14.6%	-60.4%	4.5%	NM	18.9%	67.9%	56.5%

NOTE:
E - Estimated.
(c) All financial data are net of any extraordinary items.
(d) Does not include finance subsidiary.

Project X

Market Data for Selected Programming Companies
(Dollars in millions, except per share data)

	Segment A	Average	Capital Cities/ ABC, Inc.	CBS Inc.	Viacom, Inc.	Turner Broadcasting System, Inc.
CURRENT MARKET DATA						
Stock Price on 6/27/89	-		$471.625	$210.125	$53.000	$44.875 Cl A 40.375 Cl B
52 Week Range	-		484.00-253.00	210.13-166.00	55.25-30.50	44.88-17.00 Cl A 40.75-14.38 Cl B
Market Value of Equity	-		$8,436.4	$4,965.1	$2,828.4	$2,103.9
Mkt. Val. of Net Assets (a)	-		$9,099.7	$5,017.4	$5,144.8	$3,866.3
MARKET VALUE PER SHARE TO:						
L.T.M. Net Earnings	-	25.8 X	21.1 X	16.8 X	39.6 X	NM X
Latest Book Value	-	3.4	2.7	2.2	5.2	NM
MARKET VALUE OF NET ASSETS TO:						
L.T.M. Sales	-	3.1 X	2.0 X	1.8 X	3.9 X	4.5 X
L.T.M. Operating Income + Dep.	-	14.6	9.4	17.1	17.6	14.4
L.T.M. Operating Income	-	24.4	11.2	21.4	34.0	30.9
OPERATING PERFORMANCE						
Three Year Compound Growth:						
Sales	9.0%	11.1%	7.6%	-0.6%	17.0%	20.3%
EBITD	16.7%	16.0%	13.2%	-10.4%	20.8%	40.2%
EBIT	21.4%	10.2%	16.4%	3.0%	11.2%	NM
Net Income	NM	NM	45.9%	95.4%	NM	NM

NOTES:
(a) Market value of assets is defined as market value of common stock plus net debt.
(b) Net assets is defined as total assets less current liabilities (excluding debt) less cash.

Project X

Market Data for Selected Programming Companies
(Dollars in millions, except per share data)

	Segment A	Average	Capital Cities/ ABC, Inc.	CBS Inc.	Viacom, Inc.	Turner Broadcasting System, Inc.
CURRENT FINANCIAL DATA (c)						
L.T.M. Sales	-		$4,605.1	$2,811.7	$1,306.5	$856.0
L.T.M. Operating Income + Dep.	-		971.9	292.6	292.3	268.2
L.T.M. Operating Income	-		812.9	234.1	151.4	125.3
L.T.M. Net Earnings	-		$399.5	$294.9	$71.4	($127.9)
Latest Book Value	-		3,068.5	2,236.2	541.5	(364.8)
Latest Net Debt	-		663.3	52.3	2,316.4	1,762.4
Common Shares Out. (MM)	-		17.9	23.6	53.4	22.8 Cl A 26.8 Cl B
Ticker Symbol	-		CCB	CBS	VIA	TBS.A TBS.B
Exchange	-		NYSE	NYSE	ASE	ASE
Latest Financials	-		4/2/89	3/31/89	3/31/89	3/31/89
HISTORICAL OPERATING DATA						
Sales						
Latest Fiscal Year	$1,052.0		$4,773.5	$2,777.7	$1,258.5	$806.6
LFY-1	904.0		4,440.3	2,762.0	1,010.7	652.4
LFY-2	886.0		4,124.4	2,808.8	919.2	556.9
Growth LFY - LFY-2	9.0%	11.1%	7.6%	-0.6%	17.0%	20.3%
EBITD						
Latest Fiscal Year	$158.5		$975.9	$259.6	$290.1	$255.8
LFY-1	141.6		904.3	310.7	248.4	217.5
LFY-2	116.4		761.3	323.2	198.9	130.1
Growth LFY - LFY-2	16.7%	16.0%	13.2%	-10.4%	20.8%	40.2%
EBIT						
Latest Fiscal Year	$146.0		$816.0	$202.2	$149.9	$115.8
LFY-1	121.2		746.0	203.1	134.0	84.4
LFY-2	99.0		602.7	190.5	121.2	19.7
Growth LFY - LFY-2	21.4%	43.3%	16.4%	3.0%	11.2%	142.8%
Net Income						
Latest Fiscal Year	NM		$387.1	$283.4	($188.8)	($141.4)
LFY-1	NM		279.1	136.0	(154.4)	(191.7)
LFY-2	NM		181.9	74.2	(9.9)	(238.9)
Growth LFY - LFY-2	NM	70.7%	45.9%	95.4%	NM	NM

NOTE:
(c) All financial data are net of any extraordinary items.

DILLON, READ & CO. INC.

Project X

Market Data for Selected Magazine Publishing Companies
(Dollars in millions, except per share data)

	Segment A	Average	Meredith Corporation	Playboy Enterprises
CURRENT MARKET DATA				
Stock Price on 6/27/89	-		$38.000	$14.250
52 Week Range	-		39.00-29.87	14.87-12.12
Market Value of Equity	-		$709.0	$134.1
Mkt. Val. of Net Assets (a)	-		$759.9	$110.8
MARKET VALUE PER SHARE TO:				
L.T.M. Net Earnings	-	21.8 X	21.8 X	NM X
Latest Book Value	-	2.8	2.0	3.7
MARKET VALUE OF NET ASSETS TO:				
L.T.M. Sales	-	0.8 X	1.0 X	0.7 X
L.T.M. Operating Income + Dep.	-	15.2	12.0	18.5
L.T.M. Operating Income	-	19.0	19.0	NM
OPERATING PERFORMANCE				
Three Year Compound Growth:				
Sales	5.4%	3.3%	12.7%	-6.2%
EBITD	32.1%	0.0%	-8.2%	8.3%
EBIT	35.0%	-14.0%	-14.0%	NM
Net Income	NM	0.2%	0.2%	NM

NOTES:
(a) Market value of assets is defined as market value of common stock plus net debt.
(b) Net assets is defined as total assets less current liabilities (excluding debt) less cash.

DILLON, READ & CO. INC.

Project X

Market Data for Selected Programming Companies
(Dollars in millions, except per share data)

	Segment A	Average	Meredith Corporation	Playboy Enterprises
CURRENT FINANCIAL DATA (c)				
L.T.M. Sales	$1,781.0		$777.2	$164.3
L.T.M. Operating Income + Dep.	311.0		63.3	6.0
L.T.M. Operating Income	272.0		40.0	(6.3)
L.T.M. Net Earnings	-		$32.5	($2.5)
Latest Book Value	-		362.4	36.2
Latest Net Debt	-		50.9	(23.3)
Common Shares Out. (MM)	-		18.7	9.4
Ticker Symbol	-		MDP	PLA
Exchange	-		NYSE	NYSE
Latest Financials	3/31/89		3/31/89	3/31/89
HISTORICAL OPERATING DATA				
Sales				
Latest Fiscal Year	$1,752.0		$678.5	$159.8
LFY-1	1,621.0		601.6	161.8
LFY-2	1,576.0		534.2	181.6
Growth LFY - LFY-2	5.4%	3.3%	12.7%	-6.2%
EBITD				
Latest Fiscal Year	$309.0		$61.9	$8.8
LFY-1	302.0		77.9	16.9
LFY-2	177.0		73.5	7.5
Growth LFY - LFY-2	32.1%	0.0%	-8.2%	8.3%
EBIT				
Latest Fiscal Year	$279.0		$40.8	($4.9)
LFY-1	276.0		58.0	0.3
LFY-2	153.0		55.2	(12.0)
Growth LFY - LFY-2	35.0%	-14.0%	-14.0%	NM
Net Income				
Latest Fiscal Year	NM		$47.4	$0.2
LFY-1	NM		33.9	6.5
LFY-2	NM		47.2	(10.5)
Growth LFY - LFY-2	NM	0.2%	0.2%	NM

NOTE:
(c) All financial data are net of any extraordinary items.

EXHIBIT C

RESTRICTED AND CONFIDENTIAL

FINANCIAL CONSEQUENCES TO TANGO OF $70 PER SHARE TRANSACTION: 75% Cash/25% Preferred(1)(2)

	Pro Forma TANGO Shares (MM)	TANGO Stand Alone EPS	Pro Forma EPS(3)	Goodwill Per Share	Pro Forma EPS(4)	TANGO Stand Alone Cash Flow Per Share	Pro Forma Cash Flow Per Share	Debt(5) ($MM)	Debt Per Share	Estimated Trading Level Per Share at 10x - 12x	Cash Interest Coverage(6)
1990	57.0	$7.28	($15.08)	$(5.23)	$(20.31)	$20	$41	$17,387	$304	$106 - $188	1.20x
1991	57.0	9.13	(5.19)	(5.02)	(10.21)	23	44	16,044	281	159 - 247	1.57
1992	57.0	11.62	3.07	(4.17)	(1.10)	27	51	16,016	280	230 - 332	2.64
1993	57.0	14.09	6.28	(4.17)	2.10	31	57	16,124	282	288 - 402	2.00

(1) 75% Cash, 25% Exchangeable Preferred Stock
(2) Assumes divestiture of WONDER miscellaneous investments, SFN, 50% of WONDER cable, and cost cuts of $50 million in year one and $100 million thereafter
(3) Before transaction costs and goodwill, after preferred dividends
(4) Before transaction costs, after goodwill and preferred dividends
(5) Includes Preferred Stock
(6) EBIT/Cash Interests and Dividends

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EXHIBIT D

FINANCIAL CONSEQUENCES TO TANGO OF $70 PER SHARE TRANSACTION:
50% Cash/50% Common[1][2]

	Pro Forma TANGO Shares ($MM)	TANGO Stand Alone EPS	Pro Forma EPS[3]	Goodwill Per Share	Pro Forma EPS[4]	TANGO Stand Alone Cash Flow Per Share	Pro Forma Cash Flow Per Share	Debt ($MM)	Debt Per Share	Estimated Trading Level Per Share at 10x - 12x	Cash Interest Coverage
1990	101.7	$7.25	$5.49	($2.93)	$2.56	$20	$22	$8,601	$85	$139 - $184	1.51x
1991	101.7	8.98	6.73	(2.82)	3.91	22	26	8,018	79	176 - 228	2.15
1992	101.7	11.50	8.43	(2.82)	5.61	25	29	7,262	71	215 - 272	2.64
1993	101.7	13.92	11.68	(2.82)	8.87	28	32	6,229	61	255 - 318	3.27

(1) 50% Cash, 50% common stock (0.467 exhange ratio); divest WONDER liquid assets and BHC
(2) Assumes divestiture of WONDER miscellaneous investments, WONDER Cable (1.7 MM subs), BHC, SFN, and cost cuts of $50 million in year one and $100 MM thereafter
(3) Before transaction costs and goodwill
(4) Before transaction costs, after goodwill

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FINANCIAL CONSEQUENCES TO TANGO OF $70 PER SHARE TRANSACTION: 80% Cash/20% Preferred(1)(2)

	Pro Forma TANGO Shares ($MM)	TANGO Stand Alone EPS	Pro Forma EPS(3)	Goodwill Per Share	Pro Forma EPS(4)	TANGO Stand Alone Cash Flow Per Share	Pro Forma Cash Flow Per Share	Debt(5) ($MM)	Debt Per Share	Estimated Trading Level Per Share at 10x - 12x	Cash Interest Coverage(6)
1990	57.0	$7.25	($6.35)	($5.23)	($11.58)	$20	$40	$15,772	$277	$123 - $203	1.07x
1991	57.0	8.98	2.24	(5.03)	(2.79)	22	45	12,123	213	232 - 321	1.40
1992	57.0	11.50	2.06	(3.15)	(1.09)	25	44	12,129	213	223 - 310	2.18
1993	57.0	13.92	5.49	(3.15)	2.34	28	48	11,989	210	267 - 363	2.58

(1) 80% Cash, 20% Exchangeable Preferred Stock
(2) Assumes divestiture of WONDER miscellaneous investments, WONDER Cable (1.7MM subs), BHC, SFN, and cost cuts of $50 million in year one and $100 MM thereafter
(3) Before transaction costs and goodwill, after preferred dividends
(4) Before transaction costs, after goodwill and preferred dividends
(5) Includes Preferred Stock
(6) EBIT/Cash Interests and Dividends

W202570

C.A. No. 10866

In the Court of Chancery of the
State of Delaware In and for
New Castle County

PARAMOUNT COMMUNICATIONS INC.
and KDS ACQUISITION CORP.,

Plaintiffs,

v.

TIME INCORPORATED, T.W. 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.

AFFIDAVIT OF CHARLES G. PHILLIPS

SIMPSON THACHER & BARTLETT
(a partnership which includes
professional corporations)
Attorneys for Plaintiffs
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and KDS ACQUISITION CORP.
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