- AT&T agreement—as discussed earlier in the valuation section regarding the TWE partnership, AOL Time Warner and AT&T have a lot of mutually beneficial issues to negotiate. We don't expect an agreement to be hammered out until after the AOL Time Warner merger closes, but there is certainly enough common interest that an agreement should be forthcoming before too long. The interrelated issues on the negotiating table include the following:
  - AT&T needs a cable telephony agreement, which will also prove incremental to the growth of the cable operator.
  - AOL Time Warner wants an open access agreement onto AT&T's cable and wireless assets—AOL Anywhere strategy.
  - AT&T may shed its interest in the TWE partnership in order to meet FCC guidelines regarding cable ownership limits. To be clear, AT&T has six months to decide which FCC alternative it will choose—divest either TWE, Liberty, or cable subs, and accomplish the chosen scenario within one year. As shown in the valuation section, the TWE partnership creates a complicated corporate structure, one that investors would prefer to see simplified. The value of AT&T interest in TWE will be a hot topic—we value it at almost $14 billion.
  - Ownership of the RoadRunner high-speed Internet service, which AT&T is also forced to sell given its ownership of Excite@Home.
  - Agreements for joint-marketing and bundling of services—for example, one bill for cable services, telephony, wireless, and AOL.

Growth, value, and identifiable catalysts—this is a company to own. We recommend aggressive purchases. At current levels, we are largely indifferent regarding which of the two companies to buy since Time Warner is trading at only a 2% discount to the exchange ratio of 1.5 AOL shares for each Time Warner share. We look for almost 50% upside from current levels with a price target of $80 per share for the combined company (equivalent to $120 per share for Time Warner standalone). The shares of AOL and Time Warner are both rated 1.

DETAILS OF THE PROPOSED MERGER

Terms

- Exchange of 1.5 shares of AOL for each share of Time Warner
- No collar
- AOL stock survives with the combined company renamed AOL Time Warner
- AOL shareholders will own 55% of the new company; Time Warner shareholders 45%
- Deal is expected to close in the fall, following regulatory and shareholder approval

Management

- Sixteen-member board, split equally between AOL and Time Warner
- Steve Case, chairman
- Gerald Levin, CEO, running the company on a daily basis
- Ted Turner, vice chairman and senior advisor
- Bob Pittman, co-chief operating officer – responsible for subscription service as well as advertising and commerce-based businesses. These include AOL, cable, publishing, cable networks, and the WB Network.
- Dick Parsons, co-chief operating officer – responsible for content-based businesses, including filmed entertainment, music and books, as well as the corporate functions of legal and personnel development.
- Kenneth Novack, vice chairman
- Richard Bressler, CEO of AOL Time Warner Investment Corporation
- Michael Kelly, CFO
- Four-person integration committee, composed of Bob Pittman, Dick Parsons, Kenneth Novack, and Richard Bressler.
- AOL and Time Warner both have a bench of divisional operating heads, all of whom will remain following the merger.

BUSINESS DESCRIPTIONS

More in-depth detail by division

The following segment of this report is intended to provide some greater detail on AOL Time Warner's individual divisions. It is not comprehensive by any means, especially since the dynamics and outlook of each respective business are discussed in the industry section of this report. Following this section, the report concludes with the outlook for the upcoming quarter and investment risks.

AOL—Arguably One Of The Best Brands On The Internet

Overview — Dominant Market Share, Strong Growth, and Powerful Advertising Model

Strong economics in the ISP business if you're AOL

AOL is arguably the most-powerful brand in the Internet space. The company "owns" the highly attractive, premium segment of the Internet service market. When most people think of Internet access, they automatically think of AOL. The company has more than 50% of the online market, and the market itself if growing rapidly. It is estimated that 35-40 million homes will be online by the end of the year, up about 7-8 million from last year. AOL's branded service alone (not counting Compuserve or Gateway) is expected to add more than 5 million subscribers in 2000 — the company's market share is tremendous.

Some skeptics have historically argued that the ISP business is less than attractive; after all, why would consumers pay for something that they can get for free from the new free ISPs, such as NetZero, that have sprung up? AOL and free ISPs appeal to very different segments of the market. In some ways, they are not even competitors. AOL provides subscribers with more than just access to the Internet. It offers the content and "community" that subscribers find so entertaining and convenient. As evidence, of the 64 minutes per day that the average subscriber spends online (which is up from 46 minutes only two years ago), more than 80% is spent within AOL's proprietary service. Moreover, the prospect of changing e-mail addresses, not to mention the addictive nature of the chat rooms and buddy lists, makes switching costs very high. The AOL Anywhere strategy is to provide the same quality and consistency of service across all devices and means of access — the computer, television, cell phones, organizers, appliances, etc. Of course, the goal is to engrain the service even further as a necessary and entertaining tool for communicating and organizing one's life. In contrast, free ISPs operate in the far less desirable value segment of the market. They are geared toward customers looking for a very different experience and service than the typical AOL subscriber — bare bones access, nothing fancy, and often not very reliable, in our experience. Nevertheless, AOL has its Netscape and CompuServe brands to compete in the value segment of the market. As an aside, we are not convinced that free ISPs will even be around in the long run; the economics are poor for other ISPs under an advertising-only model. In Europe, free ISPs get a cut of the metered phone call, thereby making the model more supportable (although that may be changing with a shift to flat rate plans for data calls). However, no such compensation exists in the United States, where most of the country is on a flat rate plan.

On the contrary, the economics for AOL are impressive. Of the $21.95 per month charged for unlimited access AOL branded service, about $12 per month pays for telecommunication access fees (about $10.50) and billing (about $1.50). That leaves $10 per month as compensation to AOL for its content and community services. With nearly a 50% gross margin, this $10 per month is quite lucrative. Understandably, AOL is actively ensuring that it continues to make this profit in the access business by providing ubiquitous service regardless of the means of access. As discussed earlier, gaining access to cable broadband is certainly a significant benefit of the merger. The prospect of losing that $10 per month as some customers migrated over time to cable modems was not a pleasant scenario. Now the prospect is quite different — what ISP would want to compete against the AOL brand in an open access world?

Therefore, our conclusion is that AOL's service is a good business even before considering the advertising revenue that the company generates. AOL has a total of about 26 million subscribers around the world, making it practically a must-buy for many advertisers. AOL's advertising revenue is about three times larger than the next biggest Internet portal, Yahoo!. As is true for other advertising mediums, size matters and usually breeds success. AOL is one of the best ways to reach a broad audience on the Internet while still targeting highly attractive demographics. This is especially true given the large amount of captive time that subscribers spend on AOL's proprietary service. The company's advertising and e-commerce backlog currently stands at $2.7 billion, up from $2.4 billion and $700 million at the end of 1999 and 1998, respectively. This number is consistently vetted to eliminate any advertising contacts that may be in jeopardy. As a result, we judge the risk to the company's advertising revenue stream as minimal, even in light of the recent gyrations among Internet stocks.

We Project 50% EBITDA Growth, On Average, Between 1999-2002E — Before Synergies

Table 8: AOL Projections (Before Synergies)—1998–2002E ($ In Millions)

	1998	1999	2000E	2001E	2002E	% Change 1999	% Change 2000E	% Change 2001E	% Change 2002E
Revenues:									
Subscription Services	$2,765	$3,874	$5,050	$6,325	$7,682	40%	30%	25%	21%
Advertising, Commerce and Other	725	1,368	2,460	3,749	5,399	89%	80%	52%	44%
Enterprise Solutions	357	476	519	560	605	33%	9%	8%	8%
Total Revenues	3,847	5,718	8,029	10,634	13,686	49%	40%	32%	29%
Cost of Revenue	2,252	3,055	4,111	5,291	6,603	36%	35%	29%	25%
Cost of Revenue as % of Revenue	59%	53%	51%	50%	48%				
Sales & Marketing	670	872	1,123	1,482	1,778	30%	29%	32%	20%
Product Development	267	290	339	423	529	9%	17%	25%	25%
General & Administrative	290	410	528	687	893	41%	29%	30%	30%
Amortization of Goodwill & Other Intangibles	48	68	72	72	72	42%	6%	0%	0%
Acquired In-Process R&D	80	-	-	-	-				
Merger, Restructuring and Contract Termination Charges	50	98	-	-	-				
Settlement Charges	18	-	-	-	-				
Income (loss) from Operations	**$172**	**$925**	**$1,856**	**$2,680**	**$3,810**	**438%**	**101%**	**44%**	**42%**
EBITDA	**$409**	**$1,241**	**$2,281**	**$3,193**	**$4,458**	**203%**	**84%**	**40%**	**40%**
EBITDA Adjusted for Non-Recurring Items	**$557**	**$1,364**	**$2,281**	**$3,193**	**$4,458**	**146%**	**67%**	**40%**	**40%**
EBITDA Margin	14.5%	23.9%	28.4%	30.0%	32.6%				
Operating Income Margin	4.5%	16.2%	23.1%	25.2%	27.8%				
Additional Information:									
AOL Subscribers at Period End	15.1	20.5	26.0	31.5	36.5	36%	27%	21%	16%
AOL Subscribers Added During the Period	4.4	5.4	5.5	5.5	5.0	24%	1%	0%	-9%
CompuServe Subscribers at Period End	2.2	2.5	3.1	3.6	4.1	14%	24%	16%	14%
CompuServe Subscribers Added During the Period	2.2	0.3	0.6	0.5	0.5	-86%	100%	-17%	0%
Customer Solutions/Gateway Subscribers at Period End	0.0	0.7	1.1	1.3	1.6		42%	24%	19%
Customer Solutions/Gateway Subscribers Added During the Period	0.0	0.7	0.3	0.3	0.3		-58%	-19%	0%
Total Subscribers at Period End	**17.3**	**23.8**	**30.2**	**36.4**	**42.2**	**37%**	**27%**	**21%**	**16%**
Total Subscribers Added During the Period	6.6	6.5	6.4	6.3	5.8	-2%	-1%	-2%	-8%
Average Subscribers	14.5	20.0	26.9	33.3	39.3	38%	34%	24%	18%
U.S. Subscribers at Period End	14.5	19.8	24.9	29.9	34.4	37%	26%	20%	15%
Average U.S. Subscribers	12.4	16.9	22.2	27.4	32.1	37%	31%	23%	17%
International Subscribers at Period End	2.8	4.0	5.3	6.6	7.8	42%	34%	24%	19%
Average International Subscribers	2.3	4.0	5.3	5.9	7.2	75%	34%	12%	21%
Monthly Subscription Revenue/Average U.S. Subscriber	$18.65	$19.12	$18.95	$19.27	$19.94	3%	-1%	2%	3%
Monthly Advertising Revenue/Average Total Subscriber	$4.17	$5.70	$7.62	$9.39	$11.46	37%	34%	23%	22%

Source: Company reports and First Union Securities, Inc., estimates
Note: AOL has a June fiscal year end. However, to ease comparability, earnings are presented on a calendar year end basis. This consistent with the merged company's planned fiscal year. In contrast to the company's definition, our EBITDA calculation does not include "Other Income."

Strong top-line growth and improving EBITDA margins

Growth at AOL is driven by the company's dominant market share of the fast-growing online universe. We look for total subscribers to grow from 24 million at the end of 1999 to more than 30 million this year. AOL branded subscribers should increase by more than 25%, to 26 million.

Pricing on the subscription service is expected to grow in the low-single-digit rate area, primarily driven by new services, such as AOL TV and cable broadband access. Please note that the margin on cable modem subscribers will be lower than telephone dial-up service since the $40 per month charge to the consumer will likely be split $10 to AOL and $30 to the cable operator. Remember that AOL's goal is to maintain the $10 per month, not necessarily the 50% gross margin. Nevertheless, the total gross margin should still improve over time as the impact from cable modems is easily offset by contracted rate declines in the variable cost of telecommunication network fees. The access fee is currently $0.33 per network hour and is expected to decline to about $0.20 per hour in approximately two years. Usage will surely increase during this time frame, but the net effect should still be a 1-2 percentage-point improvement in the gross margin per year for the next few years.

Meanwhile, revenue from advertising and commerce is expected to grow by more than 50%, on average, between 1999-2002. As a result, with total revenue showing average growth of more than 30%, along with a material improvement in margins, we look for EBITDA to increase by more than 65% in 2000 and about 40-45% in 2001 and 2002 on a standalone basis. Even better, synergies from the merger should boost EBITDA to about 60% growth in 2001, primarily reflecting cross-selling of advertising, cross-promotional opportunities, and cost savings from the distribution of AOL disks. Accounting for about 32% of AOL Time Warner's total EBITDA after synergies in 2001, AOL is a powerful growth driver for the combined company.

Cable Networks—An Excellent Business With Strong Growth

Overview – One Of The Leaders Of The Industry

Almost 20% of AOL Time Warner's total EBITDA in 2001

As discussed in the industry section of this report on page 18, the cable network business is arguably one of the best businesses in the media and entertainment industry. In general, cable networks benefit from strong top-line growth, some insulation against economic downturns given its dual revenue stream, 20-40% EBITDA margins depending on the ratings success and programming requirements, and virtually no capital expenditures.

AOL Time Warner is one of the leaders in the industry, accounting for about 25% of total basic cable viewing (about 30% of advertising revenue). The division includes the Turner cable networks and HBO, which consists of the following widely recognized brands:

- CNN, cable television's leading news network reaching approximately 73 million subscribers
- TBS – more than 78 million U.S. subscribers
- TNT – more than 77 million U.S. subscribers
- Cartoon Network – more than 60 million U.S. subscribers
- Turner Classic Movies – more than 35 million U.S. subscribers
- Turner South – launched in October 1999
- Boomerang – launched in April 2000
- HBO and Cinemax, reaching 36 million U.S. homes and 12 million viewers internationally

Outlook – We Project 19% EBITDA Growth, On Average, Between 1999-2002E

Table 9: Cable Networks Breakdown—PF1998–PF2002E ($ In Millions)

	1998	1999	2000E	2001E	2002E	% Change 1999	% Change 2000E	% Change 2001E	% Change 2002E
Revenues:									
Cable Networks - TBS	$3,325	$3,942	$4,695	$5,640	$6,677	18.6%	19.1%	20.1%	18.4%
HBO	2,052	2,169	2,345	2,566	2,801	5.7%	8.1%	9.4%	9.2%
Total Revenue	5,377	6,111	7,040	8,206	9,478	13.7%	15.2%	16.6%	15.5%
EBITDA:									
Cable Networks - TBS	799	973	1,144	1,439	$1,729	21.8%	17.6%	25.8%	20.1%
HBO	477	556	636	732	839	16.6%	14.5%	15.0%	14.7%
Total EBITDA	$1,276	$1,529	$1,780	$2,171	$2,568	19.8%	16.4%	21.9%	18.3%
EBITDA Margins:									
Cable Networks - TBS	24.0%	24.7%	24.4%	25.5%	25.9%				
HBO	23.2%	25.6%	27.1%	28.5%	30.0%				
Total Cable Margins	23.7%	25.0%	25.3%	26.5%	27.1%				

Source: Company reports and First Union Securities, Inc., estimates.

Cable networks are a consistent driver of strong growth

As shown in the table above, we estimate that Cable Networks will generate $2.6 billion in EBITDA in 2002, double the $1.3 billion reported in 1998. The strength of the advertising market has been a critical driver of success at the Turner cable networks. A strong up-front market for advertising sales provides visibility for continued strength into 2001. On a normalized basis, we look for high-teens EBITDA growth at the Turner cable networks and 15% EBITDA growth at HBO. Growth is fairly consistent year over year, although quarterly variations can occur. For example, the second quarter of this year should report 15% EBITDA growth at the Turner cable networks, primarily reflecting the near-term increase in programming costs for sports, along with the cost of revamping World Championship Wrestling. These near-term factors should be offset by the tremendous strength of the advertising market on a full-year basis. Synergies from the merger should boost EBITDA growth above 20% in 2001, primarily reflecting the upside from cross-selling of advertising on the cable network's branded websites. We look for EBITDA to grow at a high-teens rate in 2002.

Publishing—Consistently Delivers Double-Digit EBITDA Growth

Overview – Leveraging Key Brands And Managing Costs

About 9% of AOL Time Warner's total EBITDA in 2001

AOL Time Warner is in the enviable position of having many of the most widely recognized brands in the industry – *Time, People, Sports Illustrated, Fortune, Entertainment Weekly*, and *In Style*, just to name a few. These assets provide the company with the means of launching new magazines as brand extensions with far less risk than would otherwise be the case. For example, the off-shoot, *Teen People*, was launched in 1998 and has already tripled its rate base to 1.5 million readers in 2000. With more than 20% of the consumer magazine industry's total revenue, and some of the highest margins in the business (averaging over 16% in 1999), Time Inc. is one of the leaders of the industry.

Synergies of the merger will improve already-strong economics

We expect the merger with AOL to further improve the company's already-strong economics. By leveraging AOL's 26 million subscribers, new launches can be tested at less cost and with a greater chance of success. We also expect the combined company to encourage customers to renew their subscriptions online automatically, using a credit card number that AOL already has on file. The combination of these two initiatives should lead to higher renewal rates, lower subscriber acquisition and mailing costs, and substantially reduced risk over time. We also expect that AOL's relationships with online advertisers should significantly boost the revenue at Publishing's branded websites. Furthermore, by more aggressively packaging magazines with the company's other products and services (i.e., three free months of *Time* for AOL subscribers), some increase in the number of subscriptions can be expected.

We Look for 12-13% Long-Term EBITDA Growth, Synergies Should Boost 2001

Table 10: Publishing Projections—PF1998-PF2002E ($ In Millions)

						% Change			
	1998	1999	2000E	2001E	2002E	*1999*	*2000E*	*2001E*	*2002E*
Publishing Revenue	$4,496	$4,663	$4,608	$5,054	$5,398	*3.7%*	*-1.2%*	*9.7%*	*6.8%*
Publishing EBITDA	687	760	858	1,039	1,171	*10.6%*	*12.9%*	*21.0%*	*12.7%*
Publishing Margin	*15.3%*	*16.3%*	*18.6%*	*20.5%*	*21.7%*				

Source: Company reports and First Union Securities, Inc., estimates

Fueled by the strength of the brands, and complemented by new magazine launches, we generally expect Publishing to show high-single-digit advertising gains and low-single-digit circulation growth. The result is top-line revenue growth in the 5-6% area. By managing costs, the company has been able to translate this into 11-13% EBITDA growth for years. Taking advantage of the company's online capabilities should allow Publishing to continue to expand margins over time. We look for 13% EBITDA growth in 2000. Synergies from the merger are expected to boost growth to around 21% in 2001 – in particular, boosting online sales at the branded websites should offer low-hanging fruit. More normalized 13% EBITDA growth should follow thereafter.

Warner Music Group—Soon to Become Warner EMI Music

Overview – Only 5% of Total AOL Time Warner EBITDA

Music... a fundamentally good business

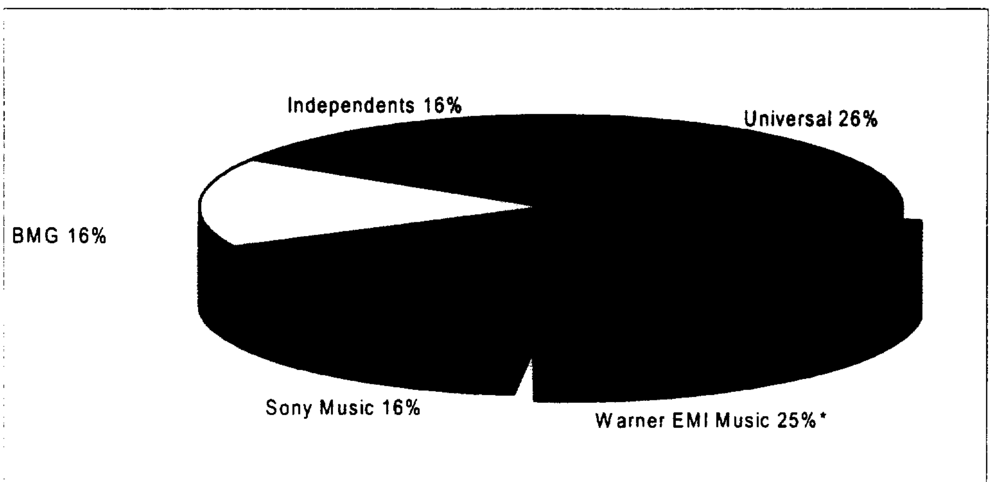
As discussed in detail in the industry section on page 28, we consider the music business to be a good one. The industry offers modest growth, diversified risk, a manageable cost structure, and generates significant free cash flow. Moreover, there is the potential for the Internet to substantially accelerate growth as industry leaders, such as Gerald Levin and Edgar Bronfman, Jr., have predicted. In our view, the impact of the Internet should be noticeable, but not earth-shattering. We estimate 1-2% annual incremental growth in the United States over the next five years; less than 1% worldwide. Of course, we could easily be wrong to be so conservative but, regardless, music is a strong business.

As mentioned when we explained our projections earlier in this report, our numbers are not pro forma for the proposed joint venture between Warner Music and EMI. The information is not readily available to do a complete set of pro forma numbers since the companies have different fiscal years. Moreover, it would add a level of complexity that is not really necessary at this point in time since it is a 50/50 joint venture, and the two entities are of roughly similar size. However, it should again be noted that our numbers for AOL Time Warner are inherently conservative; they do not include the cost savings that are expected from the joint venture in music. The joint venture is expected to close after the AOL Time Warner merger. Nevertheless, it is important to understand the deal...

Joint venture to form Warner EMI Music

The joint venture between Warner and EMI makes good strategic sense. Warner's music operations are weak internationally (and, recently, in the United States as well), while EMI has a stronger international presence. Warner's market share of total albums in the United States was 15.8% in 1999; EMI's was only 9.5%. The merger combines the fourth- and fifth-ranked players into the No. 2 player with 25.2% market share (still behind Universal with 26.4%). International market share data is difficult to come by, but we estimate that Warner EMI will have just over 20% market share globally (again, right behind Universal). These rankings are based on recorded music.

Chart 4: U.S. Market Share Of Total Albums Sold—1999



Source: Soundscan
* Pro forma for Warner Music and EMI announced joint venture

In terms of total revenue, the combined music company would have generated more than $8 billion in 1999, by far the largest in the industry since EMI and Warner also include the No. 1 and No. 2 music publishing operations—a high margin, annuity-like business. Companies will debate over who is bigger based on various metrics, but the point is that Warner EMI will have tremendous scale both in terms of recorded music and music publishing (assuming regulators do not require the company to shed some of the music publishing assets).

Economies of scale lead to significant cost savings

As a result of the combined company's scale, Warner EMI should be able to generate significant cost savings in a relatively short period of time. As a reminder, Universal is on track to save at least $300 million in EBITDA within three years of the closing of PolyGram. Universal's margins are estimated to approach 19% in FY2001 (fiscal year June). In contrast, EMI's margins are only 14% – despite roughly 30% of its EBITDA coming from music publishing, which has about a 30% EBITDA margin. Warner Music's EBITDA margins are also only about 14%. As a result, there is significant room for improvement here. The company estimates $400 million in cost savings a few years after closing the joint venture. We believe that could be conservative since music publishing should allow the venture to show margins that are at least as high as Universal. We will have to wait and see.

The impact of synergies

Cross-promotional opportunities with AOL should also boost the growth rate for music, although we expect the impact of that alone to not be especially material – Warner EMI may have 25% of the U.S. music market, but AOL still needs to provide its subscribers with 100% of the industry's product. However, the music industry as a whole should benefit from AOL potentially accelerating the speed of consumer acceptance of digital downloading. More importantly, we believe that the bigger synergy for music comes from eliminating a potential threat to the music industry. AOL was in the position of pushing whatever digital format of music that was best for the consumer. Now, with ownership of one of the largest music companies in the world, we suspect greater diligence will be made to push consumers to use a format that is more protective of copyrights. This is clearly an un-quantifiable synergy.

Outlook – We Project Low-Double-Digit EBITDA Growth In 2001 And 2002

Table 11: Warner Music Group Projections (Pre-Joint Venture With EMI)—PF1998–PF2002E ($ In Millions)

						% Change			
	1998	1999	2000E	2001E	2002E	*1999*	*2000E*	*2001E*	*2002E*
Warner Music Revenue	$4,025	$3,834	$3,886	$4,155	$4,422	*-4.7%*	*1.4%*	*6.9%*	*6.4%*
Warner Music EBITDA	536	523	539	601	665	*-2.4%*	*3.1%*	*11.4%*	*10.8%*
Warner Music Margin	*13.3%*	*13.6%*	*13.9%*	*14.5%*	*15.0%*				

Source: Company reports and First Union Securities, Inc., estimates

As alluded to in the above discussion, Warner Music Group has had a difficult past few years. Softness in profitability was originally attributed, by the Street, to the weakness in certain international markets, such as Japan, Brazil, and Germany. Undoubtedly, this was partially to blame, but the bigger impact came from losing market share to Universal in the United States (Warner's historical base of strength). This is the entertainment business, and it is fair to expect companies to go through cycles. Warner Music has been bouncing along the bottom of one such valley for a couple of years now. Performance in the June quarter shows signs that the music operations are reaching a turning point, and we are encouraged to see that the release schedule in the second half of the year looks somewhat improved. Nevertheless, it is best to be conservative with expectations for music growth. We look for low-single-digit growth in EBITDA in 2000, followed by a boost in 2001 from merger synergies to 11% growth. Again, this is on a stand-alone basis before considering the joint venture with EMI.

Filmed Entertainment—A Leader In Both Film And Television Production

Overview

As discussed in detail in the industry section on page 41, we view the production of motion pictures as a difficult business, on a standalone basis, generating returns that often do not compensate for the inherent risk. Nevertheless, current production offers strategic benefits to the company as a whole by acting as a locomotive for improving the value of the library and filling the distribution pipe. The Warner Bros. and New Line studios, in total, have about 5,700 feature films and 32,000 television titles—strong assets to leverage across AOL Time Warner's distribution network.

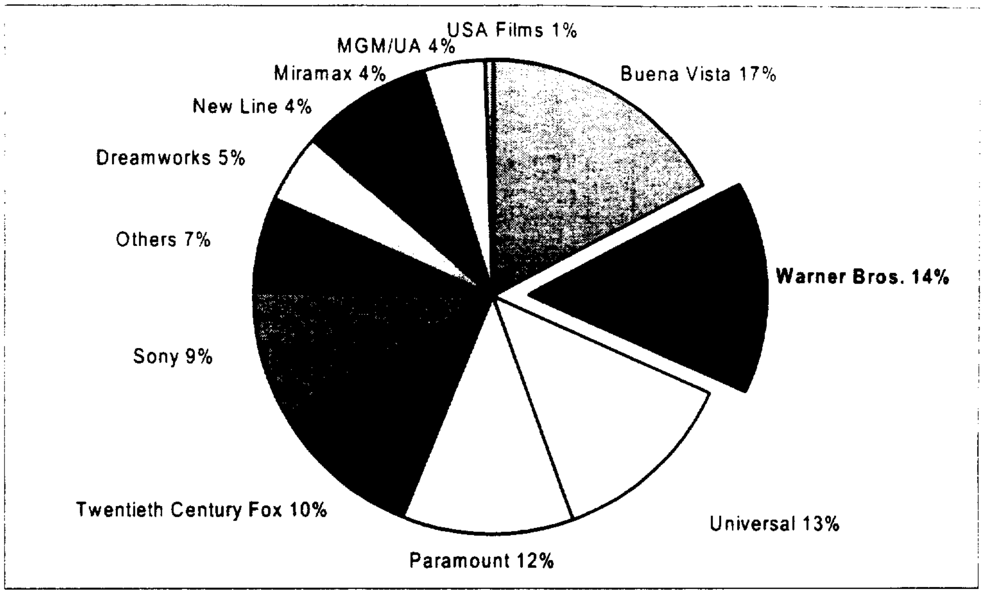
The trick to running the film studio is to intelligently manage the capital employed and diversify risk. Historically relying on high-priced star power, Warner Bros. is now actively managing a diverse slate of 20-25 movies per year, including many co-financed and distribution-only deals. In our view, the upcoming films to keep an eye on include *The Perfect Storm*, *Pokemon 2*, *The Red Planet*, *Harry Potter* (November 2001), and *Lord of the Rings* (a New Line production for the end of 2001).

Table 12: Warner Bros. Film Release Schedule

1999	*Analyze This*	February 26,1999
	The Matrix	March 31, 1999
	Austin Powers: The Spy Who Shagged Me (New Line)	June 11, 1999
	Wild Wild West	June 30, 1999
	Eyes Wide Shut	July 16, 1999
	Deep Blue Sea	July 30, 1999
	Pokemon: The Movie	November 12, 1999
	The Green Mile	December 17, 1999
2000	*Magnolia (New Line)*	January 7, 2000
	Boiler Room (New Line)	February 18, 2000
	The Whole Nine Yards	February 18, 2000
	Romeo Must Die	March 24, 2000
	Love And Basketball (New Line)	April 12, 2000
	Battlefield Earth	May 12, 2000
	The Perfect Storm	June 30, 2000
	In Crowd	July 21, 2000
	Pokemon 2	July 21, 2000
	Space Cowboys	August 4, 2000
	Bait	August 11, 2000
	The Replacements	August 25, 2000
	The Art Of War	September 8, 2000
	Chain Of Fools	September 15, 2000
	Play It Forward	October 6, 2000
	Best In Show	October 13, 2000
	Get Carter	October 20, 2000
	Red Planet	November 10, 2000
	13 Ghosts	December 8, 2000
	Proof Of Life	December 15, 2000
	Miss Congeniality	December 22, 2000
	The Pledge	Holiday
2001	*Osmosis Jones*	Future
	Metal God	Future
	See Spot Run	Future
	Sweet November	Future
	Angel Eyes	Future
	Collateral Damage	Future
	Summer Catch	Future
	A.I.	Future
	Lord Of The Rings (New Line)	October
	Harry Potter	November

Source: ACNielson and Company data

Chart 5: Major Studio Market Share—1999



Source: ACNielson data

The real driver of profitability at the studio is television production. The company enjoys an annuity-like stream of revenue from hit network series, including *Friends*, *ER*, *The Drew Carey Show*, and *Seinfeld*, as well as top first-run syndicated shows, such as *Rosie O'Donnell*. The company does not break out details of the Filmed Entertainment division, but we estimate that about 60% of EBITDA is derived from television production. The other 40% is split between film and consumer products. While it is difficult to grow the television business off of such a high base, modest growth should be achievable over time given pricing increases in the syndication market and barter advertising sales. In addition, the studio is still one of the top suppliers of new series, delivering seven new shows and 11 returning series in the upcoming network season.

Synergies of the merger with AOL are expected to be primarily strategic in nature, allowing AOL to accelerate the supply of interactive content. Nevertheless, there should also be some modest operating efficiencies as AOL spurs some incremental revenue and marketing-cost savings through cross-promotional opportunities.

Outlook – Estimated To Account For About 10% Of Total EBITDA

Table 13: Filmed Entertainment Breakdown—PF1998–PF2002E ($ In Millions)

	1998	1999	2000E	2001E	2002E	% Change 1999	2000E	2001E	2002E
Revenues:									
Warner Bros.	$6.061	$6.628	$7.168	$7,710	$8,263	9.4%	8.2%	7.6%	7.2%
Filmed Entertainment - TBS	1.917	1.447	1.514	1.614	1.715	-24.5%	4.6%	6.7%	6.2%
Total Revenues	7.978	8.075	8.682	9.324	9.978	1.2%	7.5%	7.4%	7.0%
EBITDA:									
Warner Bros.	669	731	745	855	940	9.3%	2.0%	14.7%	10.0%
Filmed Entertainment - TBS	198	216	226	259	284	9.1%	4.9%	14.6%	9.5%
Total EBITDA	$867	$947	$972	$1.114	$1,225	9.2%	2.6%	14.6%	9.9%
EBITDA Margins:									
Warner Bros.	11.0%	11.0%	10.4%	11.1%	11.4%				
Filmed Entertainment - TBS	10.3%	14.9%	15.0%	16.1%	16.6%				
Total Filmed Entertainment Margin	10.9%	11.7%	11.2%	11.9%	12.3%				

Source: Company reports and First Union Securities, Inc., estimates
Note: 1999 Warner Brothers line excludes a $215 million gain from video distribution settlement with MGM, $97 million for the sale of 10% interest in Canal Satellite, and a non-cash charge of $106 million relating to the WB retail store.

As shown in Table 13 above, which has been adjusted for a $215 gain on the termination of a video distribution agreement with MGM and other non-recurring items, we look for Filmed Entertainment to generate EBITDA of $972 million this year, up 3% from 1999. The first quarter of 2000 showed strong gains at New Line, but the second and third quarters will both face difficult comparisons. The June quarter of last year had the hit *Austin Powers: The Spy Who Shagged Me* at New Line, and the September quarter of 1999 was boosted primarily by the syndication of *The Drew Carey Show*. This year's production of further episodes of *Friends* and *Drew Carey*, along with tremendous strength in barter syndication, should only partially offset last year's high hurdle. As a result, we expect EBITDA to be up only in the low-single-digit area. Normalized EBITDA growth is projected to be around 10% going forward, although 2001 may see further upside as synergies from the merger are included.

WB Network—We Project Breakeven In 2002; Network Is A Small Piece Of The Combined Company

The WB Network has suffered a minor setback for the coming year; ratings are down 17% season to date. As a result, the network only took in about $425 million in the upfront advertising market, versus $450 million last year. However, since it held back some inventory, hoping for better ratings for the scatter market, it is probably reasonable to assume that unit prices were flat in the upfront market for primetime programming. We assume that with programming for the other day-parts up 10%, and scatter pricing up 15%, the network should still be able to increase revenue for 2001 in the high-single-digit area. The company's original hope was for breakeven in 2000. We now think that is probably two years away, although it is largely inconsequential for a company the size of AOL Time Warner.

Table 14: WB Network Breakdown—PF1998–PF2002 ($ In Millions)

	1998	1999	2000E	2001E	2002E	% Change 1999	2000E	2001E	2002E
WB Network Revenue	$260	$384	$453	$495	$588	47.7%	18.1%	9.2%	18.7%
WB Network EBITDA	(92)	(91)	(58)	(18)	44	-1.1%	-36.5%	-68.0%	-337.3%

Source: Company reports and First Union Securities, Inc., estimates.

Cable—New Services Will Drive Growth, Strong Strategic Value

Overview

An above-average business given strong potential of new services

As discussed in detail in the industry section on page 35, a few years ago we would have characterized cable as only a fair business given its high capital intensity. Today, the power of cable's growth prospects as the preferred conduit for reaching the consumer justifiably bumps it up a notch or two to an "above average" business. This view is based on the growth and free cash flow prospects for the underlying business, not including the strategic value that it holds for AOL. We have already discussed several times throughout this report how owning cable is a major synergy of the merger—it prevents the potential erosion of AOL's subscription revenue by stimulating commercially negotiated open access and expanding the reach of content and community across higher-bandwidth users. Here, we will focus the discussion on the underlying fundamentals for Time Warner cable.

First, the facts. Time Warner cable includes 12.6 million subscribers, reaching about 20% of the country (20.6 million homes passed). The subscribers are held within different areas of the corporate structure. Of the 12.6 million subscribers, 10.9 million are consolidated and 1.7 million are off-balance-sheet. Of the 1.7 million in off-balance-sheet subscribers, 1.2 million are held within the TWE-Advance/Newhouse partnership (of which Advance/Newhouse owns 33%) and the remainder are in the TWE partnership. Of the 10.9 million consolidated subscribers, 1.8 are held at the Time Warner corporate level, while the bulk (9.1 million subscribers) are held within the TWE partnership. Of the 9.1 million subscribers within TWE, 5.5 million are embedded within the TWE-Advance/Newhouse partnership. Confused? If so, that's fine. We provide the detail just in case the reader wants to understand the numbers behind our net asset value analysis.

We look for 12-13% revenue growth before making any assumptions for cable telephony or synergies

The cable industry is less about traditional video services than it is about offering consumers enhanced video (more channels and video on demand), data (high-speed Internet access and e-commerce), and voice (cable telephony) services. As a point of evidence, many of the biggest investors in cable—not just AOL, but also AT&T and Microsoft—view the cable pipe as a means to an end. This is certainly true for AOL Time Warner's cable system, which is more capable of offering non-traditional services than any other competitor, since it is further along with its upgrade to 750 Mhz. The upgrade was 85% complete at the end of 1999 and is expected to be finished by the end of this year (after which, capital spending is presumed to come down to about $1.6 billion in 2001).

There are a number of factors that contribute to our 12-13% revenue projection for Cable (see Table 15 for details):

- Basic subscribers are expected to grow between 1.5-2.0% over the next few years.
- Pricing increases on basic cable service are projected at about 5% going forward. In contrast, pricing increases have been in the high-single digits in recent years. However, Time Warner is now less reliant on basic price increases as its new services roll out. It also helps to keep pricing increases modest to avoid regulatory problems and to remain competitive against satellite service providers.
- These first two factors are estimated to contribute between 5-6% to Cable's revenue growth rate over the next three years. (Note that the math does not work to simply add subscriber growth and basic pricing growth since these traditional services will account for a declining percentage of total Cable revenue.)

Traditional cable contributes 5-6% growth

- Local advertising on the company's cable systems is estimated at about $675 million this year. This is likely to be conservative since we simply took 20% of our estimate for the total cable industry's advertising (to match AOL Time Warner's percentage of homes passed). This source of revenue should continue to see strong double-digit growth given the strength of the overall advertising market, as well as the benefits of geographic clustering (which makes advertising buys easier). This contributes about 1-2% to Cable revenue growth.

Advertising contributes 1-2% growth

- Digital set-top box subscribers are estimated to grow from 430,000 at the end of 1999 to 1.75 million at the end of this year. Digital subscribers could approach 5 million by the end of 2002, representing roughly 25% penetration of homes passed. These digital set-top boxes will offer not only more channels, but also an electronic program guide and, eventually, true interactive television services, such as video-on-demand (VOD) and e-commerce. We assume an incremental $12 per subscriber in the near term to account for the cost of the box (which gets spread over all cable subscribers), the electronic program guide, and the charge for the digital-tier channels. Over time, this should increase as subscribers spend more on pay-per-view viewings and, eventually, interactive services. We estimate that digital set-top boxes contribute 3%-4% to Cable's revenue growth rate.

Digital set-top boxes contribute 3-4% growth

- High-speed Internet access cable subscribers are projected to more than double this year from the 330,000 cable modems at the end of 1999. Subscribers are expected to increase to 1.7 million by the end of 2002, reflecting 9% penetration of homes passed. Having AOL as a partner to spur demand is clearly a long-run benefit, but since the immediate bottleneck is installation speed (not demand), we are assuming no material near-term synergies of the merger for cable modems. Assuming the cable operator will retain roughly three-quarters of the estimated $40 per month subscriber charge over time, we project that high-speed Internet access should contribute 2%-3% to the company's Cable revenue growth rate.

Cable modems contribute 2-3% growth

- These five factors should lead to 12-13% growth for Cable over the next three years. This does not include the impact of cable telephony, which is on the negotiating table with AT&T. It is premature to build telephony revenue into our model at this stage. However, it is probably fair to say that it would likely be a disappointment if cable telephony did not contribute a couple of percentage points of growth to Cable's growth rate starting in a few years. As a result, while growth would normally start to decline slightly in 2003-2004, telephony should keep Cable revenue growth at least in the 12-13% area (or perhaps higher). We will wait and see.

Cable telephony is additive but unclear at this point

Table 15: Breakdown Of Cable Projections (Pre-Synergies)—1998–2002E (In Millions)

	1999	2000E	2001E	2002E
Traditional Cable	$4,709	$5,039	$5,366	$5,715
Traditional Cable Growth		*7.0%*	*6.5%*	*6.5%*
Cable Advertising	569	674	775	892
Cable Advertising Growth		*18.5%*	*15.0%*	*15.0%*
Digital Set-Top Box Revenues	31	170	393	672
Digital Set-Top Box Growth		*449.2%*	*131.1%*	*71.0%*
Cable High Speed Internet Access Revenues	65	162	319	490
Cable High Speed Internet Access Growth		*148.8%*	*96.7%*	*53.7%*
Total Revenues (Before Telephony)	**$5,374**	**$6,045**	**$6,853**	**$7,768**
Total Revenue Growth (Before Telephony)		***12.5%***	***13.4%***	***13.4%***
Contribution to Total Cable Revenue Growth				
Traditional Cable		6.1%	5.4%	5.1%
Cable Advertising		2.0%	1.7%	1.7%
Digital Set-Top Boxes		2.6%	3.7%	4.1%
Cable High Speed Internet Access		1.8%	2.6%	2.5%
Total Cable Revenue Growth		**12.5%**	**13.4%**	**13.4%**
Time Warner Cable Assumptions:				
Total U.S. TV Households	100	101	102	103
Total Basic Cable Subscribers	12.6	12.9	13.0	13.2
Consolidated Basic Cable Subscribers	10.9	11.1	11.3	11.5
Consolidated Homes Passed	17.8	18.2	18.4	18.7
Digital Subscribers	0.4	1.8	3.3	4.8
Cable Modem Subscribers	0.3	0.8	1.2	1.7
Basic Cable Subscriber Growth	0.0%	2.0%	1.5%	1.5%
Digital Subscriber Growth	nm	307.0%	85.7%	46.2%
Cable Modem Subscriber Growth	217.3%	127.3%	60.0%	41.7%
Basic Cable Subscriber Penetration of Homes Passed	61.2%	61.2%	61.2%	61.2%
Digital Subscriber Growth of Homes Passed	2.4%	9.6%	17.6%	25.4%
Cable Modem Subscriber Growth of Homes Passed	1.9%	4.1%	6.5%	9.1%
Average Digital Subscribers	0.2	1.1	2.5	4.0
Average Cable Modem Subscribers	0.2	0.5	1.0	1.5
Revenue/Digital Set-Top Box Subscriber	$12	$13	$13	$14
Revenue/High Speed Internet Access Subscriber	$25	$25	$27	$28

Source: Company reports and First Union Securities, Inc., estimates

It is important to note that the return on investment for the incremental services outlined above appears to be quite high. For example, with a 60% EBITDA margin on $12 per month incremental digital set-top box revenue, the after-tax unlevered cash return on investment for the box (costing about $300, including installation) would be about 25%. Therefore, the new services appear to represent profitable incremental growth.

Outlook – We Project 14% EBITDA Growth, On Average, Between PF1999–PF2002E

Table 16: Cable Projections (Post-Synergies)—PF1998–PF2002E (In Millions)

	1998	1999	2000E	2001E	2002E	% Change 1999	2000E	2001E	2002E
Cable Revenue	$5.342	$5.374	$6.045	$6.953	$7.918	0.6%	12.5%	15.0%	13.9%
Cable EBITDA	2.288	2.466	2.809	3.218	3.639	7.8%	13.9%	14.6%	13.1%
Cable Margin	42.8%	45.9%	46.5%	46.3%	46.0%				

Source: Company reports and First Union Securities, Inc., estimates
Note: Cable EBITDA figures are adjusted for non-recurring items

We estimate Cable should generate $2.8 billion in EBITDA in 2000, up 14% over last year. We look for a slight boost in 2001 (to almost 15%) from the onset of merger synergies, followed by 13% thereafter. These modest near-term synergies primarily reflect the cross-promotional opportunities to drive basic and premium cable services. It is also worth noting that we are somewhat conservatively assuming very slight margin pressure in 2001 and 2002, although there are no signs to suggest that to date. If all goes according to plan (not normally the case for the cable industry), AOL Time Warner's cable division should start to generate meaningful free cash flow in 2001 once the build-out to 750 Mhz is complete. We are partial to businesses that regularly produce free cash flow. That being said, the outlook for AOL Time Warner's cable business looks strong. However, regardless of free cash flow, there is no doubting the strategic value that cable plays within the larger company.

Digital Media

At the moment, Digital Media includes those businesses that are independent commercial ventures over the Internet – in contrast to marketing and brand extensions. The plan was for this division to include four vertical portals, based on various themes, such as Entertaindom, news, and two others that have yet to be announced. Whether this remains a separate division on the income statement following the merger is unclear (probably not is our guess). Nevertheless, what *is* clear is that the initial start-up losses of $200–250 million per year are no longer valid once the merger is complete. Leveraging AOL's expertise, infrastructure, and subscribers should significantly reduce the initial losses. We look for losses to lessen from $200 million in 2000 to $100 million in 2001, likely breaking even by 2003.

PROJECTIONS FOR JUNE QUARTER

Please note that our standalone models for AOL and Time Warner are provided at the end of this report as Tables 19-22. Since the merger is expected to close in the fall, the pro forma projections for 2001 and 2002 are most meaningful from an investment standpoint. Nevertheless, it is still important to gauge the near-term momentum of the business. Our read is that the operating momentum for AOL is quite high, while Time Warner should show a solid (but not stellar) quarter. The dynamics at play have already been discussed throughout this report, so we will be brief here.

- **America Online.** We look for EBITDA in the June quarter of $543 million, up about 67% from $326 million last year. Earnings are expected to come in at around $0.11 per share, up from $0.06 per share last year and $0.10 per share in the March quarter. This reflects 31% growth in subscription service revenue, driven by a similar increase in the average number of U.S. subscribers. AOL is projected to add 900,000 AOL-branded subscribers in the quarter. Complementing this strong growth, advertising and commerce revenues are projected to show another quarter of powerful upside—rising more than 90% from last year. With total revenue expected to increase by 42%, along with continued improvement in the cost of revenue (due to declining telecommunication network charges), we look for powerful EBITDA growth.
- **Time Warner.** While we believe EBITDA will be the commonly used measure of operating performance following the merger, Time Warner currently reports EBITA (after depreciation). We expect the company to show EBITA of $1.310 billion, up only 5% from last year after adjusting for non-recurring items. However, this number still misrepresents the underlying momentum in the quarter, since it includes Digital Media start-up losses. Excluding these initial investment costs, EBITA in the quarter should rise by about 10% over last year—a few percentage points lower than the normalized long-term growth rate. The primary culprits are short term in nature and offer no cause for alarm. Cable Networks are expected to grow in the 15%-16% range (slightly below the long-term rate), primarily reflecting slower growth for the Turner networks. Higher amortization of programming costs, including the NBA contract, along with weakness in World Championship Wrestling (WCW) are a drag in the quarterly performance for Cable Networks. Music is expected to show some improvement in the quarter over recent results given the success of several new releases, but the division should still be about flat. Filmed Entertainment should also be flat in the quarter as New Line faces difficult comparisons against *Austin Powers* last year. Publishing, Cable, and the WB Network should offer consistently solid performances. Earnings per share should come in at around $0.07, down from $0.12 per share last year – tracked by FirstCall, but paid little mind by investors at this point.

INVESTMENT RISKS

As is true for all of the companies that we cover, AOL Time Warner is vulnerable to macro-level dynamics outside of its control.

- **Economic Downturn**. AOL Time Warner is clearly vulnerable here. We believe that the advertising market is still cyclical despite the uninterrupted growth experienced for the past decade. Cable Network's advertising would likely fair relatively well in an economic downturn (given its low-cost pricing and subscriber fees), and AOL's backlog would also offer some protection. Nevertheless, we expect that the downside from current estimates would still be quite meaningful. AOL Time Warner generates approximately 25% of total revenue from advertising. Moreover, entertainment is not a necessity during a severe economic slump, thereby hurting publishing, music, film, and AOL's subscriber growth.

- **Market Downturn**. We believe that in a bear market, investors would gravitate to those stocks with traditional valuation metrics. While we consider AOL Time Warner's growth prospects to be currently trading at an extremely reasonable value, companies analyzed using EBITDA or even cash earnings could fair poorly.

In addition, AOL Time Warner could also suffer from the following unique risks:

- **Integration Risk.** The recent merger raises the issue of integration risk, in which there is always some risk of management turmoil, political infighting, and a disruption in the fundamental business. On all accounts, the merger appears to be transitioning smoothly. The proposed management structure seems to keep all key business heads doing what they do best, and our sense is that employees are excited about the new opportunities. Remember that this is not a situation in which there is extensive overlap of personnel. As a result, there is little need for the typical infighting that can prove disruptive during the integration period.

- **Regulatory Risks.** We see little risks on this front. Of course, a merger of this size will be put through the ringer, but we expect few material concessions to be required. Again, this is not a horizontal merger resulting in the new domination of key markets. If one wanted to accuse the company of having monopoly power, those same critics could have made a similar argument for each company on an standalone basis. For example, much was made in the press of Time Warner Cable's "monopolistic" power to block ABC's content. While at the end of the day this proved to not be true given the appeal to the content, AOL's market power in the Internet space had little to do with the situation. The one major sticky area could have been high-speed Internet access over cable, if the company decided (unwisely) to use Time Warner's cable on an exclusive basis. Having taken clear steps towards open access for multiple ISPs (thereby promoting competition), the company has effectively nullified a potential problem. On a separate note, as mentioned in the music section, the joint venture between Warner Music and EMI may result in too much concentration in the music publishing business. While music publishing is a regulated industry, we would not be surprised to see the requirement of certain asset sales.

- **Perceived Risk In Exposure To Internet Advertisers**. The company consistently culls the advertising backlog to eliminate contracts at risk. Moreover, many companies that are considered "Internet advertisers" are the Internet arms of major corporations. For example, Blockbuster.com has a multi-year deal with AOL. It is an Internet advertiser by definition, but the chance that Viacom would allow its subsidiary to default on payments is close to zero. Those companies that do not have the backing of a major parent, and are judged to be a risk, are typically required to make cash payments in advance. We judge the actual risk here to be relatively small. However, if investors become worried that the backlog is at risk (even if it is not), then the damage to the stock price is already done—perception matters.

Additional information available upon request.

Table 17: AOL Time Warner—Pro Forma Yearly Model 1998–2002E

						% Change			
	PF1998	PF1999	PF2000E	PF2001E	PF2002E	PF1999	PF2000E	PF2001E	PF2002E
Revenues:									
Cable Networks	$5,377	$6,111	$7,040	$8,206	$9,478	13.7%	15.2%	16.6%	15.5%
Publishing	4,496	4,663	4,608	5,054	5,398	3.7%	-1.2%	9.7%	6.8%
Music	4,025	3,834	3,886	4,155	4,422	-4.7%	1.4%	6.9%	6.4%
Filmed Entertainment	7,978	8,075	8,682	9,324	9,978	1.2%	7.5%	7.4%	7.0%
WB Network	260	384	453	495	588	47.7%	18.1%	9.2%	18.7%
Cable	5,342	5,374	6,045	6,953	7,918	0.6%	12.5%	15.0%	13.9%
AOL	3,847	5,718	8,029	10,934	14,106	48.6%	40.4%	36.2%	29.0%
Time Warner Digital Media	-	-	-	25	100				
Intersegment Elimination	(1,234)	(1,109)	(1,329)	(1,456)	(1,596)	-10.1%	19.9%	9.6%	9.6%
Total Revenues	**30,091**	**33,050**	**37,413**	**43,691**	**50,393**	**9.8%**	**13.2%**	**16.8%**	**15.3%**
Total Revenues (Without Synergies)	**30,091**	**33,050**	**37,413**	**42,851**	**49,174**	**9.8%**	**13.2%**	**14.5%**	**14.8%**
EBITDA:									
Cable Networks	1,276	1,529	1,780	2,171	2,568	19.8%	16.4%	21.9%	18.3%
Publishing	687	760	858	1,039	1,171	10.6%	12.9%	21.0%	12.7%
Music	536	523	539	601	665	-2.4%	3.1%	11.4%	10.8%
Filmed Entertainment	867	1,153	972	1,114	1,225	33.0%	-15.7%	14.6%	9.9%
WB Network	(92)	(91)	(58)	(18)	44	-1.1%	-36.5%	-68.0%	-337.3%
Cable	2,558	4,713	2,837	3,218	3,639	84.2%	-39.8%	13.4%	13.1%
AOL	409	1,241	2,281	3,673	5,128	203.4%	83.8%	61.0%	39.6%
Time Warner Digital Media	0	(16)	(200)	(100)	(25)				
Intersegment Elimination	(94)	(10)	(68)	(105)	(130)	-89.4%	580.0%	54.4%	23.8%
Total EBITDA	**6,147**	**9,802**	**8,942**	**11,592**	**14,285**	**59.5%**	**-8.8%**	**29.6%**	**23.2%**
Total EBITDA (Without Synergies)	**6,147**	**9,802**	**8,942**	**10,657**	**12,965**	**59.5%**	**-8.8%**	**19.2%**	**21.7%**
Depreciation	(1,494)	(1,478)	(1,722)	(1,925)	(2,183)	-1.1%	16.5%	11.8%	13.4%
Amortization	(8,405)	(8,393)	(8,438)	(8,438)	(8,438)	-0.1%	0.5%	0.0%	0.0%
Operating Income	(3,752)	(69)	(1,218)	1,230	3,664	-98.2%	1668.2%	-200.9%	198.0%
Interest & Other, Net	(2,008)	(1,099)	(1,986)	(1,876)	(1,626)	-45.3%	80.7%	-5.5%	-13.3%
Minority Interest	(338)	(475)	(307)	(353)	(406)	40.5%	-35.4%	15.0%	15.0%
Corporate Expenses	(220)	(251)	(284)	(265)	(294)	14.1%	13.1%	-6.5%	10.9%
Pretax Income	(6,318)	(1,894)	(3,795)	(1,265)	1,338	-70.0%	100.4%	-66.7%	-205.7%
Income Tax	1,072	(627)	27	(1,038)	(2,079)	-158.5%	-104.3%	-3929.8%	100.3%
Income Before Extraordinary Items	(5,246)	(2,521)	(3,768)	(2,303)	(741)	-51.9%	49.5%	-38.9%	-67.8%
Extraordinary Loss on Debt Retirement	-	(12)	(425)	-	-				
Net Income	(5,246)	(2,533)	(4,193)	(2,303)	(741)	-51.7%	65.5%	-45.1%	-67.8%
Preferred Dividends	(540)	(52)	(15)	-	-	-90.4%	-71.2%		
Income for Common	($5,786)	($2,585)	($4,208)	($2,303)	($741)	-55.3%	62.8%	-45.3%	-67.8%
Income to Common Before Extra. Items	(5,786)	(2,573)	(3,783)	(2,303)	(741)	-55.5%	47.0%	-39.1%	-67.8%
EPS - Reported	**($1.31)**	**($0.54)**	**($0.79)**	**($0.47)**	**($0.15)**	**-58.8%**	**46.4%**	**-39.7%**	**-68.1%**
EPS - Excluding Non-Recurring Items	**($1.21)**	**($0.90)**	**($0.79)**	**($0.47)**	**($0.15)**	**-25.2%**	**-12.8%**	**-39.8%**	**-68.1%**
Cash Earnings (EPS+GW+Noncash Taxes)	**$0.17**	**$0.50**	**$0.65**	**$0.93**	**$1.37**	**196.3%**	**29.8%**	**41.7%**	**48.0%**
Shares Outstanding	4,460	4,790	4,805	4,853	4,902				
Effective Tax Rate	-17%	33%	-1%	82%	-155%				
EBITDA Margins:									
Cable Networks	23.7%	25.0%	25.3%	26.5%	27.1%				
Publishing	15.3%	16.3%	18.6%	20.5%	21.7%				
Music	13.3%	13.6%	13.9%	14.5%	15.0%				
Filmed Entertainment	10.9%	14.3%	11.2%	11.9%	12.3%				
Broadcasting-The WB Network	-35.4%	-23.7%	-12.7%	-3.7%	7.5%				
Cable	47.9%	87.7%	46.9%	46.3%	46.0%				
AOL	10.6%	21.7%	28.4%	33.6%	36.4%				
Total EBITDA	20.4%	29.7%	23.9%	26.5%	28.3%				
EBITDA Adjusted for Non-Recurring Items:									
EBITDA	**6,187**	**7,472**	**8,814**	**11,592**	**14,285**	**20.8%**	**18.3%**	**30.1%**	**23.2%**
EBITDA (Without Synergies)	**6,187**	**7,472**	**8,814**	**10,657**	**12,965**	**20.8%**	**19.3%**	**19.6%**	**21.7%**

Source: Company reports and First Union Securities, Inc., estimates
Note: AOL has a June fiscal year end. However, to ease comparability, earnings are presented on a calendar year end basis. iThis consistent with the merged company's planned fiscal year

Table 18: AOL Time Warner—Pro Forma Quarterly Model 1998–2000E

	Q1:98	Q1:99	% Chg.	Q1:00	% Chg.	Q2:98	Q2:99	% Chg.	Q2:00E	% Chg.
Revenues:										
Cable Networks	$1 240	$1 364	10%	$1,586	16%	$1,415	$1 611	14%	$1,852	15%
Publishing	948	974	3%	939	-4%	1 136	1,153	1%	1,143	-1%
Music	888	936	5%	917	-2%	905	828	-9%	820	-1%
Filmed Entertainment	1,684	1 697	1%	1 880	11%	1,834	1 783	-3%	1,901	7%
WB Network	45	79	76%	102	29%	61	83	36%	101	22%
Cable	1,401	1 296	-7%	1,447	12%	1,326	1,330	0%	1,489	12%
AOL	757	1,253	66%	1,836	47%	943	1,377	46%	1,949	42%
Time Warner Digital Media	-	-		-		-	-		-	
Intersegment Elimination	(258)	(255)	-1%	(324)	27%	(241)	(257)	7%	(302)	17%
Total Revenues	6,705	7,344	10%	8,383	14%	7,379	7,908	7%	8,953	13%
Total Revenues (Without Synergies)	6,705	7,344	10%	8,383	14%	7,379	7,908	7%	8,953	13%
EBITDA:										
Cable Networks	289	340	18%	397	17%	341	398	17%	458	15%
Publishing	104	113	9%	136	20%	195	215	10%	245	14%
Music	105	106	1%	100	-6%	106	116	9%	116	0%
Filmed Entertainment	146	405	177%	216	-47%	199	241	21%	236	-2%
Broadcasting-The WB Network	(38)	(41)	8%	(31)	-24%	(23)	(29)	26%	(20)	-31%
Cable	612	585	-4%	698	19%	663	1378	108%	689	-50%
AOL	(20)	148	-812%	515	253%	57	311	449%	543	75%
Time Warner Digital Media	-	-		(30)		-	-		(60)	
Intersegment Elimination	(35)	12	-134%	(8)	-167%	(8)	1	-113%	(20)	-2100%
Total EBITDA	1,163	1,666	43%	1,993	20%	1,530	2,631	72%	2,187	-17%
Total EBITDA (Without Synergies)	1,163	1,666	43%	1,993	20%	1,530	2,631	72%	2,187	-17%
Depreciation	(377)	(339)	-10%	(394)	16%	(365)	(371)	2%	(422)	14%
Amortization	(2,098)	(2,085)	-1%	(2,110)	1%	(2,098)	(2,089)	0%	(2,110)	1%
Operating Income	(1,312)	(758)	-42%	(511)	-33%	(933)	171	-118%	(344)	-301%
Interest & Other, Net	(425)	81	-119%	(472)	-683%	(424)	(324)	-24%	(515)	59%
Minority Interest	(83)	(85)	2%	(54)	-36%	(100)	(245)	145%	(105)	-57%
Corporate Expenses	(53)	(62)	18%	(70)	13%	(50)	(58)	17%	(68)	13%
Pretax Income	(1,873)	(824)	-56%	(1,107)	34%	(1,507)	(456)	-70%	(1,030)	126%
Income Tax	343	(9)	-103%	67	-844%	233	(172)	-174%	34	-4%
Income Before Extraordinary Items	(1,530)	(833)	-46%	(1,040)	25%	(1,274)	(628)	-51%	(997)	59%
Extraordinary Items	-	-		-		-	-		(425)	
Net Income	(1,530)	(833)	-46%	(1,040)	25%	(1,274)	(628)	-51%	(1,422)	127%
Preferred Dividends	(82)	(18)	-78%	(5)	-74%	(78)	(18)	-77%	(5)	-74%
Income for Common	($1,612)	($851)	-47%	($1,044)	23%	($1,352)	($646)	-52%	($1,426)	121%
Income to Common Before Extra Items	(1,612)	(851)	-47%	(1,044)	23%	(1,352)	(646)	-52%	(1,001)	55%
EPS - Reported	($0.40)	($0.18)	-55%	($0.22)	22%	($0.30)	($0.13)	-58%	($0.21)	58%
EPS - Excluding Non-Recurring Items	($0.37)	($0.20)	-32%	($0.22)	-16%	($0.29)	($0.23)	-21%	($0.21)	-9%
Shares Outstanding	4 067	4 777		4,798		4 527	4,793		4,803	
Effective Tax Rate	-18%	1%		-6%		-15%	38%		-3%	
EBITDA Margins:										
Cable Networks	23.3%	24.9%		25.0%		24.1%	24.7%		24.7%	
Publishing	11.0%	11.6%		14.5%		17.2%	18.6%		21.4%	
Music	11.8%	11.3%		10.9%		11.7%	14.0%		14.1%	
Filmed Entertainment	8.7%	23.9%		11.5%		10.9%	13.5%		12.4%	
Broadcasting-The WB Network	-84.4%	-51.9%		-30.4%		-37.7%	-34.9%		-19.6%	
Cable	43.7%	45.1%		48.2%		50.0%	103.6%		46.2%	
AOL	-2.7%	11.7%		28.1%		6.0%	22.6%		27.9%	
Total EBITDA	17.3%	22.7%		23.8%		20.7%	33.3%		24.4%	
EBITDA Adjusted for Non-Recurring Items:										
EBITDA	1,207	1,554	29%	1,965	26%	1,546	1,875	21%	2,187	17%
EBITDA (Without Synergies)	1,207	1,554	29%	1,965	26%	1,546	1,875	21%	2,187	17%

	Q3:98	Q3:99	% Chg.	Q3:00E	% Chg.	Q4:98	Q4:99	% Chg.	Q4:00E	% Chg.
Revenues:										
Cable Networks	$1 330	$1 450	9%	$1 662	15%	$1 392	$1 686	21%	$1 939	15%
Publishing	1,076	1,110	3%	1 107	0%	1 336	1 426	7%	1 419	1%
Music	938	852	-9%	894 60	5%	1,294	1,218	6%	1 255	3%
Filmed Entertainment	2,272	2,208	-3%	2 356	7%	2 188	2,387	9%	2 545	7%
WB Network	64	84	31%	102 48	22%	90	138	53%	148	7%
Cable	1,288	1,342	4%	1.532	14%	1 327	1 406	6%	1 577	12%
AOL	999	1,467	47%	2,042	39%	1 148	1 621	41%	2,201	36%
Time Warner Digital Media	-	-		-		-	-		-	
Intersegment Elimination	(375)	(323)	-14%	(381)	18%	(360)	(274)	-24%	(323)	18%
Total Revenues	7,592	8,190	8%	9,316	14%	8,415	9,608	14%	10,761	12%
Total Revenues (Without Synergies)	7,592	8,190	8%	9,316	14%	8,415	9,608	14%	10,761	12%
EBITDA:										
Cable Networks	302	361	20%	418	16%	344	430	25%	507	18%
Publishing	132	148	12%	170	15%	256	284	11%	307	8%
Music	111	98	-12%	105	8%	214	203	-5%	218	7%
Filmed Entertainment	282	274	-3%	274	0%	240	233	-3%	245	5%
Broadcasting-The WB Network	(16)	(24)	50%	(15)	-39%	(15)	3	-120%	8	161%
Cable	623	1097	76%	708	-35%	660	1653	150%	742	-55%
AOL	159	365	130%	601	65%	214	419	96%	622	48%
Time Warner Digital Media	-	-		(55)		-	(16)		(55)	
Intersegment Elimination	(33)	(23)	-30%	(20)	-13%	(18)	-	-100%	(20)	#DIV/0!
Total EBITDA	1,560	2,296	47%	2,187	-5%	1,895	3,209	69%	2,575	-20%
Total EBITDA (Without Synergies)	1,560	2,296	47%	2,187	-5%	1,895	3,209	69%	2,575	-20%
Depreciation	(374)	(381)	2%	(444)	17%	(378)	(387)	2%	(462)	19%
Amortization	(2,108)	(2,096)	-1%	(2,110)	10%	(2,103)	(2,125)	16%	(2,110)	-1%
Operating Income	(922)	(180)	-80%	(366)	103%	(586)	697	-219%	3	-99%
Interest & Other, Net	(486)	(448)	-8%	(506)	13%	(673)	(408)	-39%	(493)	21%
Minority Interest	(71)	(72)	1%	(73)	1%	(84)	(73)	-13%	(75)	3%
Corporate Expenses	(53)	(61)	16%	(69)	14%	(65)	(70)	8%	(79)	13%
Pretax Income	(1,532)	(761)	-50%	(1,014)	33%	(1,406)	146	-110%	(643)	-539%
Income Tax	265	(55)	-220%	36	-111%	231	(391)	-354%	(109)	-81%
Income Before Extraordinary Items	(1,267)	(816)	-36%	(979)	20%	(1,177)	(245)	-79%	(752)	208%
Extraordinary Items	-	(12)		-		-	-		-	
Net Income	(1,267)	(828)	-35%	(979)	18%	(1 177)	(245)	-79%	(752)	208%
Preferred Dividends	(76)	(9)	-88%	(3)	-68%	(304)	(7)	-98%	(3)	58%
Income for Common	($1,343)	($837)	-38%	($982)	17%	($1,481)	($252)	-83%	($755)	200%
Income to Common Before Extra Items	(1,343)	(825)	-39%	(982)	19%	(1 481)	(252)	-83%	(755)	200%
EPS - Reported	($0.29)	($0.17)	-41%	($0.20)	18%	($0.32)	($0.05)	-84%	($0.16)	200%
EPS - Excluding Non-Recurring Items	($0.30)	($0.23)	-22%	($0.20)	-12%	($0.25)	($0.19)	-24%	($0.16)	-17%
Shares Outstanding	4,601	4 777		4,810		4,647	4 813		4 810	
Effective Tax Rate	-17%	7%		-4%		16%	-267%		17%	
EBITDA Margins:										
Cable Networks	22.7%	24.9%		25.2%		24.7%	25.5%		26.2%	
Publishing	12.3%	13.3%		15.3%		19.2%	19.9%		21.7%	
Music	11.8%	11.5%		11.8%		16.5%	16.7%		17.4%	
Filmed Entertainment	12.4%	12.4%		11.6%		11.0%	9.8%		9.6%	
Broadcasting-The WB Network	-25.0%	-28.6%		-14.4%		-16.7%	2.2%		5.3%	
Cable	48.4%	81.7%		46.2%		49.7%	117.6%		47.1%	
AOL	15.9%	24.9%		29.4%		18.6%	25.8%		28.2%	
Total EBITDA	20.5%	28.0%		23.5%		22.5%	33.4%		23.9%	
EBITDA Adjusted for Non-Recurring Items:										
EBITDA	1,584	1,819	17%	2,187	20%	1,879	2,224	18%	2,575	16%
EBITDA (Without Synergies)	1,584	1,819	17%	2,187	20%	1,879	2,224	18%	2,575	16%

Source: Company reports and First Union Securities, Inc., estimates

Note: AOL has a June fiscal year end. However, to ease comparability, earnings are presented on a calendar year end basis. This is consistent with the merged company's planned fiscal year

Table 19: America Online—Yearly Model 1998–2001E

	1998	1999	2000E	2001E	% Change 1999	% Change 2000E	% Change 2001E
Revenues:							
Subscription Services	$2,765	$3,874	$5,050	$6,325	40%	30%	25%
Advertising, Commerce and Other	725	1,368	2,460	3,749	89%	80%	52%
Enterprise Solutions	357	476	519	560	33%	9%	8%
Total Revenues	3,847	5,718	8,029	10,634	49%	40%	32%
Cost of Revenue	2,252	3,055	4,111	5,291	36%	35%	29%
Cost of Revenue as % of Revenue	59%	53%	51%	50%			
Sales & Marketing	670	872	1,123	1,482	30%	29%	32%
Product Development	267	290	339	423	9%	17%	25%
General & Administrative	290	410	528	687	41%	29%	30%
Amortization of Goodwill & Other Intangibles	48	68	72	72	42%	6%	0%
Acquired In-Process R&D	80	-	-	-			
Merger, Restructuring and Contract Termination Charges	50	98	-	-			
Settlement Charges	18	-	-	-			
Income (loss) from Operations	172	925	1,856	2,680	438%	101%	44%
Other Income, Net	40	814	511	244	1935%	-37%	-52%
Corporate Expenses	62	88	111	138	42%	26%	25%
Pretax Income	150	1,651	2,257	2,785	1001%	37%	23%
Provision for Taxes	30	607	881	1,086	1923%	45%	23%
Net Income	$120	$1,044	$1,376	$1,699	770%	32%	23%
EPS - Reported	**$0.04**	**$0.40**	**$0.53**	**$0.63**	**911%**	**31%**	**20%**
EPS - Excluding Non-Recurring Items	**$0.07**	**$0.25**	**$0.46**	**$0.63**	**240%**	**83%**	**36%**
Cash Earnings (EPS+GW)	**$0.10**	**$0.28**	**$0.49**	**$0.66**	**192%**	**78%**	**34%**
Average Diluted Shares	2,258	2,587	2,602	2,680	15%	1%	3%
Effective Tax Rate	20%	37%	39%	39%			
Depreciation	$189	$248	$353	$442	31%	42%	25%
EBITDA	**$409**	**$1,241**	**$2,281**	**$3,193**	**203%**	**84%**	**40%**
EBITDA Adjusted for Non-Recurring Items	**$557**	**$1,364**	**$2,281**	**$3,193**	**145%**	**67%**	**40%**
EBITDA Margin	14.5%	23.9%	28.4%	30.0%			
Operating Income Margin	4.5%	16.2%	23.1%	25.2%			
Additional Information:							
AOL Subscribers at Period End	15.1	20.5	26.0	31.5	36%	27%	21%
AOL Subscribers Added During the Period	4.4	5.4	5.5	5.5	24%	1%	0%
CompuServe Subscribers at Period End	2.2	2.5	3.1	3.6	14%	24%	16%
CompuServe Subscribers Added During the Period	2.2	0.3	0.6	0.5	-86%	100%	-17%
Customer Solutions/Gateway Subscribers at Period End	0.0	0.7	1.1	1.3	0%	42%	24%
Customer Solutions/Gateway Subscribers Added During the Period	0.0	0.7	0.3	0.3	0%	-58%	-19%
Total Subscribers at Period End	**17.3**	**23.8**	**30.2**	**36.4**	**37%**	**27%**	**21%**
Total Subscribers Added During the Period	6.6	6.5	6.4	6.3	-2%	-1%	-2%
Average Subscribers	14.5	20.0	26.9	33.3	38%	34%	24%
U.S. Subscribers at Period End	14.5	19.8	24.9	29.9	37%	26%	20%
Average U.S. Subscribers	12.4	16.9	22.2	27.4	37%	31%	23%
International Subscribers at Period End	2.8	4.0	5.3	6.6	42%	34%	24%
Average International Subscribers	2.3	4.0	5.3	5.9	75%	34%	12%
Monthly Subscription Revenue/Average U.S. Subscriber	$18.65	$19.12	$18.95	$19.27	3%	-1%	2%
Monthly Advertising Revenue/Average Total Subscriber	$4.17	$5.70	$7.62	$9.39	37%	34%	23%

Source: Company reports and First Union Securities, Inc., estimates
Note: AOL has a June fiscal year end. However, to ease comparability, earnings are presented on a calendar year end basis. This consistent with the merged company's planned fiscal year. In contrast to the company's definition, our EBITDA calculation does not include "Other Income."

Table 20: America Online—Quarterly Model 1998–2000E

	March Quarter					June Quarter					September Quarter					December Quarter				
	1Q:98	1Q:99	% Chg.	1Q:00	% Chg.	2Q:98	2Q:99	% Chg.	2Q:00E	% Chg.	3Q:98	3Q:99	% Chg.	3Q:00E	% Chg.	4Q:98	4Q:99	% Chg.	4Q:00E	% Chg.
Revenues:																				
Subscription Services	$580	$869	50%	$1,153	33%	$676	$943	39%	$1,232	31%	$723	$995	38%	$1,306	31%	$786	$1,067	36%	$1,360	27%
Advertising, Commerce and Other	142	275	94%	557	103%	164	306	87%	583	91%	175	350	100%	605	73%	244	437	79%	715	64%
Enterprise Solutions	35	109	211%	126	16%	103	128	24%	134	5%	101	122	21%	132	8%	118	117	-1%	126	8%
Total Revenues	757	1,253	66%	1,836	47%	943	1,377	46%	1,949	42%	999	1,467	47%	2,042	39%	1,148	1,621	41%	2,201	36%
Cost of Revenue	488	693	42%	937	35%	541	741	37%	1,002	35%	583	791	36%	1,050	33%	640	830	30%	1,123	35%
Cost of Revenue as % of Revenue	64%	55%		51%		57%	54%		51%		58%	54%		51%		56%	51%		51%	
Sales & Marketing	138	218	58%	266	22%	156	214	37%	284.62	33%	174	209	20%	272	30%	202	231	14%	300	30%
Product Development	65	80	23%	76	-5%	65	69	6%	86.25	25%	67	67	0%	83.75	25%	70	74	6%	92.50	25%
General & Administrative	67	98	45%	129	32%	79	93	17%	121	30%	67	96	43%	125	30%	76	123	62%	154	25%
Amortization of Goodwill & Other Intangibles	7	17	143%	18	6%	9	16	78%	18	13%	16	18	13%	18	0%	16	17	6%	18	6%
Acquired In-Process R&D	10	-		-		70			-		-	-		-					-	
Merger, Restructuring and Contract Termination Charges	48	78		-		-	15		-		-	-		-		2	5			
Settlement Charges	-	-		-		18	-		-		-	-		-		-	-		-	
Income (loss) from Operations	(66)	69	-204%	410	494%	5	229	4791%	438	91%	92	286	212%	494	73%	142	341	140%	514	51%
Other Income, Net	4	587	0%	336	0%	15	30	0%	50	0%	5	37	0%	58	0%	16	160	0%	67	0%
Corporate Expenses	16	22	42%	27	23%	13	18	42%	23	25%	15	21	42%	27	30%	19	27	42%	34	25%
Pretax Income	(78)	634	-913%	719	13%	7	241	3343%	465	93%	82	302	268%	525	74%	139	474	241%	548	16%
Provision for Taxes	-	223		281		-	81	0%	181	0%	6	118	0%	205	0%	24	185	0%	214	0%
Net Income	($78)	$411	-627%	$438	7%	$7	$160	2186%	$284	77%	$76	$184	142%	$320	74%	$115	$289	151%	$334	16%
EPS - Reported	($0.04)	$0.16	[illegible]	$0.17	6%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.12	72%	$0.05	$0.11	135%	$0.13	16%
EPS - Excluding Non-Recurring Items	($0.01)	[illegible]	-727%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.12	[illegible]	$0.04	[illegible]	131%	$0.13	[illegible]
Average Diluted Shares	1,864	2,574		2,595		2,324	2,590		2,600		2,398	2,574		2,607		2,444	2,610		2,607	
Effective Tax Rate	0%	35%		39%		0%	34%		39%		7%	39%		39%		17%	39%		39%	
Depreciation	$39	$60	54%	$87	45%	$43	$66	53%	$87.87	33%	$51	$61	20%	$89	45%	$56	$61	9%	$89.64	47%
EBITDA	[illegible]	$146	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$214	$410	[illegible]	$422	[illegible]
EBITDA Adjusted for Non-Recurring Items	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$218	$424	[illegible]	$422	47%
EBITDA Margin	5.0%	19.9%		28.1%		15.3%	23.7%		27.9%		15.9%	24.9%		29.4%		18.8%	26.2%		28.2%	
Operating Income Margin	-8.8%	5.5%		22.3%		0.5%	16.6%		22.4%		9.2%	19.5%		24.2%		12.4%	21.0%		23.4%	
Additional Information:																				
AOL Subscribers at Period End	11.9	16.9	42%	22.2	31%	12.5	17.6	41%	23.1	31%	13.5	18.7	39%	24.2	29%	15.1	20.5	36%	26.0	27%
AOL Subscribers Added During the Period	1.1	1.8	57%	1.7	-7%	0.6	0.7	14%	0.9	29%	1.0	1.1	10%	1.1	0%	1.6	1.8	14%	1.8	-1%
CompuServe Subscribers at Period End	2.1	2.1	1%	2.7	29%	2.0	2.0	0%	2.8	40%	2.0	2.2	10%	2.9	32%	2.2	2.5	14%	3.1	24%
CompuServe Subscribers Added During the Period	2.1	(0.1)	-105%	0.2	-300%	(0.1)	(0.1)	25%	0.1	-200%	0.0	0.2	#DIV/0!	0.1	-50%	0.2	0.3	50%	0.2	33%
Customer Solutions/Gateway Subscribers at Period End	0.0	0.0	0%	0.9	0%	0.0	0.0	0%	0.9	0%	0.0	0.0	0%	1.0	0%	0.0	0.7	0%	1.1	42%
Customer Solutions/Gateway Subscribers Added During the Period	0.0	0.0	0%	0.1	0%	0.0	0.0	0%	0.1	0%	0.0	0.0	0%	0.1	0%	0.0	0.7	0%	0.1	86%
Total Subscribers at Period End	14.0	19.0	36%	25.8	36%	14.5	19.6	35%	26.8	37%	15.5	20.9	35%	28.1	34%	17.3	23.8	37%	30.2	27%
Total Subscribers Added During the Period	3.2	1.7	-47%	2.0	17%	0.5	0.6	13%	1.1	75%	1.0	1.3	30%	1.3	-4%	1.8	2.9	59%	2.1	-27%
Average Subscribers	12.4	18.2	47%	24.8	36%	14.2	19.3	36%	26.3	36%	15.0	20.3	35%	27.4	35%	16.4	22.3	36%	29.1	30%
U.S. Subscribers at Period End	11.8	16.0	36%	21.4	33%	12.2	16.6	37%	22.1	33%	12.9	17.8	38%	23.1	29%	14.5	19.8	37%	24.9	26%
Average U.S. Subscribers	11.2	15.3	36%	20.6	35%	12.0	16.3	36%	21.7	33%	12.5	17.2	37%	22.6	31%	13.7	18.8	37%	24.0	27%
International Subscribers at Period End	2.2	3.0	36%	4.4	47%	2.3	3.0	28%	4.7	57%	2.6	3.1	19%	5.0	61%	2.8	4.0	42%	5.3	34%
Average International Subscribers	1.6	2.9	81%	4.2	44%	2.3	3.0	32%	4.6	52%	2.5	3.1	23%	4.9	59%	2.7	3.5	31%	5.2	46%
Monthly Subscription Revenue/Average U.S. Subscriber	$17.21	$18.99	10%	$18.68	2%	$18.83	$19.28	2%	$18.90	-2%	$19.23	$19.28	0%	$19.28	0%	$19.12	$18.92	-1%	$18.92	0%
Monthly Advertising Revenue/Average Total Subscriber	$3.83	$5.05	32%	$7.50	49%	$3.84	$5.28	38%	$7.40	40%	$3.89	$5.76	48%	$7.35	28%	$4.96	$6.52	32%	$8.20	26%

Source: Company reports and First Union Securities, Inc., estimates.
Note: AOL has a June fiscal year end. However, to ease comparability, earnings are presented on a calendar year end basis. This is consistent with the merged company's planned fiscal year. In contrast to the company's definition, our EBITDA calculation does not include "Other Income."

Table 21: Time Warner—Yearly Model 1998–2001E

	1998	1999	2000E	2001E	%Change 1998	%Change 1999	%Change 2000E	%Change 2001E
CONSOLIDATED								
Revenues:								
Cable Networks	$5,377	$6,111	$7,040	$8,096	11.5%	13.7%	15.2%	15.0%
Publishing	4,496	4,663	4,608	4,884	4.8%	3.7%	-1.2%	6.0%
Music	4,025	3,834	3,886	4,080	9.0%	-4.7%	1.4%	5.0%
Filmed Entertainment	7,978	8,075	8,682	9,274	13.9%	1.2%	7.5%	6.8%
WB Network	260	384	453	485	91.2%	47.7%	18.1%	7.0%
Cable	5,342	5,374	6,045	6,853	1.9%	0.6%	12.5%	13.4%
Time Warner Digital Media	-	-	-	-				
Intersegment Elimination	(1,234)	(1,109)	(1,329)	(1,456)	120.0%	-10.1%	19.9%	9.6%
Total Revenues	26,244	27,333	29,384	32,217	6.6%	4.1%	7.5%	9.6%
EBITA:								
Cable Networks	1160	1397	1,639	1,936	20.3%	20.4%	17.3%	18.2%
Publishing	607	679	775	868	14.7%	11.9%	14.1%	12.0%
Music	464	449	456	493	-0.6%	-3.2%	1.6%	8.0%
Filmed Entertainment	695	997	829	902	15.1%	43.5%	-16.8%	8.7%
WB Network	(93)	(92)	(58)	(26)	5.7%	-1.1%	-37.2%	-54.2%
Cable	1694	3927	1,919	2,138	5.2%	131.8%	-51.1%	11.4%
Time Warner Digital Media	0	(17)	(200)	(225)				
Intersegment Elimination	(94)	(10)	(68)	(105)	74.1%	-89.4%	580.0%	54.4%
Total EBITA	4,433	7,330	5,292	5,980	9.9%	65.4%	-27.8%	13.0%
Amortization	(1,311)	(1,279)	(1,320)	(1,320)	-2.3%	-2.4%	3.2%	0.0%
Operating Income	3,122	6,051	3,972	4,660	16.0%	93.8%	-34.4%	17.3%
Interest & Other, Net	(2,112)	(1,913)	(2,497)	(2,120)	50.7%	-9.4%	30.5%	-15.1%
Minority Interest	(266)	(475)	(307)	(353)	-12.8%	78.6%	-35.4%	15.0%
Corporate Expenses	(158)	(163)	(173)	(187)	3.3%	3.2%	6.3%	8.0%
Pretax Income	586	3,500	995	2,000	-29.6%	497.3%	-71.6%	101.1%
Income Tax	(418)	(1,540)	(612)	(1,017)	-21.2%	268.2%	-60.2%	66.1%
Income Bef Extraordinary Items	168	1,960	383	983	-44.3%	1068.2%	-80.5%	157.0%
Extraordinary Items	-	(12)	(425)	0				
Net Income	168	1,948	(42)	983	-31.8%	1061.1%	-102.2%	-2417.7%
Preferred Dividends	(540)	(52)	(15)	0	69.3%	-90.4%	-71.2%	-100.0%
Income for Common	($372)	$1,896	($57)	$983	409.9%	-609.5%	-103.0%	-1812.3%
Income to Common before Extra. Items	(372)	1,908	368	983	1967.8%	-612.7%	-80.7%	167.5%
EPS - Reported	**($0.31)**	**$1.50**	**$0.28**	**$0.74**	-	**-582.7%**	**-81.3%**	**164.7%**
EPS - Excluding Non-Recurring Items	**($0.06)**	**$0.39**	**$0.40**	**$0.74**		**-706.2%**	**3.5%**	**83.5%**
Cash Earnings (EPS+GW)	**$0.39**	**$0.82**	**$0.82**	**$1.15**		**109.6%**	**0.0%**	**40.3%**
Average Common Shares	1,195	1,267	1,307	1,328	5.2%	6.1%	3.2%	1.6%
Fully Diluted Shares	1,378	1,395	1,386	1,384				
Effective Tax Rate	71%	44%	62%	51%				
EBITDA Breakdown:								
Cable Networks	1,276	1,529	1,780	2,088	18.9%	19.8%	16.4%	17.3%
Publishing	687	760	858	954	13.0%	10.6%	12.9%	11.1%
Music	536	523	539	581	-2.5%	-2.4%	3.1%	7.7%
Filmed Entertainment	867	1,153	972	1,054	7.3%	33.0%	-15.7%	8.5%
WB Network	(92)	(91)	(58)	(26)	5.7%	-1.1%	-36.5%	-54.2%
Cable	2,558	4,713	2,837	3,143	3.4%	84.2%	-39.8%	10.8%
Time Warner Digital Media	-	(16)	(199)	(225)				
Intersegment Elimination	(94)	(10)	(68)	(105)	74.1%	-89.4%	580.0%	54.4%
Total EBITDA	$5,738	$8,561	$6,661	$7,464	6.8%	49.2%	-22.2%	12.0%
Adjusted for Non-Recurring Items:								
EBITA (after Digital Media losses)	**4,258**	**4,877**	**5,264**	**5,980**		**14.5%**	**7.9%**	**13.6%**
EBITDA (after Digital Media losses)	**5,466**	**6,109**	**6,633**	**7,464**		**11.7%**	**8.6%**	**12.5%**

Source: Company reports and First Union Securities, Inc., estimates

Table 22: Time Warner—Quarterly Model 1998–2000E

	Q1:98	Q1:99	% Chg.	Q1:00	% Chg.	Q2:98	Q2:99	% Chg.	Q2:00E	% Chg.	Q3:98	Q3:99	% Chg.	Q3:00E	% Chg.	Q4:98	Q4:99	% Chg.	Q4:00E	% Chg.
CONSOLIDATED																				
Revenues:																				
Cable Networks	$1,240	$1,364	10%	$1,586	16%	$1,415	$1,611	14%	$1,852	15%	$1,330	$1,450	9%	$1,662	15%	$1,392	$1,686	21%	$1,939	15%
Publishing	948	974	3%	939	-4%	1,136	1,153	1%	1,143	-1%	1,076	1,110	3%	1,107	0%	1,336	1,426	7%	1,419	1%
Music	888	936	5%	917	-2%	905	828	-9%	820	-1%	938	852	-9%	895	5%	1,294	1,218	-6%	1,255	3%
Filmed Entertainment	1,684	1,697	1%	1,880	11%	1,834	1,783	-3%	1,901	7%	2,272	2,208	-3%	2,356	7%	2,188	2,387	9%	2,545	7%
WB Network	45	79	76%	102	29%	61	83	36%	101	22%	64	84	31%	102	22%	90	138	53%	148	7%
Cable	1,401	1,296	-7%	1,447	12%	1,326	1,330	0%	1,489	12%	1,288	1,342	4%	1,532	14%	1,327	1,406	6%	1,577	12%
Time Warner Digital Media	-	-	0%	-	0%	-	-	0%	-	0%	-	-	0%	-	0%	-	-	0%	-	0%
Intersegment Elimination	(258)	(255)	-1%	(324)	27%	(241)	(257)	7%	(302)	17%	(375)	(323)	-14%	(381)	18%	(360)	(274)	24%	(323)	18%
Total Revenues	5,948	6,091	2%	6,547	7%	6,436	6,531	1%	7,004	7%	6,593	6,723	2%	7,274	8%	7,267	7,988	10%	8,560	7%
EBITA:																				
Cable Networks	262	309	18%	364	18%	311	366	18%	423	16%	271	328	21%	383	17%	316	394	25%	469	19%
Publishing	85	94	11%	117	24%	176	196	11%	225	15%	112	129	15%	150	16%	234	260	11%	283	9%
Music	86	89	3%	80	-10%	87	98	13%	96	-2%	95	79	-17%	85	7%	196	183	-7%	196	7%
Filmed Entertainment	104	375	261%	194	-48%	160	203	27%	200	-1%	233	228	-2%	230	1%	198	191	-4%	205	8%
WB Network	(38)	(41)	8%	(31)	-24%	(23)	(30)	30%	(20)	-34%	(17)	(24)	41%	(15)	-39%	(15)	3	-120%	8	161%
Cable	381	403	6%	485	20%	448	1180	163%	465	-61%	417	894	114%	473	-47%	448	1450	224%	496	-66%
Time Warner Digital Media	0	0	0%	(30)	0%	0	0	0%	(60)	0%	0	0	0%	(55)	0%	0	(17)	0%	(55)	0%
Intersegment Elimination	(35)	12	-134%	(8)	-167%	(8)	1	-113%	(20)	-2100%	(33)	(23)	-30%	(20)	-13%	(18)	-	-100%	(20)	#DIV/0!
Total EBITA	845	1,241	47%	1,171	-6%	1,151	2,014	75%	1,310	-35%	1,078	1,611	49%	1,231	-24%	1,359	2,464	81%	1,581	-36%
Amortization	(329)	(306)	-7%	(330)	8%	(327)	(311)	-5%	(330)	6%	(330)	(316)	-4%	(330)	10%	(325)	(346)	16%	(330)	-5%
Operating Income	516	935	81%	841	-10%	824	1,703	107%	980	-42%	748	1,295	73%	901	30%	1,034	2,118	105%	1,251	41%
Interest & Other, Net	(421)	(506)	20%	(808)	60%	(439)	(354)	-19%	(565)	60%	(491)	(485)	-1%	(564)	16%	(689)	(568)	-18%	(560)	1%
Minority Interest	(83)	(85)	2%	(54)	-36%	(100)	(245)	145%	(105)	-57%	(71)	(72)	1%	(73)	1%	(84)	(73)	-13%	(75)	3%
Corporate Expenses	(37)	(40)	8%	(43)	8%	(37)	(40)	8%	(43)	8%	(38)	(40)	5%	(42)	5%	(46)	(43)	-7%	(45)	5%
Pretax Income	(25)	304	-1316%	(64)	-121%	248	1,064	329%	266	-75%	148	698	372%	222	-68%	215	1,434	567%	571	-60%
Income Tax	(37)	(166)	349%	(32)	-81%	(147)	(471)	220%	(165)	-65%	(109)	(317)	190%	(140)	-56%	(125)	(586)	369%	(276)	-53%
Income Bef Extraordinary Items	(62)	138	-323%	(96)	-170%	101	593	487%	101	-83%	39	381	883%	82	-78%	90	848	842%	295	65%
Extraordinary Items	-	-	0%	-	0%	-	-	0%	(425)	0%	-	(12)	0%	-	0%	-	-	0%	-	0%
Net Income	(62)	138	-323%	(96)	-170%	101	593	487%	(324)	-155%	39	369	852%	82	-78%	90	848	842%	295	65%
Preferred Dividends	(82)	(18)	-78%	(5)	-74%	(78)	(18)	-77%	(5)	-74%	(76)	(9)	-88%	(3)	-68%	(304)	(7)	-98%	(3)	-58%
Income for Common	($144)	$120	-183%	($101)	-184%	$23	$575	2400%	($328)	-157%	($37)	$360	-1069%	$79	-78%	($214)	$841	-493%	$292	65%
Income to Common before Extra. Items	(144)	120	-183%	(101)	-184%	23	575	2400%	97	-83%	(37)	372	-1101%	79	-79%	(214)	841	-493%	292	65%
EPS - Reported	($0.12)	$0.10	-178%	($0.08)	-180%	$0.02	$0.46	[illegible]	[illegible]	[illegible]	[illegible]	$0.28	-1036%	$0.06	-78%	($0.17)	$0.65	-475%	$0.22	-66%
EPS - Excluding Non-Recurring Items	($0.13)	($0.08)	-40%	$0.06	[illegible]	($0.01)	$0.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.06	-31%	$0.11	$0.20	81%	$0.22	11%
Average Common Shares	1,157	1,243	7%	1,302	5%	1,193	1,249	5%	1,307	5%	1,203	1,289	7%	1,307	1%	1,227	1,287	5%	1,314	2%
Fully Diluted Shares	1,384	1,386	0%	1,389	0%	1,372	1,404	2%	1,387	-1%	1,376	1,398	2%	1,385	-1%	1,379	1,392	1%	1,383	-1%
Effective Tax Rate	-148%	55%	0%	-50%	0%	59%	44%	0%	62%	0%	74%	45%	0%	63%	0%	58%	41%	0%	48%	0%
EBITDA Breakdown:																				
Cable Networks	289	340	18%	397	17%	341	398	17%	458	15%	302	361	20%	418	16%	344	430	25%	507	18%
Publishing	104	113	9%	136	20%	195	215	10%	245	14%	132	148	12%	170	15%	256	284	11%	307	8%
Music	105	106	1%	100	-6%	106	116	9%	116	0%	111	98	-12%	105	8%	214	203	-5%	218	7%
Filmed Entertainment	146	405	177%	216	-47%	199	241	21%	236	-2%	282	274	-3%	274	0%	240	233	-3%	245	5%
WB Network	(38)	(41)	8%	(31)	-24%	(23)	(29)	26%	(20)	-31%	(16)	(24)	50%	(15)	-39%	(15)	3	-120%	8	161%
Cable	612	585	-4%	698	19%	663	1378	108%	689	-50%	623	1097	76%	708	-35%	660	1653	150%	742	55%
Time Warner Digital Media	-	-		(29)		-	-		(60)		-	-		(55)		-	(16)		(55)	
Intersegment Elimination	(35)	12	-134%	(8)	-167%	(8)	1	-113%	(20)	-2100%	(33)	(23)	-30%	(20)	-13%	(18)	0	-100%	(20)	#DIV/0!
Total EBITDA	1,183	1,520	28%	1,479	-3%	1,473	2,320	58%	1,644	-29%	1,401	1,931	38%	1,586	-18%	1,681	2,790	66%	1,953	30%
Adjusted for Non-Recurring Items:																				
EBITA (after Digital Media losses)	831	1,026	23%	1,143	11%	1,061	1,243	15%	1,310	6%	1,072	1,134	6%	1,231	9%	1,341	1,474	10%	1,581	7%
EBITDA (after Digital Media losses)	1,169	1,305	12%	1,461	11%	1,403	1,540	10%	1,644	6%	[illegible]	[illegible]	4%	1,586	9%	1,663	1,800	8%	1,953	9%

Source: Company reports and First Union Securities, Inc., estimates.