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IN THE

SUPREME COURT OF THE STATE OF DELAWARE

PARAMOUNT COMMUNICATIONS INC. and KDS ACQUISITION CORP., Plaintiffs Below-Appellants, v. 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 Below-Appellees.	)	No. 279, 1989 Interlocutory Appeal From The Court Of Chancery Of The State Of Delaware In And For New Castle County C.A. No. 10866

PLAINTIFFS BELOW-APPELLANTS' SUPPLEMENTAL JOINT APPENDIX

YOUNG, CONAWAY, STARGATT & TAYLOR
11th Floor
Rodney Square North
P.O. Box 391
Wilmington, Delaware 19899-0391
(302) 571-6614
Attorneys for Plaintiffs-Appellants

OF COUNSEL:

SIMPSON THACHER & BARTLETT
(a partnership which includes
professional corporations)
425 Lexington Avenue
New York, New York 10017
(212) 455-2000

Date: July 21, 1989

TABLE OF CONTENTS

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* Unless otherwise noted, docket entry numbers refer to docket entries in C.A. No. 10866.

** The Affidavit of Charles G. Phillips, dated July 3, 1989, without exhibits, is contained in Plaintiffs Below-Appellants' Joint Appendix at A 374-385.

D:S079110115.61

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.	C.A. No. 10866

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.

<u>Overview</u>

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/]

<u>Long Term Market Value</u>

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.

Charles G. Phillips

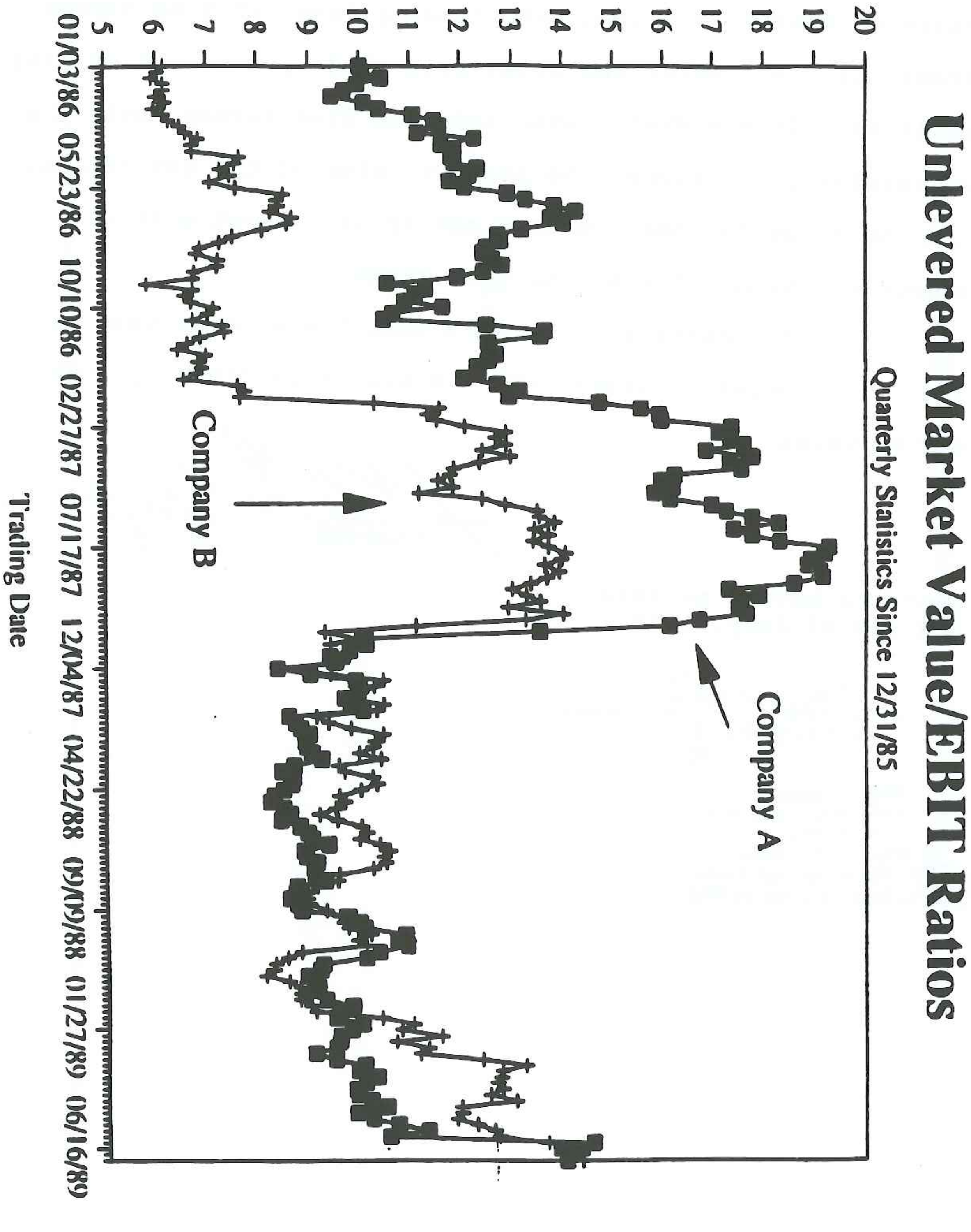
Sworn to before me this
3rd day of July, 1989

Henry Fuoco

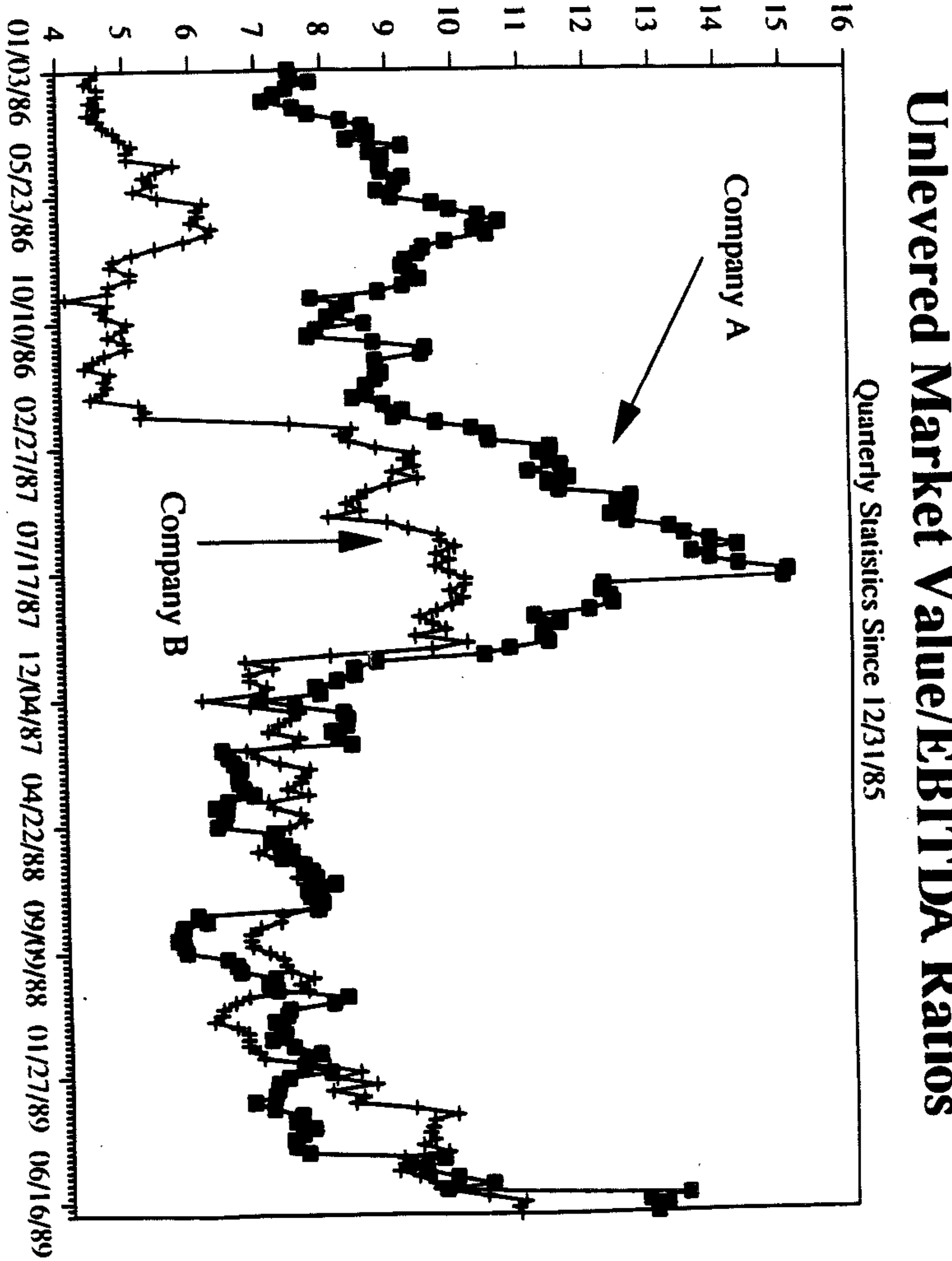
Notary Public

HENRY ~ FUOCO
Notary Public, State of New York
No. 4915518
Qualified in Suffolk County
Certificate filed in New York County
Commission Expires December 31, 1989

Unlevered Value/EBIT Ratios



Unlevered Value/EBITD Ratios



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.

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 (s)								
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	TCOMA Cl A TCOMB 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.

ILLON, 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 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.

ᵔN, 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
ᵔURRENT 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
ᵔPERATING 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

ON, 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. (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.

LON, READ & CO. INC.

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.

ON, READ & CO. INC.

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.

ON, 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.

LLON, 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.

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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FINANCIAL CONSEQUENCES TO TANGO OF $70 PER SHARE CASH TRANSACTION(1)

	Pro Forma TANGO Shares ($MM)	TANGO Stand Alone	Pro Forma EPS(2)	Goodwill Per Share	Pro Forma EPS(3)	TANGO Stand Alone Cash Flow Per Share	Pro Forma Cash Flow Per Share	Debt ($MM)	Debt Per Share	Estimated Trading Level Per Share at 10x - 12x	Cash Interest Coverage
1990	57.0	$7.25	($7.43)	($5.23)	($16.25)	$20	$40	$16,216	$284	$115 -$195	0.99X
1991	57.0	8.98	1.12	(5.03)	(3.91)	22	45	11,563	203	242 - 331	1.27
1992	57.0	11.50	7.09	(3.15)	3.94	25	44	11,264	198	238 - 326	2.07
1993	57.0	13.92	11.58	(3.15)	8.43	28	48	10,760	189	289 - 384	1.70

(1) Assumes divestiture of WONDER miscellaneous investments, WONDER Cable (1.7MM subs), BHC, SFN, and cost cuts of $50 million in year one and $100 million thereafter

(2) Before transaction costs and goodwill

(3) Before transaction costs, after goodwill

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FINANCIAL CONSEQUENCES TO TANGO OF $70 PER SHARE TRANSACTION: 80% Cash/20% 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	74.9	$7.25	$0.63	($3.98)	($3.35)	$20	$30	$12,682	$169	$135 - $196	1.07X
1991	74.9	8.98	8.00	(3.83)	4.17	22	34	8,562	114	224 - 292	1.40
1992	74.9	11.50	8.82	(2.40)	6.42	25	33	8,024	107	225 291	2.18
1993	74.9	13.92	12.54	(2.40)	10.14	28	36	7,259	97	267 - 319	2.58

(1) 80% cash, 20% common stock (0.467 exchange ratio)
(2) Assumes divestiture of WONDER miscellaneous investments, WONDER Cable (1.7 MM subs), RHC, 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: 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

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

March 8, 1989

Mr. Glenn A. Britt
Vice President & Chief Financial Officer
Time Inc.
Rockefeller Center
New York, NY 10020

Dear Glenn:

Manufacturers Hanover Trust Company ("MHTC") is pleased to confirm its willingness to participate in, and at your request to act as the agent or as a co-agent for, bank credit facilities to you aggregating up to $5,000,000,000 (the "Credit Facilities"). The Credit Facilities would be available for drawing by you, in your discretion, for the purposes of repurchasing shares of your common stock or purchasing shares of the common stock of Warner Communications, Inc. ("Warner") pending your proposed merger with Warner (the "Merger"). MHTC is prepared to provide up to $880,000,000 of the Credit Facilities, less the aggregate principal amount of outstanding loans or other extensions of credit to you and your affiliates that may reduce the amount which MHTC may legally make available to you.

The terms and conditions of the Credit Facilities, including fees, interest rates, commitment periods, maturities and collateral, are subject to negotiation to our mutual satisfaction. Representations and warranties, covenants,

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events of default and asset sale provisions will be included in the documentation for the Credit Facilities in a manner acceptable to MHTC and said documentation will be in form and substance satisfactory to it. MHTC's willingness to participate in the Credit Facilities is subject to the execution and delivery of all documentation for the Credit Facilities on or before the earlier of September 30, 1989 or the date of the Merger and to the continued maintenance of your current financial condition, prospects and corporate independence (except as the same may be affected by the Merger as proposed).

In consideration of the provision by MHTC of this letter to you, you agree to pay, indemnify and hold MHTC (and its directors, officers, employees and agents) harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to or arising out of this letter or the execution, delivery, enforcement and performance, or consummation, of the documentation and the borrowings and other transactions referred to herein (including, without limitation, the syndication of the Credit Facilities) or any agreements executed in connection herewith or therewith (all the foregoing, collectively, the "indemnified liabilities"), provided that you will have no liability hereunder with respect to indemnified liabilities arising from the gross negligence or willful misconduct of MHTC (or its directors, officers, employees or agents, as the case may be).

You may accept this letter by signing the enclosed copy in the space provided below and returning the copy, together with payment of a non-refundable fee of $1,000,000 to MHTC at any time on or before the close of business on March 13, 1989. If you do not so accept this letter, MHTC's willingness to participate in the Credit Facilities shall be deemed cancelled.

MHTC appreciates the opportunity to provide this letter to you and looks forward to successful completion of the Credit Facilities.

Very truly yours,

MANUFACTURERS HANOVER
TRUST COMPANY

By: ____________________
Title:

Agreed and Accepted:

TIME INC.

By: ____________________
Title:

EXHIBIT II

TIME INCORPORATED

PRE-TAX VALUATION RANGES
(Market Value in $000)

	Estimated Market Value			Projected 1989 Cash Flow Multiple		
Magazines	$3,600	-	$3,800	10.4X	-	11.0X
Cable						
ATC	5,400	-	5,500	$2,000	-	$2,040*
Minority	(1,000)	-	(1,050)			
Affiliates	700	-	900	$2,000	-	$2,500*
Total Cable	**$5,100**		**$5,350**			
Programming	1,700	-	1,900	11.0X	-	13.0X
Books	1,300	-	1,400	8.0X	-	8.6X
Investments & Other	$ 600	-	$ 600			
Cash	120	-	120			
Total	**$12,420**		**$13,170**			
1989 Total Debt	$ 6,500	-	$ 6,500			
Asset Coverage	1.9X	-	2.0X			
Market Value/Share	$189	-	$202			
Stock Price 3/3/89		$109 1/8				

*Represents per subscriber multiples.

056124

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, 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.	C.A. No. 10866
In re TIME INCORPORATED SHAREHOLDER LITIGATION	Consolidated Civil Action No. 10670

Deposition of J. TOMILSON HILL, taken by Plaintiff Paramount, pursuant to notice, at the offices of Simpson Thacher & Bartlett, Esqs., 425 Lexington Avenue, New York, New York, on June 30, 1989, at 8:45 a.m. before William Vorsteg, a Shorthand Reporter and a Notary Public of the State of New York.

Q. And what was the arbitrary tax basis that you took?

A. I don't recall.

Q. For planning purposes?

A. I don't recall.

Q. Next I notice in the item modified by footnote 2 that there is an assumption of 50 million dollars in cost cuts.

Where were those cost cuts coming from?

A. We had very substantial discussions with the management of Time and asked the question if in a highly leveraged environment you had to achieve substantial cost cuts, could those cost cuts be obtained. And we went through specifically which of the operations of Time could be susceptible to cost cuts.

And management came up with a view that on a conservative basis they could achieve 50 million of cost cuts.

Q. Where?

A. In various of their operations.

Q. Is there a writing reflecting where those cost cuts in various of their operations would come?

Hill -

A. I'm sure if you were to have a specific conversation with Mr. Nicholas and Mr. Levin, they would reflect where those cost cuts would come from.

Q. I'm not asking about conversation. I'm asking about writing.

A. The best of my recollection, there was no specific written document.

Q. They told you that they could cut $50 million in costs and you accepted that as an assumption?

A. Essentially, we asked them the question: What is the range of cost cuts that they felt could be achievable without impairing the business, assuming a highly leveraged environment.

Q. And again you did not -- you simply accepted what they told you without doing any investigation of your own or asking for any detail from them in writing this.

MR. JOSEPH: Mr. Stargatt, I'm sorry but it is now 2:30 and this is the time that we told you we have to conclude this deposition. It is the reason we started at 8:30 this morning. I'm sorry, we are going to have to do that.

Nicholas and Munro?

A. I did not specifically attend the meeting where these numbers were discussed. But it is my understanding that these were numbers essentially generated by the management and communicated through the financial staff of Time.

Q. Again, you don't know where the capital expenditure cuts are going to to come from?

A. No.

Q. The next line assumes cost cuts of 75 million dollars, $100 million and 200 million dollars for the first three years and 200 million dollars a year thereafter, as well as a further capital expenditure cuts.

Are these in addition to the cost cuts listed in footnote 2?

A. No. They are aggregate cost cuts. The incremental would be 25 over and above the minimum.

Q. The same answer with respect to the details?

A. Yes.

Q. Is it your perception that Time is a well managed efficiently operated business as it now exists?

writing relating to it, I believe, or whether it had been, earlier communicated to Shearson and Wasserstein.

Q. You're right. The 50 million dollars in capital expenditure, could you tell us for two years, what did they consist of?

MR. JOSEPH: That was the part you did?

MR. STARGATT: Oh, did we cover that.

Q. Well, if it is redundant, answer it again?

A. Again, the methodology for the minimum cost savings, and it applies also to the broader cost savings scenario, were discussions with management as to what they think they could achieve in the highly leveraged environment which clearly would be the case if Time were to embark upon a recapitalization. And these numbers reflect their minimum and broader cost cuts, reflecting also the capital expenditures.

Q. The 50 million dollar in capital expenditure cuts in the next two years were estimates that were transmitted to you by Messrs.

Q. You don't remember?

A. Oh, I remember it very well.

Q. Well, I'm not testifying and you are.

A. When we offered the equivalent of $91 a share, which was the first formal offer that Shearson Lehman made to the board of RJR, my recollection was that the cash interest coverage was in excess of one times.

Q. What was the rate of return that you expected the equity holders who would be acquiring the equity portion of the RJR deal would be expected to receive?

MR. JOSEPH: Is this public? He is limiting his question to public.

THE WITNESS: It is not public. But neither was the coverage.

MR. JOSEPH: He has stated that he is limiting his questions to public information. You may limit your answer that way as well.

MR. STARGATT: I agree.

Q. It is not correct to say that it is a matter of public information that the equity component was projected to yield at least 25 percent per annum?

A. In the material that we have circulated with regard to our fund, we have indicated that our desired returns for equity compounded are in excess of 25 percent.

Q. Is it not usual in the acquisition of stock in a highly leveraged company for an equity investor to be looking for a return of in the range of 25 percent and higher?

MR. JOSEPH: Objection to form. You may answer.

A. I don't understand the question.

MR. JOSEPH: Which is why I objected.

MR. STARGATT: I thought you objected because you didn't understand the question.

MR. JOSEPH: That is indeed correct.

Q. Isn't it common for investors making an investment in a highly leveraged equity stub to be looking for a return of 25 percent to 30 percent and higher?

A. Depends on the investor's criteria. It

Hill -

depends on who the investor is.

Q. Your fund, for example.

A. Our fund would look for returns in leveraged buyout transactions in excess of 25 percent.

MR. STARGATT: In the interest of collegiality and mindful of the approaching moment of conclusion -- and I don't obviously disagree -- a good way is to try to work together to accomplish an objective and I hope I fall within that category.

But I have a paper that I've been asked to ask you about that you may have no information about and I haven't got copies of it.

It purports to be schedule 14 D-1, and an amendment filed by Warner Communications, the subject company and, as the bidder with the SEC. And I will go around to your side of the table so we can look at it together, and I will read it out loud.

MR. JOSEPH: For the record, could you indicate what amendment number that is?

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, 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.	C.A. No. 10866
In re TIME INCORPORATED SHAREHOLDER LITIGATION	Consolidated Civil Action No. 10670

Deposition of HENRY LUCE, III, taken by Plaintiff Paramount, pursuant to notice, at the offices of Simpson Thacher & Bartlett, Esqs., 425 Lexington Avenue, New York, New York, on June 28, 1989, at 10:05 a.m. before Phyllis M. Yenis and Roberta Lerch, Shorthand Reporters and Notaries Public of the State of New York.

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and that means that they wish to take a legal position at some time about the question.

Once they have stated their objection, unless your attorney tells you not to answer the question, you can then go on and answer. Okay?

Would you repeat the question.

(Record read)

A. Yes.

Q. Would you describe those changes or those perceived changes for me, please?

A. Well, there has been a perception that some executives seem to be more interested in quick profits or short-term profits, rather than whatever profits might result from maintaining full high standards of quality in the product, that kind of thing.

I think also the diversifications into the forest products industry and the entertainment industries and others brought people in who had somewhat different cultures and that contributed to the mix in a way that may have changed it some.

Q. The executives you mentioned who seem to be more interested in short-term profits, are they still with Time?

A. One can't generalize about that, as that might involve a number of people, some of whom are not around anymore and some are.

Q. Of the ones that are around today, would you include Mr. Munro in that group?

A. Yes, I would, although I would not include him in a group that is unfamiliar or has no experience and memory of the publishing and journalistic enterprises, because he certainly did.

Q. Would you include Mr. Nicholas in that group?

A. Yes, but with the same comment.

Q. Would you include Mr. Levin in that group?

A. Yes, with a slightly different comment. He did not have direct experience of being an editor of publishing, but I think he has been very impressive in the degree of understanding and appreciation that he has developed for the publishing enterprises.

Q. Could you name for me, sir, any other executives of Time who are still with Time, that you would put in that category?

A. No, nobody particularly stands out.

Q. Mr. Luce, do you believe that the concentration on short-term profits has been a beneficial influence on Time?

A. I don't know how to measure it. I can't answer the question.

Q. Do you not understand the question?

A. Yes, I understand the question. I don't know the answer.

Q. Have you ever discussed this question with anyone and expressed the view that the concentration on short-term profits was having an adverse influence on Time?

A. Yes.

Q. Can you recall who you discussed this with?

A. Well, I suppose I could try to recall various employees, mostly down the line, who may have been old friends or old colleagues, but I don't think it's germane to try to identify them.

Q. Can you recall, Mr. Luce, the substance of what you said to these people at the time, when you would have these conversations?

A. Yes, things like "I'm sorry to hear you think that."

usual way or whether it will have to sell assets.
Do you see that?
A. Yes.
Q. And Mr. O'Herron is quoted as follows, quote:

"Mr. O'Herron said it would not be business as usual as it exists today but that the ongoing company should be able to arrange a bank credit agreement with enough flexibility to live, grow and work but it 'would not be as easy as before,'" close quote.

Now, having seen that statement by Mr. O'Herron of Lazard, my question to you, sir, is: Did any of the financial advisors of Time make the same comment in substance to the board of Time when it approved the 70 dollar a share tender offer?
A. No, I'd say they characterized the scale of economies and sales that might be required without characterizing it as to degree or emotion.
Q. When they referred to economies, did you understand they were talking about firing people?
A. It was not discussed just which

economies might be taken.

Q. What I'm asking is: What was your understanding --

A. I didn't know.

Q. -- excuse me, when a financial advisor refers to economies, do you not understand that one of the things he is referring to is a reduction in the number of employees in the company?

A. Of course, I understand that payroll is one of the operating expenses and they were suggesting the possible need for reducing operating expenses.

Q. Did any director of Time ask its financial advisors whether or not in their opinion it would be necessary to lay off Time employees in the future as part of the economies necessary in light of the new financial condition of the company?

A. No.

Q. Were there any questions directed by the directors of Time to their financial advisors as to whether it would be necessary to sell off assets of the new company in order to live with the debt it was incurring?

A. No. There was no need for such a

question because such had been suggested by the advisors in their presentation.

Q. What did they say about that?

A. They gave an indication of, in order to show a projection five years out, they gave an indication of what -- of the scale of assets that they assumed would be disposed of.

Q. Do you remember the amounts they were talking about disposing of in the next five years?

A. Yes.

Q. Would you tell us, please.

MR. VARALLO: Could you hold your answer. I would like to take a one-second break and talk to counsel.

(Mr. Varallo and Mr. Joffe confer)

MR. VARALLO: Thank you.

A. I would say their projection assumed something like 4 billion dollars worth.

Q. Did you say million or billion?

A. I said billion.

Q. The sales of 4 billion dollars in assets?

A. Yes.

MR. HAGAN: I have no further

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, 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.	C.A. No. 10866
In re TIME INCORPORATED SHAREHOLDER LITIGATION	Consolidated Civil Action No. 10670

Deposition of J. RICHARD MUNRO, taken by Plaintiff Paramount, pursuant to notice, at the offices of Simpson Thacher & Bartlett, Esqs., 425 Lexington Avenue, New York, New York, on July 1, 1989, at 10:00 a.m. before Roberta Lerch, Certified Shorthand Reporter and Notary Public of the State of New York.

Jason -- I think the reason he is our editor-in-chief, that there is basically a Chinese wall on his head. I think he can sit in on board meetings and leave those board meetings, review copy, but I suspect does not influence it.

I think he has given that responsibility to Henry Muller, who is the person responsible for this magazine and though Jason in his duty as editor-in-chief looks at everything that is controversial, I think I know him well enough to know that he would not influence that magazine as a result of what he heard in a board meeting. That's my opinion.

Q. Let me try and get at it a different way. I pointed out that Newsweek, U.S. News and Forbes all said in one way or another that Time was selling itself to Warner, is that correct?

MR. JOFFE: All I think the record shows is that various snippets from three articles in those magazines say that. We haven't searched the record to see what else they might say or if there are other things in the articles that might say something differently.

Paramount Communications Inc.

Martin S. Davis
Chairman and
Chief Executive Officer

By Telecopier and
By Hand

June 23, 1989

Mr. J. Richard Munro
Chairman & Chief Executive Officer
Time Inc.
Rockefeller Center
New York, New York 10020

Dear Dick:

We are today increasing our offer for all outstanding shares of Time Common Stock to $200 per share in cash. We hope that your Board and management will now discontinue your efforts to preclude stockholder choice and give Time's shareholders an opportunity to consider our offer.

On several earlier occasions, we have requested the opportunity to meet with you and your Board to obtain any information you believe relevant to our offer, to address ny concerns you might have, and to negotiate all aspects of our proposal. We again repeat that request.

If you will now agree to a meeting, we are confident that we will be able to satisfy any open-minded person on all issues you have raised publicly while refusing to talk to us. Citibank and Morgan Stanley are prepared to assure you of our ability to finance the transaction. We can acquaint you with our strong record of respecting editorial integrity, a record central to the traditions of our publishing companies as well as Time Inc. We are confident we can persuade you that all required regulatory approvals can be obtained expeditiously, especially if you end your efforts to delay the process.

It obviously would have been preferable if you had permitted us to deal with your concerns before you launched your ill-advised offer for Warner Communications Inc. and consummated the lock-up stock swap. At this point, we must necessarily condition our offer upon an injunction or termination of the Warner offer and a rescission of the stock swap. We nevertheless hope that you will work with us, to the extent that you are legally free to do so, to resolve these matters in a way that will enable your stockholders to accept our offer. In any event, we again urge you to do all in your power to remove the obstacles you have placed in the way of your stockholders and permit them to determine their own fate.

Despite all the rhetoric, all the talk of "war" and "rockets", we continue to believe that if we work together we can structure a transaction that will be in the best interests of both of our companies and their stockholders. For our part, we remain prepared to negotiate all aspects of our proposal. We look forward to your prompt response.

Sincerely,

A (s) 51(a)

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, 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.

C.A. No. 10866

In re TIME INCORPORATED SHAREHOLDER LITIGATION

Consolidated Civil Action No. 10670

Deposition of NICHOLAS J. NICHOLAS, taken by Plaintiff Paramount, pursuant to notice, at the offices of Simpson Thacher & Bartlett, Esqs., 425 Lexington Avenue, New York, New York, on June 27, 1989, at 10:05 a.m. before Helaine D. Guggenheim, a Shorthand Reporter and a Notary Public of the State of New York.

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HBO through December 30, 1980. I asked to leave HBO immediately after the Judge Gotell in New York ruled on the Premier case, which Simpson Thacher was involved in on behalf of Paramount, which led that illegal charge. And Dick Munro had moved in at about that time as president of Time Inc., and as I recall, he invited me to become an officer of Time corporate, to begin to think about a design for Time Inc. for the '80s and the '90s, and it was a strategy-related job. And I accepted that with pleasure.

In 1983, I believe, I was elected chief financial officer of the company. I could be off by a year in any of these. In 1984, I was made the Time Inc. group executive in charge of all of our businesses in cable television, and programming, that is to say, home box office and related activities. It included, by the way, oversight of USA Network which was at that time owned one-third each by Time, Paramount -- no, not Paramount, Gulf & Western, Time, and MCA.

In 1986, the board elected me president of Time Inc., and that's my current position.

Q. Did you ever serve as a writer for any

Time publication?

A. Never. Never. I mean it's -- I was once offered a job in the '60s as a writer by Time magazine, by executives or journalists at Time. I was quite flattered by the offer, but --

Q. But you didn't take it?

A. I didn't take it. It was one of those fantasies that everyone has that one would make a good writer.

Q. Did you ever serve as an editor, at any time, of a publication?

A. Never.

Q. Ever served as publisher of any Time publication?

A. Never.

Q. When you were involved with HBO, did you ever serve to produce or direct any film or television program?

A. Never. To actually literally line produce?

Q. Yes.

A. I have never line produced a television program.

Q. You indicated that by around 1983 you

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, 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.	C.A. No. 10866
In re TIME INCORPORATED SHAREHOLDER LITIGATION	Consolidated Civil Action No. 10670

Deposition of JOHN R. OPEL, taken by Plaintiff Paramount, pursuant to notice, at the offices of Simpson Thacher & Bartlett, Esqs., 425 Lexington Avenue, New York, New York, on June 26, 1989, at 10:05 a.m. before Helaine D. Guggenheim, a Shorthand Reporter and a Notary Public of the State of New York.

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nine months or twelve months and do the arithmetic. He picked one line and said, here is what the arithmetic shows. Use your own judgment to show what discount would be applicable.

Q. Did he tell you why, for the purposes of example, he chose a 12 percent and a 4 percent?

A. No. He just used an example.

Q. Did you consider those to be realistic examples?

A. The table was arithmetic that gives you parameters, that gives you some dimensions as to the limits or the ranges which would be calculated, that is, the range would calculate to a price in the offer, depending on which of those discount rates you chose and which delay factor you chose.

Q. At any time prior to Time's rejection of Paramount's initial offer, do you recall Mr. Hill or any other investment banker giving an opinion as to what was a realistic rate to use for the purpose of discounting Paramount's bid?

A. I don't think they picked a rate. They simply said, if you chose one of these rates, here's how it will calculate out.

They did say, however, that you must

take into account the fact that some delay is involved, and therefore, some discount from this price.

Q. But I take it if you chose, let's say, a 9 percent rate, it would be a lesser discount than going down, for instance, to $15 per share at a 12 percent analyzed rate?

A. Obviously. That's arithmetic. If it's a shorter period of time, yes, you can calculate --

MR. JOFFE: If it weren't 7 o'clock, I would not try to interfere with your freedom to conduct your inquiry as you please, but it is 7 o'clock.

Q. When you offered $70 per share to Warner shareholders, you also offered, if there were any delay in the bid, to give them some interest. Do you recall that?

A. Yes.

Q. And do you recall what rate you chose as a member of the board?

A. I believe -- I don't recall precisely, but I believe it was something like 9 percent. I am not sure what it was. But bear in mind, there is a different set of contingencies on the offer we made to Warner from the ones being made by Paramount. And there is -- this particular set of circumstances doesn't exist. Are you talking about the interest rate, is that your point, the purpose of your question?

Q. It's not a point, it's a question.

My next question is, whether any investment banker offered you any opinion that the contingencies associated -- at any time offered to you the opinion that contingencies associated with Paramount's bid justified an analyzed interest rate higher than 9 percent? Did you ever receive that opinion from any banker, investment banker?

A. I don't recall receiving that, no.

Q. Did you ever receive any opinion from an investment banker as to what rate, given the contingencies that you say there were with Paramount's bid, what rate would be justified as a realistic rate to discount Paramount's bid?

A. No, they didn't recommend a rate.

Q. Let me ask you to turn to Page 16, please. The minutes at the top of the page reflect "Mr. Opel Noted." Do you see that there? It's Page 16.

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, 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.	C.A. No. 10866
In re TIME INCORPORATED SHAREHOLDER LITIGATION	Consolidated Civil Action No. 10670

Deposition of LUIS R. RINALDINI, taken by Plaintiff Paramount, pursuant to notice, at the offices of Simpson Thacher & Bartlett, Esqs., 425 Lexington Avenue, New York, New York, on June 28, 1989, at 10:05 a.m. before Helaine D. Guggenhiem and Roberta Lerch, Shorthand Reporters and Notaries Public of the State of New York.

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been included.

"Mr. O'Herron responded by saying that projections of growth rates beyond a two-year period would be difficult to produce, and if based on past trends, would be essentially meaningless.

"Mr. Ross agreed and noted that based on recent profit and loss trends, such projections would be misleading."

A. First of all, do you recall that exchange occurring during the meeting, the exchange that's accounted in these minutes?

A. Generally, yes.

Q. And can you explain, either from your own knowledge or from anything that Mr. O'Herron said, either at this meeting or at any other time, why it would be difficult to produce projections of growth rates for Warner beyond a two-year period?

MR. DANILOW: That is why on March 3 he said that?

MR. McBRIDE: Yes.

A. First of all, Warner does not, as a matter of course, produce these projections. In large part, that is because significant portions of the company's business, i.e., the motion picture business and the recorded entertainment business, are of a nature which is not predictable much more than a year in advance and in some cases not even a year in advance.

It depends on the success of certain motion pictures, the success of television shows, as they may be purchased by the networks or as they may be sold into syndication, or as they may be sold abroad.

It depends on the signing of recording artists, the success in production of records by those recording artists, and the success of that record in the marketplace by those artists. Finding of new talent in those areas, et cetera. All of which are subject to significant uncertainty going forward, and while the company, for its own internal purposes, attempts to make projections one or two years in advance, it is not its custom nor does it find it useful to making those projections more than one or two years in advance because of the hit-driven, uncertain nature of the business.

And to speculate on what motion pictures would be made two years from now and how successful they might be, or which recording artist would be successful two or three years from now, renders many of those projections meaningless from a practical point of view.

Q. Do you know whether prior to June of 1989, Warner had ever prepared formal projections more than two years out?

A. To my knowledge, they had not.

Q. Let me now refer you to Page 7, the paragraph beginning on the bottom of Page 7 of the minutes and carrying over on to Page 8. And I will read that paragraph.

"Mr. Payson then stated, in response to Mr. Siegel's earlier comment with respect to pooling of interests accounting treatment, that the parties could have structured the transaction as a merger of Time with a subsidiary of WCI, in which case the holders of WCI Series B and Series C preferred shares would not have appraisal rights.

"Mr. Payson explained his belief that the exercise of appraisal rights by BHC would prevent the merger from being accounted for as a pooling of interests, and this could

WASSERSTEIN
PERELLA & CO

[redacted]
DEPOSITION
EXHIBIT
Wasserstein 12
6/28/[illegible]

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PROJECT TANGO

Materials Prepared for the
Time Incorporated
Board of Directors

June 15, 1989

Wasserstein Perella & Co., Inc. **Shearson Lehman Hutton Inc.**

S200089

OF $70 P[illegible]ARE [illegible]

	Pro Forma TANGO Shares ($MM)	TANGO Stand Alone	Pro Forma EPS(2)	Goodwill Per Share	Pro Forma EPS(3)	TANGO Stand Alone Cash Flow Per Share	Pro Forma Cash Flow Per Share	Debt ($MM)	Debt Per Share	Estimated Trading Level Per Share at 10x - 12x	Cash Interest Coverage
1990	57.0	$7.25	($7.43)	($5.23)	($16.25)	$20	$40	$16,216	$284	$115 -$195	0.99X
1991	57.0	8.98	1.12	(5.03)	(3.91)	22	45	11,563	203	242 - 331	1.27
1992	57.0	11.50	7.09	(3.15)	3.94	25	44	11,264	198	238 - 326	2.07
1993	57.0	13.92	11.58	(3.15)	8.43	28	48	10,760	189	289 - 384	1.70

(1) Assumes divestiture of WONDER miscellaneous investments, WONDER Cable (1.7MM subs), BHC, SFN, and cost cuts of $50 million in year one and $100 million thereafter
(2) Before transaction costs and goodwill
(3) Before transaction costs, after goodwill

S200113

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

S200114

A(S) 62