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Paramount Communications Inc.–1993

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At the end of August 1993, Sumner Redstone, Chairman of the Board of Directors of Viacom, sat back and wondered what to do about Paramount Communications. He had been pursuing the acquisition of Paramount for some time but seemed to have reached a road block.

Beginning in 1989, Redstone and Martin S. Davis, Chairman of the Board and Chief Executive Officer of Paramount, had held informal discussions from time to time concerning the possibility of a business combination. Those discussions took a much more serious turn in April, 1993, when Davis and Redstone sat down to dinner and began to discuss possible terms for a Viacom-Paramount merger. Such a combination had the potential to create one of the world's largest entertainment conglomerates with significant market shares in cable TV, movies, film distribution, publishing, and sports. More importantly from Redstone's perspective, Viacom-Paramount would have the ability to create, acquire and produce programming that it could drive to every region on earth. At dinner, the two were able to agree that Davis would be CEO of the combined company and that Redstone would remain the chairman and controlling shareholder. They were unable, however, to agree on a price or terms.

During the week of June 28, Viacom's representatives expressed a willingness to negotiate a transaction based upon a price to Paramount's stockholders of $63 per share. Viacom conditioned its proposal upon Paramount's willingness a) to grant Viacom an option to acquire from Paramount shares representing up to 20% of Paramount's outstanding shares, at an exercise price of the then current market price of Paramount's Common Stock if the transaction did not close; and b) to pay Viacom a termination fee of $150 million plus expenses, again, if the transaction did not close. The discussions terminated on August 25, 1993. The Paramount representatives were unwilling to agree to the price Viacom was offering, to the "lock-up" option on 20% of Paramount's stock, and to the termination fee.

While Paramount and Viacom talked, rumors repeatedly surfaced that QVC was also considering making a bid for Paramount. In an attempt to deter such a bid, Davis had lunch with Barry Diller, QVC's CEO, in July, and told Diller that Paramount was not for sale.

This case was prepared from public sources with the assistance of Ramesh Balasubramanian to serve as the basis for class discussion rather than to demonstrate the effective or ineffective handling of an administrative situation.

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A DESCRIPTION OF THE ENTERTAINMENT INDUSTRY

Paramount, Viacom, and, QVC operated in the entertainment industry. The entertainment industry could be divided into two major areas: film and television.[1]

Film

Films are produced by film production companies. The six largest film producers, known as the "Majors", were Columbia/TriStar (owned by Sony Corp.), Twentieth Century Fox (owned by News Corp.), Universal (owned by MCA and its parent Matsushita), Paramount, Warner Brothers (owned by Time Warner), and Walt Disney. The majors not only produced their own films, they also financed and, then distributed those films, largely to three audiences.

The distributor arranged to have a film exhibited in the following sequence. First, the distributor arranged with theater owners to exhibit the film in movie theaters. The exhibitors and distributors negotitated an appropriate division of the revenues from any particular film. The trend in the last decade had been to more movie theater screens with fewer seats per screen. The total number of movie theater admissions had remained relatively stable in the last decade at 1.1 to 1.2 billion per year. Theater revenues accounted for roughly 30% of film industry revenues.[2]

Second, the film would be recorded and distributed on videocassettes. In that form, the film was marketed for rental and/or for sale in the home video market several months after the film appeared in theaters. The home video market accounted for roughly 40% of film industry revenues (up sharply from only 7% in 1980).

Third, the film would be broadcast on pay cable televison, then broadcast on network television. Revenues from these sources accounted for 20% of film industry revenues. Finally, the film would be licensed to local television syndicators.

After the majors, there were several mini-majors that produced and distributed their own films, but on a smaller scale than the majors. Metro-Goldwyn-Mayer and New Line Cinema were the most prominent mini-majors. Finally, there were a number of smaller, independent producers who produced films, but contracted with one of the majors to distribute the films.

In the last decade, film costs had increased substantially (by an average of 9% per year) while the number of feature films released had remained roughly constant. The risk on each film, however, had been reduced by payoffs from rentals and sales of home videos, and from greater demand for programming from the cable networks.

Exhibit 1 presents some statistics on the film and entertainment industries.

Television

Television program producers produced television shows both for the cable and broadcast television networks. The cable and broadcast television networks paid the producers for the programming. These two roles could be combined, as they were at Turner Broadcasting and Viacom, which both produced television content and owned cable television networks.

[1] The discussion in this section relies heavily on *Entertainment Industry Economics* by Harold L. Vogel, Cambridge University Press, 1994.

[2] For this figure and the others cited below, see Vogel (1994).

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The cable television networks, in turn, sold programming to the local cable television operators. TCI and Time Warner were the two largest local cable operators. The cable operators paid the cable networks for the programming out of the monthly fees the cable operators received from cable television consumers.

The broadcast networks sent programs (and sometimes money) to their affiliated stations which then broadcast the programming locally at no charge. The television stations and networks made money largely by charging for advertising spots during the broadcast programs.

Most of the larger participants in the entertainment business were involved in several segments of the business. Exhibit 2 presents this segment information for eight of the larger participants.

PARAMOUNT COMMUNICATIONS

Paramount Communications was divided into two major lines of business: entertainment and publishing.

Entertainment

The entertainment business provided 65% of revenues and 62% of operating profits. The entertainment business maintained operations in motion picture production and distribution, television programming and prerecorded videocassettes, the operation of motion picture theaters, independent television stations, cable television networks, regional theme parks, and Madison Square Garden.

Motion Pictures and Television Programs

Paramount Pictures produced and financed feature motion pictures. In addition to making new movies and shows, Paramount Pictures also owned a library containing about 900 movies that were repackaged and distributed to ancillary markets, including video, broadcast, pay-cable and pay-per-view television. The movie collection ranged from classics such as *White Christmas* and *Holiday Inn* to the more recent *Beverly Hills Cop* and *Raiders of the Lost Ark*.

Paramount Pictures also produced and distributed series, specials and movies for network television, cable television and videocassettes. In addition, Paramount Pictures had retained the rights to more than 6,100 episodes of TV series which included 255 episodes of *Happy Days* and 260 episodes of *Cheers*. These series were the source of significant syndication revenues for Paramount. The most profitable by far was *Star Trek*, which had generated more than $1 billion. Paramount also had an exclusive pay-TV distribution agreement with HBO that extended through 1997.

While Paramount had been very successful in generating syndication revenues, creating a steady stream of original films had not been as easy. This was attributed partly to high management turnover. Over the past four years, Paramount had employed three different studio heads. Because it typically took a new team 18 months to get a full slate of movies into production, the turnover slowed Paramount's movie schedule. And a bad year at the studio could crush the company's results—as was the case with Paramount in the latest quarter—while a good year could generate huge profits as MCA found with *Jurassic Park*, the megahit produced by its Universal studios.

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Theatrical Exhibition

Paramount operated 462 movie screens in 114 theaters in Canada. Paramount operated an additional 700 screens in the U.S. and Europe in joint ventures with MCA and Time Warner.

Television Broadcasting and Cable Television

Paramount owned and operated seven television stations. With MCA, Paramount also owned 50% of the USA Network and Sci-Fi Channel. The USA network reached approximately 62.5 million households.

Theme Parks

Paramount owned five regional theme parks including Carowinds in Charlotte, North Carolina, Great America in Santa Clara, California, and King's Dominion near Richmond, Virginia. Madison Square Garden: Madison Square Garden's operations included the operation of a) Madison Square Garden Arena in New York City which seated 20,000 people; b) the Paramount theater which seated 5,600 people; c) the New York Knicks basketball team; d) the New York Rangers hockey team; e) television programming for cable systems that consisted largely of its own sporting events and rights to New York Yankees baseball games; and f) live entertainment which included the Miss Universe and Miss USA pageants as well as the SRO Motorsports auto shows.

Publishing

Paramount Publishing included the publishing houses of Simon & Schuster, Prentice Hall, Pocket Books, Silver Burdett Ginn, and Computer Curriculum Corporation. In fact, 38% of Paramount's operating profits came from publishing and information operations such as school textbooks and manuals for accountants and other professionals. In a very recent development, Paramount also was considering acquiring Macmillan Publishing for $560 million. Macmillan included the imprints Macmillan and Scribners.

Exhibits 3 and 4 present Paramount financial statements.

Recent History

Paramount was led by Martin Davis. Davis had become CEO in 1983 at the death of the legendary conglomerateur Charles Bludhorn. When Davis took over, Paramount was known as Gulf & Western and was involved in a large number of disparate businesses. Over the following seven years, Davis sold off most of those businesses and focused Paramount's attention on the entertainment and publishing businesses.

In 1989, Davis and Paramount made a well-publicized hostile takeover offer for Time Inc. that was valued at more than $10 billion. Time was able to thwart the bid by merging with Warner Communications to form Time Warner Communications. Since the Time Warner battle, Paramount and Davis had been relatively inactive, making only a few small acquisitions and spending some excess cash on share repurchases.

Now 66 and into his second decade as CEO, Davis carried a reputation both for toughness and for clashing with creative executives like Barry Diller.

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VIACOM INTERNATIONAL

Background

Viacom International Inc. was a diversified entertainment and communications company with operations in four principal segments: Networks, Entertainment, Cable Television and Broadcasting.

Networks

Viacom Network operated three basic cable television program services in its MTV Networks Group: MTV, Nickelodeon, and VH-1. MTV offered youth-oriented programming including music videos and animated shows like *Beavis & Butt-head* and reached 59 million households. Nickelodeon offered programming for children including shows like *Ren & Stimpy* and *Rugrats*. It reached 61 million households. VH-1 provided music and lifestyle programming and reached almost 50 million households. Viacom also had a 50% ownership (with HBO) of Comedy Central. Comedy Central provided comedy programming to roughly 30 million households. The MTV Networks group had been very successful recently, with advertising sales growing at 25% to 35% per year.

Viacom Network operated three premium subscription services in its Showtime Networks Group: Showtime, The Movie Channel and Flix. For a premium monthly fee, these services offered commercial free programming including theatrically released feature films, comedy specials, dramatic series and sports events. They reached almost 12 million subscribers.

Entertainment

Viacom Enterprises distributed television series, feature films, made-for-television movies, miniseries and specials for television exhibition in domestic and international markets. These included *Roseanne*, *The Cosby Show*, and *I Love Lucy*.

Viacom Productions produced television series and movies for prime time broadcast network television including *Matlock.*

Viacom New Media developed, produced, distributed and marketed interactive software for the stand-alone and other multimedia marketplaces. It was in the process of producing a video game based on *Beavis & Butt-head*.

Cable Television

Viacom Cable Television owned and operated cable television systems in California, and the Pacific Northwest and Midwest regions of the United States. Viacom Broadcasting owned and operated five network-affiliated television stations and fourteen radio stations.

Segment performance for Viacom in 1992 is outlined below:

	REVENUES	OPERATING PROFITS
Networks	56%	49%
Cable Television	22%	29%
Entertainment	13%	14%
Broadcasting	9%	8%

Exhibits 5 and 7 provide Viacom income statement and balance sheet information.

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Recent History

Viacom International Inc. was originally formed as a subsidiary of CBS Inc. to manage reruns of CBS programming. In August, 1970, the government forced CBS to divest it for antitrust reasons. On June 9, 1987, Sumner Redstone bought Viacom for $3.4 billion in a highly-leveraged deal that defeated a management-led leveraged buyout attempt. In that contest, Redstone had raised his bid three times before acquiring the company. Before purchasing Viacom, Redstone had managed his family business, National Amusements, growing it from a small chain of drive-in theaters to a very profitable 800 screen chain of movie theaters.

After Redstone acquired Viacom, Viacom spent the next several years restructuring its debt, shedding nonessential assets and focusing on expanding the MTV and Nickelodeon franchises worldwide. By 1993, now at the age of 70, Redstone focused his attention on larger strategic issues. He left most of the day-to-day operational details to Frank Biondi, Viacom's 48 year old President and Chief Operating Officer.

Redstone's success at Viacom and at National Amusements had made him a very wealthy man. At the end of August 1993, Mr. Redstone owned 45.5 million shares of voting class A common stock and 46.6 million shares of non-voting class B common stock.[3] At end of August stock prices, Redstone's stake was valued at well over $5 billion. Redstone's stake also gave him majority control over Viacom which had a total of only 53.4 million shares of Class A stock and 67.1 million shares of Class B stock outstanding. (This stake contrasted sharply with that of Martin Davis, who owned only 0.67% of Paramount's shares.) Exhibit 8 provides share price and dividend data for Viacom (as well as QVC and Paramount).

BENEFITS OF PARAMOUNT-VIACOM COMBINATION[4]

Redstone felt that he could create real synergies among the assets of Viacom and Paramount. The synergies would come from the fact that Paramount and Viacom had businesses that were highly complementary to each other and the fact that those businesses were so well-known.

The combination of Paramount and Viacom could bring together the creative talent, intellectual property, managerial resources and trademarks of Paramount and Viacom. This was likely to lead to the development of new businesses.

The combination also would lead to cost reductions through the combination of similar businesses and economies of scale.

The combination would add enhanced and complementary distribution capabilities for each company. Redstone believed there were significant opportunities for increased revenues from a) cross-promotion and utilization of Viacom's and Paramount's well-known brand names, such as using Viacom's Showtime, MTV and Nickelodeon brands to enhance Paramount's live entertainment businesses, and b) the utilization of distribution capabilities of each company to distribute products of the other. These opportunities might include: distributing Paramount's theatrical motion picture library on an existing or new cable network owned by Viacom;

[3] In fact, Redstone had been an active buyer of Viacom stock in recent months. In all, Mr. Redstone bought 413,600 class B shares between July 5 and August 20, about 15% of the total trading volume.

[4] See Paramount Corporation's 13E3 dated May 25, 1994.

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Paramount making a movie version of *Beavis and Butt-head*, the extremely popular teen cartoon show on MTV; Paramount's theme parks as well as retail stores selling merchandise based on Paramount movies and Viacom characters. To these ends, Redstone also was considering partnerships with Blockbuster (the largest retailer of home videos in the U.S.) and Nynex (one of the Baby Bell local telephone companies), not only for raising the extra cash, but also for retail distribution channels and technological expertise.

Combining Paramount with Viacom would create a company better positioned than each of the companies would be separately to adapt and benefit from technological and other developments in the distribution and form of entertainment programming and to successfully meet competitive challenges. An added bonus was the fact that Viacom and Paramount each wanted to pursue international business strategies. A combination could be expected to enable the sharing of knowledge of international markets and to result in a strongly enhanced international presence. Exhibit 9 shows how the Paramount and Viacom businesses would overlap. Exhibit 10 provides Viacom's cash flow forecasts for Paramount as a stand-alone entity, for Viacom as a stand-alone entity, as well as the synergies in EBITDA that Redstone expected to obtain from the combination.

QVC NETWORK INC.

Background

QVC marketed a variety of consumer products, such as jewelry, housewares, electronics, toys, and cosmetics through two televised home shopping channels broadcast to cable television subscribers and satellite dish receivers. The QVC service reached roughly 59 million households. The company was also contemplating starting a new shopping service, to be launched in the spring of 1994, that would cater to younger adults and would be broadcast on weekdays.

QVC's major asset in any acquisition was its chairman and CEO, Barry Diller. Diller, 51, was a college dropout who made his name as a young programming whiz at the ABC television network. By 1974, at the age of 32, Diller was named Chairman and Chief Executive of Paramount Pictures. The studio then lagged the other five major Hollywood studios. Diller and his partner Michael Eisner, now chairman and CEO of Walt Disney, helped make Paramount one of the top performing studios in the late 1970s and early 1980s. Diller ran Paramount Pictures until the early 1980s, when he reportedly clashed bitterly with none other than Martin Davis, then (as now) head of Paramount's parent company. Many felt that Paramount Pictures had not been as well-run since Diller left.

Diller moved on to start the Fox television network for Rupert Murdoch. At the time, most observers felt that a fourth television network was an impossibility. Diller proved them wrong.

After his success at Fox, Diller moved to QVC where he had decisively and successfully moved the image of cable home shopping upscale.[5] Diller also had been attracted by a generous stock option and ownership plan which gave him 10% ownership of QVC. There were sporadic reports that Diller yearned to create his own empire out of the studio he once ran and the

[5] *Wall Street Journal*, September 24, 1993.

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home-shopping company that he currently headed. Exhibits 6 and 7 describe QVC's financial performance over the last three years. Exhibit 10 provides forecasts of QVC as a stand-alone entity.

BENEFITS OF PARAMOUNT–QVC COMBINATION

The perceived benefits of a Paramount-QVC combination were quite different from those for Paramount and Viacom. Exhibit 9 shows how the businesses of the two companies would overlap.

The key figure was Barry Diller. A Paramount-QVC combination would be expected to be more content-driven with the highly-respected Diller working the programming and content magic he worked at ABC, Paramount Pictures, and Fox. It was likely that Diller would change the way Paramount did business. Observers expected Diller to sell the theme parks and TV stations to focus on programming. At the same time, they expected Diller to generate an increased flow of Paramount films completed at lower average costs. There was also the possibility that Diller would start a new television network.[6] Michael Eisner, Diller's former partner and now the very successful CEO of Walt Disney described Diller as "the only person I would ever buy anything with and give him control. The only one."[7]

QVC and Diller also were closely aligned with cable giant TCI and its 11 million subscribers. Liberty Media, which controlled roughly 50% of QVC stock (with its ally Comcast), was chaired by John Malone, the CEO of TCI. It seemed possible that a QVC-Paramount merger could mean new television channels and, perhaps, a fifth television network. The Paramount deal also would help TCI satisfy its demand for high-visibility programs—such as Cheers and movies—that would allow TCI and other cable operators to push cable's penetration past its current level 65%.

BACK TO REDSTONE

Sumner Redstone indeed had a lot to think about. On the one hand, Barry Diller was a formidable player. On the other, Redstone felt it strained "the limits of credulity to suggest that a hybrid shopping channel could undermine MTV which is now in 240 million homes around the world." With those feelings in mind, it was time for Redstone to figure out what to do.

The first question was how much should he offer to pay for Paramount? His financial team—which included the investment bank Smith Barney—came up with a number of analyses which are summarized in Exhibits 11–16. Exhibit 11 provides information on current capital market conditions. Exhibits 12 and 13 provide information on market values for companies comparable to Paramount and for acquisitions comparable to Paramount. Finally, Exhibits 14–16 present several different valuations provided to Viacom by Smith Barney.

The second question involved how Viacom should finance the price it decided to pay. One possibility was to offer to propose a stock merger and pay for all of Paramount using Viacom stock. Such an offer would take time to complete, however, because it would require the approval of Paramount's shareholders at a shareholder meeting. (Delaware law required the approval

6 *Wall Street Journal*, October 20, 1993.
7 *Fortune Magazine*, April 17, 1995.

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of a majority of shareholders.) It would take a minimum of 60 and as much as 90 days to obtain such approval. (The preparation of proxy materials announcing and describing the shareholder meeting would take up to four weeks. Then, the SEC would take two to four weeks to review the proxy materials. Finally, Delaware law requires giving shareholders at least 20 calendar days' notice before actually holding the vote.)

At the other extreme, Viacom could offer all cash. Viacom would have to finance such an all-cash offer with debt. Such an offer could be executed more quickly because it would not require a Paramount shareholder vote. Furthermore, a tender offer directly to Paramount shareholders could be completed in as short a time as 20 business days. After purchasing the Paramount shares in the tender offer, Viacom would be able to vote them in any subsequent Paramount shareholder vote.

In between the two extremes, of course, Viacom could propose any cash-stock merger it desired. As with an all equity merger, a cash-stock merger would require shareholder approval. Exhibit 17 presents information on stockholder rights.

Finally, Redstone had to decide how hard he wanted to push Paramount on the lock-up option—the option for 20% of Paramount's stock—and the termination fees.

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Exhibit 1 Entertainment Industry Statistics

A. Annual Film Industry Statistics

	Total U.S. Box Office Revenues ($ millions)	Total U.S. Admissions (millions)	MPAA Releases	Domestic Screens (thousands)	Major Distributors Filmed Entertain. Revenues ($ millions)	Major Distributors Filmed Entertain. Operating Income ($millions)	Average Total Releasing Cost Per Film ($ millions)
1993	5154	1244	161	25.7	17417	1004	44.0
1992	4871	1173	150	25.1	15938	1288	42.3
1991	4803	1141	164	24.5	14208	948	38.2
1990	5022	1189	169	23.7	12676	1103	38.8
1989	5033	1263	169	23.1	11571	1130	32.7
1988	4458	1085	160	23.2	9121	1151	26.6
1987	4260	1089	129	23.6	8251	928	28.3
1986	3778	1017	139	22.8	6839	799	24.1
1985	3749	1056	153	21.1	6359	465	23.2
1984	4031	1199	167	20.2	5839	516	21.1
1983	3766	1197	190	18.9	5324	590	17.1
1982	3453	1175	173	18.0	4548	565	16.8
1981	2966	1060	173	18.0	3749	301	15.7
1980	2749	1022	161	17.6	3997	489	13.7

MPAA is the Motion Pictures Assosciation of America
Total releasing cost includes the film or negative costs, print costs, and advertising costs.

B. Film Industry Revenues by Source in 1995 and 1980

	Theatrical	Home Video	Pay Cable	Network TV	Syndication	Foreign TV	Made for TV Films
1995							
$ millions	4,900	7,300	1,400	250	750	1200	2200
% of total	27.20%	40.60%	7.80%	1.40%	4.20%	6.70%	12.20%
1980							
$ millions	2,094	280	240	430	150	100	700
% of total	52.40%	7.00%	6.00%	10.80%	3.80%	2.50%	17.50%

Source: *Entertainment Industry Economics*, Harold Vogel, Cambridge University Press, 1995.

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Exhibit 1 Entertainment Industry Statistics (continued)

C. Network and Cable Industry Statistics

	Network TV Households (millions)	Network TV Ratings	Basic Cable Households (millions)	Pay-cable Households (millions)
1995	95.6	37.5	60.7	44.9
1980	79.9	50.1	17.6	7.4

Top 15 Cable Networks | **Top 15 Cable Systems**

Network	Subscribers (millions)		Subscribers (millions)	Homes passed by cable (millions)
CNN	61.7	TCI	10.25	17.73
ESPN	61.6	Time Warner Cable	7.10	12.00
TBS Superstation	60.6	Continental Cablevision	2.89	4.99
USA	60.1	Comcast	2.70	4.39
Discovery	59.5	Cablevision Systems	2.04	3.36
TNT	59.1	Cox Cable Communications	1.72	2.77
Nickelodeon	59.0	Newhouse	1.36	1.93
C-Span	58.9	Jones Spacelink	1.30	2.01
The Family Channel	57.7	Cablevision Industries	1.29	1.93
Nashville Network	57.4	Adelphia Communications	1.23	1.78
MTV	57.4	Times Mirror	1.20	2.05
Lifetime	57.0	Falcon Cable	1.09	1.27
A&E	56.6	Viacom Cable	1.07	1.70
Weather Channel	53.4	Simmons Comm.	0.94	1.38
Headline News	51.6	Century Comm.	0.93	1.65

Source: *Entertainment Industry Economics,* Harold Vogel, Cambridge University Press, 1995.

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Exhibit 2 Entertainment Industry Competitors

Company	Film & TV Production	Film Library	Film Distribution	Film Exhibition	Cable Network	Cable Operator	Television Stations	Theme Parks
Paramount	Yes	Yes	Yes	Yes	MSG, USA (50%), SciFi (50%)	No	7 stations	Yes
Viacom	Yes (TV)	No	No	Yes (National Amuse.)	MTV, VH-1, Nick, Showtime	Yes 1.1 million	5 stations	No
QVC	No	No	No	No	QVC	No	No	No
Time Warner	Yes	Yes	Yes	Yes	HBO, Cinemax, Stake in Turner	Yes 7.2 million	No	Yes
Walt Disney	Yes	Yes	Yes	No	Disney	No	One	Yes
News Corp.	Yes (Fox)	Yes	Yes	No	No	No	Fox Network	No
Turner Broadcasting	Yes	Yes	No	No	CNN, TNT, TBS	No	Yes, WTBS	No
TCI	No	No	No	No	Stakes in Turner, others	Yes 10.7 million	No	No

Sources: Merrill Lynch Analyst Reports, SEC Filings.

Exhibit 3 Paramount Consolidated Statement of Earnings ($ millions)
(1993 data includes 9 months of actuals and 3 months of casewriter's estimates)

	Year ended 10/31			
	1990	**1991**	**1992**	**1993**
Revenues	3,869.0	3,895.4	4,264.9	4,641.6
Cost of Goods Sold	(2,542.6)	(2,638.7)	(2,739.8)	(3,047.6)
SG & A	(1,022.2)	(1,098.9)	(1,129.0)	(1,254.6)
Operating Income	304.2	157.8	396.1	339.4
Other Income(expense)	(2.0)	0.1	(6.6)	(6.6)
Interest Expense	(123.9)	(112.0)	(113.8)	(94.0)
Interest Income	202.7	133.8	121.6	78.5
Earnings before Taxes	381.0	179.7	397.3	317.3
Provision for Taxes	(121.9)	(57.5)	(123.1)	(109.2)
Extraordinary Items	(8.8)	0.0	(8.8)	(9.1)
Net Earnings	250.3	122.2	265.4	199.0
Depreciation and Amortization	171.7	186.1	202.3	221.1
Working Capital*	550.3	850.4	704.9	802.7
Capital Expenditures	187.9	172.9	120.0	111.8

*Working capital is defined as (Current Assets - Cash - Short-term investments) - (Current Liabilities - Short-term debt)
Source: SEC Filings

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Exhibit 4 Paramount Consolidated Balance Sheet ($ millions)
(1993 data includes 9 months of actuals and 3 months of casewriter's estimates)

	Year ended 10/31			
	1990	1991	1992	1993
ASSETS				
Cash	1,112.8	555.3	324.3	380.6
Short-term investments	553.6	1,020.7	912.0	626.5
Trade receivables	808.7	904.1	979.3	1,062.2
Inventories	577.9	590.4	580.2	633.7
Other current assets	478.7	606.7	540.0	538.3
Total Current Assets	3,531.7	3,677.2	3,335.8	3,241.3
Property,Plant & Equipment	871.2	1,027.4	1,375.9	1,572.2
Accumulated Depreciation	(225.8)	(268.4)	(315.9)	(382.4
Net PP& E	645.4	759.0	1,060.0	1,189.8
Intangibles	1,138.9	1,239.3	1,528.1	1,560.3
Other Assets	1,223.2	965.3	1,130.3	1,454.1
Total Assets	6,539.2	6,640.8	7,054.2	7,445.5
LIABILITIES				
Current Maturities of LT debt	21.7	198.3	10.0	10.1
Trade Accounts Payable	143.7	119.8	143.7	196.5
Income taxes Payable	161.2	131.4	139.2	64.5
Accrued Expenses and other	1,010.1	999.6	1,111.7	1,170.5
Total Current Liabilities	1,336.7	1,449.1	1,404.6	1,441.6
Deferred Liabilities	661.2	777.0	786.0	871.2
Long-Term debt	712.1	519.9	812.1	1,002.9
Total Liabilities	2,710.0	2,746.0	3,002.7	3,315.7
EQUITY				
Common Stock	117.4	117.8	117.5	119.6
Paid-In Capital	575.9	629.5	665.7	778.1
Retained Earnings	3,120.4	3,136.4	3,264.6	3,252.2
Translation Adjustments	15.5	11.1	3.7	(20.1)
Total Net Worth	3,829.2	3,894.8	4,051.5	4,129.8
Total Liabilities and Equity	6,539.2	6,640.8	7,054.2	7,445.5

Source: SEC Filings

Exhibit 5 Viacom Consolidated Statement of Earnings

	Year ended 12/31 1990	1991	1992	6 Months ended 6/30 1993
Revenues	1,599.6	1,711.6	1,864.7	966.4
Cost of Goods Sold	(778.2)	(790.8)	(854.0)	(430.4)
SG & A	(460.2)	(475.6)	(518.0)	(267.2)
Income before Deprcn. & Amort.	361.2	445.1	492.7	268.8
Deprcn. & Amort.	(137.4)	(132.9)	(144.8)	(72.1)
Non-Operating Income (expense)	(0.5)	(6.5)	1.8	66.9
Interest Expense	(293.7)	(297.5)	(194.1)	(80.7)
Earnings before Taxes	(70.4)	8.2	155.6	183.0
Provision for Taxes	(20.4)	(42.1)	(84.8)	(70.6)
Other Income (expense)	0.9	(12.7)	(4.6)	(0.5)
Extraordinary Items	0.0	(3.1)	(17.1)	10.3
Net Earnings	(89.8)	(49.7)	49.0	122.6
Depreciation	132.9	144.8	76.5	
Working Capital*	(186.4)	(201.4)	34.0	
Capital Expenditures	72.2	110.2	70.0	

*Working capital is defined as (Current Assets - Cash - Short-term investments) - (Current Liabilities - Short-term debt)
Source: SEC Filings

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Exhibit 6 QVC Consolidated Statement of Earnings

	Year ended		6 Months ended	
	1/31 1991	**1/31 1992**	**1/31 1993**	**7/31 1993**
Revenues	776.0	921.8	1,070.6	535.7
Cost of Goods Sold	(479.9)	(534.7)	(621.8)	(314.0)
SG & A	(220.4)	(256.1)	(284.0)	(144.1)
Income before Deprcn.& Amort.	75.7	131.1	164.7	77.6
Deprcn. & Amort.	(16.2)	(16.7)	(17.1)	(8.1)
Other Income (expense)	(27.3)	(22.5)	(20.6)	(7.9)
Interest Expense	(49.1)	(39.0)	(18.4)	(0.9)
Earnings before Taxes	(17.0)	52.9	108.7	60.7
Provision(benefit) for Taxes	0.0	31.2	52.1	29.7
Extraordinary Items	0.0	(2.1)	(1.5)	4.0
Net Earnings	(17.0)	19.6	55.1	34.9
Depreciation	46.7	46.5	23.5	
Working Capital*	(6.4)	27.1	62.7	
Capital Expenditures	11.9	21.1	12.2	

* Working capital is defined as
(Current Assets - Cash - Short-term investments) - (Current Liabilities - Short-term debt)

Source: SEC Filings

Exhibit 7 Viacom and QVC Consolidated Balance Sheets

	Viacom			QVC		
	Year ended		6 Mos. ended	Year ended		6 Mos. ended
	12/31 1991	12/31 1992	6/30 1993	1/31 1992	1/31 1993	7/31 1993
ASSETS						
Cash	28.7	48.4	65.0	36.8	4.3	14.6
Total Current Assets	718.2	758.5	947.3	217.0	234.9	289.0
Net PPE	379.8	457.1	484.0	68.9	72.9	78.0
Intangibles	2,637.4	2,658.1	2,638.1	414.6	383.4	364.1
Other Assets	453.0	443.5	413.4	14.0	9.0	18.9
Total Assets	4,188.4	4,317.1	4,482.9	714.5	700.2	750.0
LIABILITIES						
Current Maturities of LT debt	0.0	0.0	0.0	49.7	24.1	3.1
Total Current Liabilities	875.9	911.5	848.3	236.3	227.6	214.8
Long-Term debt	2,320.9	2,397.0	2,475.0	152.5	7.6	7.3
Other Long-Term Liabilities	292.1	252.1	278.5			
Net Worth	699.5	756.5	881.1	325.8	465.1	528.0
Total Liabilities and Net Worth	4,188.4	4,317.1	4,482.9	714.5	700.2	750.0

Source: SEC Filings

Exhibit 8 Stock Market Data (Closing Prices)

		PCI Paramount	VIA Viacom Class A	VIAB Viacom Class B	QVCN QVC	S&P 500
1992	1st Quarter	42.500	37.250	36.500	18.875	403.69
	2nd Quarter	45.375	38.500	36.875	20.500	408.14
	3rd Quarter	45.625	34.875	32.875	18.625	417.80
	4th Quarter	45.000	44.000	41.875	38.875	435.71
1993	1st Quarter	48.875	46.500	44.125	57.000	451.67
	2nd Quarter	54.000	52.625	49.500	63.500	450.53
	July 31	51.750	51.750	46.875	68.500	448.13
	August 30	55.500	62.750	56.750	65.500	463.56
	Dividend	0.800	0.000	0.000	0.000	
Shares Outstanding (millions)		120.0	53.4	67.1	37.7	

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Exhibit 9 Pro Forma Combinations—Paramount–Viacom Combination—Pro Forma Revenues ($ millions)

	Paramount	Viacom	Combined
Entertainment	$2,021	$233	$2,254
Networks	$187	$1,143	$1,330
Cable TV	$0	$421	$421
Broadcasting	$216	$175	$391
Live Entertainment	$634	$0	$634
Publishing	$1,667	$0	$1,667
Total	$4,725	$1,972	$6,697

Paramount–QVC Combination
Pro Forma Revenues ($ millions)

	Paramount	Viacom	Combined
Entertainment	$2,021	$0	$2,021
Networks	$187	$1,200	$1,387
Cable TV	$0	$0	$0
Broadcasting	$216	$0	$216
Live Entertainment	$634	$0	$634
Publishing	$1,667	$0	$1,667
Total	$4,725	$1,200	$5,925

Source: Merrill Lynch Analyst Report, September 14, 1993, and casewriter estimates

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Exhibit 10 Cash Flow Forecasts

PARAMOUNT AS STAND-ALONE COMPANY

	1993 (est.)	1994	1995	1996	1997	1998
Sales	4641.6	4905.0	5264.3	5648.6	6060.0	6500.7
EBITDA	560.5	660.6	737.0	790.8	848.4	910.1
Capital Expenditures		160.1	177.3	176.7	202.9	216.6
Increase in Net Working Capital		45.6	62.1	66.5	71.2	76.2
Depreciation (tax deductible)		162.0	172.0	184.0	196.0	209.0
Asset Sales Proceeds (after-tax)			900			

VIACOM AS STAND-ALONE COMPANY

	1993 (est.)	1994	1995	1996	1997	1998
Sales	2008.0	2173.0	2386.0	2595.0	2826.0	3077.5
EBITDA	538.4	642.0	736.0	825.0	935.7	1059.1
Capital Expenditures		210.9	227.7	228.3	266.1	288.4
Increase in Net Working Capital		5.0	6.4	6.3	6.9	7.5
Depreciation (tax deductible)		181.0	205.0	229.0	246.0	269.0
Est. EBITDA synergies w/ Paramount		134.0	150.0	171.0	216.0	223.0

QVC AS STAND-ALONE COMPANY

	1993 (est.)	1994	1995	1996	1997	1998
Sales	1231.0	1416.0	1628.0	1873.0	2153.0	2476.0
EBITDA	190.0	215.0	255.0	302.0	358.0	422.0
Capital Expenditures		55.0	63.2	72.8	83.6	96.2
Increase in Net Working Capital		9.3	10.6	12.3	14.0	16.2
Depreciation (tax deductible)		47.0	54.0	62.2	71.5	82.2

Source: Paramount Communications 13E3 dated May 25, 1994, and casewriter estimates

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Exhibit 11 Capital Markets Information on September 10, 1993

One-Year Treasury Bills	3.44%
Two-Year Treasury Note	4.00%
Ten-Year Treasury Note	5.68%
Thirty-Year Treasury Bond	6.25%
AA Long-term Debt	7.05%
A Long-term Debt	7.24%
BBB Long-term Debt	7.59%
BB Long-term Debt	9.00%
B Long-term Debt	10.75%
Paramount Equity Beta	1.0
Viacom Equity Beta	1.2
QVC Equity Beta	1.5

Exhibit 12 Summary Comparative Market Data for Selected Entertainment and Media Companies

	Market Value of Total Capital as a Multiple of:	
	Est. 1993 EBITDA	**Est. 1994 EBITDA**
Walt Disney	13.3	12.2
Time Warner	11.2	10.4
Turner Broadcasting	14.8	11.9

Market Value of total capital is the sum of the market value of common stock, preferred stock, and debt less cash and marketable securities.

Source: Paramount Communications 13E3 dated May 25, 1994.

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Exhibit 13 Summary Transaction Value Data for Selected Entertainment and Media Companies

Buyer	Target	Year	Market Value Of Capital to EBITDA
Matsushita	Universal/MCA Studios	1990	16
Time	Warner	1990	12
Sony	Columbia Pictures	1989	22
Turner Broadcasting	MGM Film Library	1987	20

Market Value of total capital is the sum of the market value of common stock, preferred stock, and debt less cash and marketable securities.

Source: Paramount Communications 13E3 dated May 25, 1994.

Exhibit 14 Smith Barney Analysis of Paramount—Discounted Cash Flow Analysis

Values of Total Capital — Debt + Equity
Using Terminal Value Multiples of EBITDA:

		14	15	16
Discount Rates	10.0%	$9,554	$10,152	$10,750
	11.0%	$9,163	$9,736	$10,308
	12.0%	$8,792	$9,341	$9,888

Price per share of common stock
Using Terminal Value Multiples of EBITDA:

		14	15	16
Discount Rates	10.0%	$79.57	$84.55	$89.53
	11.0%	$76.31	$81.08	$85.85
	12.0%	$73.22	$77.79	$82.35

Total Debt	$1,013
Cash	$1,007
Shares outstanding	120

The discounted cash flow analysis calculates after-tax free cash flows to an all-equity firm for five years based on Paramount projections.

The analysis calculates a terminal value by applying an EBITDA multiple to the EBITDA in the fifth and final year of the proejctions.

The analysis then discounts the after-tax free cash flows and terminal value to obtain a value of debt and equity.

Source: Paramount Communications 13E3 dated May 25, 1994, and casewriter adjustments

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Exhibit 15 Smith Barney Analysis of Paramount Public Market Valuations
(The values that Paramount could expect to receive based on comparable publicly traded firms)

	1994 Est. EBITDA	Public Market Trading Multiple of EBITDA		Public Market Trading Value Range		Public Market Trading Value Range with 30% Acquisition Premium	
Entertainment							
Theatrical	$125.0	12	15	$1,500.0	$1,875.0	$1,950.0	$2,437.5
Television	$60.0	11	14	$660.0	$840.0	$858.0	$1,092.0
Stations and Networks							
TV Stations	$65.0	8	10	$520.0	$650.0	$676.0	$845.0
Networks - SciFi	$0.0			$50.0	$75.0	$65.0	$97.5
Networks - USA	$50.0	15	18	$750.0	$900.0	$975.0	$1,170.0
MSG	$24.0			$400.0	$600.0	$520.0	$780.0
Theatres	$45.0	8	10	$360.0	$450.0	$468.0	$585.0
Theme Parks	$90.0	7	9	$630.0	$810.0	$819.0	$1,053.0
Total Entertainment	$459.0	10.61	13.51	$4,870.0	$6,200.0	$6,331.0	$8,060.0
Publishing							
Educational	$154.0	9	11	$1,386.0	$1,694.0	$1,801.8	$2,202.2
Business	$25.0	8	10	$200.0	$250.0	$260.0	$325.0
Consumer	$36.0	10	12	$360.0	$432.0	$468.0	$561.6
International	$33.0	10	12	$330.0	$396.0	$429.0	$514.8
Macmillan	$30.0	12	14	$360.0	$420.0	$468.0	$546.0
Total Publishing	$278.0	9.48	11.48	$2,636.0	$3,192.0	$3,426.8	$4,149.6
Corporate Expenses	($76.4)	5	7	($382.0)	($534.8)	($496.6)	($695.2)
Total Value	$660.6	10.78	13.41	$7,124.0	$8,857.2	$9,261.2	$11,514.4
Equity Value per share				$59.32	$73.76	$77.13	$95.90

Source: Paramount Communications 13E3 dated May 25, 1994.

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Exhibit 16 Smith Barney Analysis of Paramount Private Market Valuation
(The values that Paramount could expect to receive in a private market sale)

	1994 Est. EBITDA	Private Mkt. EBITDA Multiple Range		Private Mkt. Value Range	
Entertainment					
Theatrical	$125.0	16	18	$2,000.0	$2,250.0
Television	$60.0	14	16	$840.0	$960.0
Stations and Networks					
TV Stations	$65.0	10	12	$650.0	$780.0
Networks - SciFi	$0.0			$50.0	$75.0
Networks - USA	$50.0	16	20	$800.0	$1,000.0
MSG	$24.0	29	34	$700.0	$1,000.0
Theatre	$45.0	10	12	$450.0	$540.0
Theme Parks	$90.0	8	10	$720.0	$900.0
Total Entertainment	$459.0	13.53	16.35	$6,210.0	$7,505.0
Publishing					
Educational	$154.0	11	13	$1,694.0	$2,002.0
Business	$25.0	10	13	$250.0	$325.0
Consumer	$36.0	12	14	$432.0	$504.0
International	$33.0	12	14	$396.0	$462.0
Macmillan	$30.0	18.4	23.3	$552.0	$699.0
Total Publishing	$278.0	11.9	14.36	$3,324.0	$3,992.0
Corporate Expenses	($76.4)	5	7	($382.0)	($534.8)
Total Value	$660.6	13.85	16.59	$9,152.0	$10,962.2
Equity Value per share				$76.22	$91.30

Source: Paramount Communications 13E3 dated May 25, 1994.

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Exhibit 17 Some Information on Stockholder Rights

The following is a summary of material differences between the rights of holders of Viacom Common Stock and the rights of holders of Paramount Common Stock. As each of Viacom and Paramount is organized under the laws of Delaware, these differences arise principally from provisions of the charter and by-laws of each of Viacom and Paramount . . .

STOCKHOLDER VOTES REQUIRED FOR CERTAIN TRANSACTIONS

Certain Business Combinations. Viacom's Restated Certificate of Incorporation and By-laws do not contain any supermajority voting provisions or any other provisions relating to the approval of business combinations and other transactions by holders of Viacom Class A Common Stock.

Paramount's Certificate of Incorporation requires the affirmative vote of 80% of the voting power of the then outstanding shares of Voting Stock to approve any merger or other Business Combination, which term includes a merger with an Interested Stockholder, the sale, issuance or transfer of Paramount's assets or securities to an Interested Stockholder in exchange for cash or securities or other property with a fair market value of $25 million or more, the adoption of a plan of liquidation and certain similar extraordinary corporate transactions which would have the effect of increasing the proportionate interest in Paramount of an Interested Stockholder unless (a) the transaction has been approved by a majority of the Disinterested Directors (as defined therein) or (b) the terms of the Business Combination and parties thereto satisfy certain specified tests and conditions.

Paramount's Certificate of Incorporation provides that the affirmative vote of the holders of at least 80% of the voting power of all the shares of Paramount entitled to . . . is required to alter, amend or repeal Article XI, regarding business combinations, or Article XII, regarding the requirement that the holders of Paramount Common Stock can act only at annual or special meetings.

SPECIAL MEETINGS OF STOCKHOLDERS

Viacom's By-laws provide that a special meeting of stockholders may be called by the affirmative vote of a majority of its Board of Directors, the Chairman of the Board, the Vice Chairman of the Board or the President and shall be called by the Chairman of the Board, the Vice Chairman of the Board, the President or Secretary at the request in writing of the holders of record of at least 50.1% of the aggregate voting power of all outstanding shares of capital stock of Viacom entitled to vote generally in the election of directors, acting together as a single class.

Article XII of Paramount's Certificate of Incorporation provides that a special meeting of stockholders may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or by the Chief Executive Officer of Paramount. The affirmative vote of 80% of the voting power of all the shares of Paramount entitled to vote generally in the election of directors, voting together as a single class, is required to alter, amend or repeal Article XII or to adopt any provision inconsistent therewith.

Source: Paramount Communications Proxy Statement, June 6, 1994.