

THIS AFFIDAVIT CONTAINS INFORMATION DESIGNATED CONFIDENTIAL
PURSUANT TO A CONFIDENTIALITY ORDER AND IS FILED UNDER SEAL

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

----- X
QVC NETWORK, INC. :
 :
 :
 Plaintiffs, :
 :
 :
 -against- : C. A. No. 13208
 :
 :
 PARAMOUNT COMMUNICATIONS INC., : AFFIDAVIT OF
 VIACOM INC., MARTIN S. DAVIS : FELIX G. ROHATYN
 GRACE J. FIPPINGER, IRVING R. FISCHER, :
 BENJAMIN L. HOOKS, FRANZ J. LUTOLF, :
 JAMES A. PATTISON, IRWIN SCHLOSS, :
 SAMUEL J. SILBERMAN, LAWRENCE M. SMALL, :
 and GEORGE WEISSMAN, :
 :
 :
 Defendants. :
----- X

----- X
In re PARAMOUNT COMMUNICATIONS INC. : Consolidated Civ.
SHAREHOLDERS' LITIGATION : Action No. 13117
----- X

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

CONFIDENTIAL - RESTRICTED

FILED UNDER SEAL

FELIX G. ROHATYN, being duly sworn, deposes and says:

1. I am a Senior Partner of Lazard Frères & Co. ("Lazard"). I make this affidavit in opposition to the motion of plaintiff QVC Network, Inc. ("QVC") for a preliminary injunction restraining Paramount Communications Inc. ("Paramount") from consummating the Merger Agreement between Viacom, Inc. ("Viacom")

and Paramount, or the Viacom Tender Offer, commenced on October 25, 1993.

2. I began working at Lazard in 1948, and have been a General Partner of Lazard for the past 33 years. I generally advise Lazard's major corporate clients on their business and financial affairs. Over the years I have advised our clients on hundreds of significant corporate transactions, including mergers and tender offers. Many of those transactions have involved media and entertainment companies.

3. Lazard has been acting as a financial advisor to Paramount in connection with: (i) the Merger Agreement between Paramount and Viacom, dated as of September 12, 1993 ("the "Original Merger Agreement"); (ii) the Amended and Restated Agreement and Plan of Merger, dated as of October 24, 1993 (the "Amended Merger Agreement"); and (iii) the Second Amended and Restated Agreement and Plan of Merger, dated as of November 6, 1993 (the "Merger Agreement"); and (iv) the Tender Offer commenced by Viacom on October 25, 1993. Lazard is also acting as a financial advisor to Paramount in connection with: (i) a proposal by QVC Network Inc. ("QVC") received on September 20, 1993 proposing a combination of QVC and Paramount (the "QVC Proposal"); and (ii) the subsequent unsolicited tender offer announced by QVC on October 21, 1993 and commenced on October 27, 1993 (the "QVC Tender Offer"). I have confirmed with Steven Rattner, the Lazard partner who had day-to-day responsibility for our engagement, the details of Lazard's activities, as described herein.

4. In acting as a financial advisor to Paramount in connection with the Merger Agreement with Viacom, Lazard advised and assisted Paramount in the negotiations of significant terms and provisions of the Merger Agreement in addition to the consideration to be received by the Paramount shareholders. Such significant terms included, among others, termination fee and stock option provisions which would take effect in certain circumstances.

Reasonableness of the Stock Option

5. At the initial stages of the negotiations on July 6 and 7, 1993, Lazard was advised that Viacom was requesting (i) an option on Paramount's movie studio; (ii) provisions for options on at least 19% of Paramount's outstanding shares at the market price (then \$54.75 per share); and (iii) provisions for a \$150 million termination fee plus payment of expenses to Viacom by Paramount in the event that the merger transaction were not consummated because of a higher bid from a third party.

6. Paramount was unwilling to consider granting Viacom an option on Paramount's movie studio and Lazard considered that request unacceptable. In addition, based on its experience and knowledge of comparable transactions, Lazard viewed the initial termination fee and stock option provisions requested by Viacom as excessive.

7. Viacom withdrew its request for an option on Paramount's movie studio, and at a later time eventually agreed to a reduced termination fee to be set at \$100 million (approximately 1.2% of the value of the transaction as valued at

the time of the execution of the Original Merger Agreement between Viacom and Paramount). The 1.2% ratio of termination fee to transaction value was not unusual and was in line with the percentage value of termination fees that have been negotiated in merger transactions of comparable size and was considered not to be a deterrent to a third party making a bid at a higher price.

8. Following the initial negotiations of July 6 and 7, 1993, Viacom continuously insisted on receiving an option on at least 19% of Paramount's outstanding shares at an exercise price equal to the then market price of Paramount stock, a demand which Paramount was unwilling to accept and, in Lazard's view, was not consistent with the terms of stock options granted to acquirors in past merger agreements involving comparably sized companies.

9. I was present at the August 25, 1993 meeting with Robert Greenhill and Michael Levitt that is referred to in the "PROJECT MOCA" chronology (Document Bates No. L 4932). As I testified at my deposition, Robert Greenhill and the other representatives of Viacom did not withdraw the request for a stock option either at the August 25 meeting or at any other time. Throughout the negotiations, Viacom insisted that the stock option was a condition precedent to any agreement.

10. At one point in the negotiations, on August 25, 1993, Paramount proposed terms of a merger transaction that would not have included any stock option. However, that proposal was immediately rejected by Viacom and Viacom ceased discussions of the proposed transaction with Paramount at that time.

11. Near the conclusion of the negotiations, on or about September 7, 1993, Viacom agreed to a stock option provision at an exercise price equal to the deal price, i.e., the value of the consideration being offered for Paramount's shares pursuant to the Original Merger Agreement between Viacom and Paramount. On September 12, 1993, the date the Original Merger Agreement was announced, the deal price was \$69.14 per share, \$14.39 higher than the price at the time Viacom initially requested the stock option "at market."

12. In Lazard's experience the financial terms of the stock option agreement in its final form were not unusual in the context of the overall provisions of the Original Merger Agreement, including the premium consideration offered by Viacom and Paramount's ability to receive higher offers from third parties.

13. Lazard believed the specific financial terms of the stock option were reasonable based on Lazard's experience in past transactions. In addition, Lazard specifically reviewed lists of past merger transactions, certain of which included stock options. Annexed hereto as Exhibit 1 is a compilation which, I have been advised, reflects information about certain of those past transactions involving stock options which Lazard reviewed. The financial terms of the combined termination fee and stock option provisions in their final form were consistent with provisions in the comparably sized merger transactions we considered, including those described in Exhibit 1.

14. Moreover, at the time the Paramount Board was considering the proposed Original Merger Agreement, Lazard advised the Board that those provisions should not materially deter a third party from seeking to propose a higher priced transaction to merge with or acquire Paramount.

The September 12, 1993 Board of Directors Meeting

15. At the September 12, 1993 meeting of Paramount's Board of Directors, Lazard identified for the Board a list of other potential acquirors of Paramount. That list is annexed as Exhibit 2. Exhibit 2 reflected those companies which Lazard believed would be most attracted to Paramount's assets. Listed among the potential acquirors was "TCI Group," which included QVC. Lazard noted to Paramount's Board that the sheer size of Paramount limited the universe of potential acquirors. As I testified at my deposition, Lazard did not view the transaction as a sale of the company. Moreover, it was Lazard's view that it was not advisable for Paramount to contact any of the potential acquirors for two primary reasons: (i) Lazard believed there had been ample opportunity for any third party to express interest in a transaction with Paramount during the two months that the discussions between Viacom and Paramount had been a matter of public speculation in the press, yet no contact had been made with Lazard or, to my knowledge, with Paramount by any of those companies or by any other third party to express any serious interest in proposing a transaction; and (ii) Lazard believed that given the enormous size of the proposed merger transaction

any attempt to "shop" Paramount would be impractical and, because it could not be kept confidential, would potentially have a negative impact on the value of Paramount and would likely reduce the possibility of reaching an agreement with Viacom, an agreement Lazard believed had the potential to be very attractive to Paramount.

16. Lazard also presented a comparable transaction analysis (annexed hereto as Exhibit 3), highlighting for the Board three transactions which had been discussed in detail at the September 9, 1993 Board Meeting: the acquisition of MCA by Matsushita Electrical Industrial Company Ltd., the acquisition of Columbia Pictures Entertainment, Inc. by Sony USA Inc. and the acquisition of Warner Communications Inc. by Time Incorporated. Lazard compared the multiples implied by the terms of the Original Merger Agreement, both at its then current implied value based on Viacom's market price on September 9, 1993, and at an implied value reflecting a 5% drop in Viacom's share prices. Both before and after such a drop, the implied multiples of the proposed Merger were generally consistent with the multiples paid for MCA and Warner though lower than those paid for Columbia.

17. In addition, Lazard presented a comparable public company analysis (annexed hereto as Exhibit 4), in which we noted that, while there are no public companies with precisely the same mix of businesses as Paramount, perhaps the two closest were Time Warner and Disney. As shown in Exhibit 4, both Time Warner and Disney stock were trading in the marketplace at multiples markedly below the multiples implied by the merger consideration

to be received by the Paramount Shareholders as contemplated by the Original Merger Agreement.

18. Lazard also advised the Paramount Board that the Original Merger Agreement provided strategic benefits to Paramount shareholders, who would retain a significant equity interest in the combined company, as reflected in the exhibit entitled "Strategic Considerations" (annexed hereto as Exhibit 5), which was included in Lazard's September 12, 1993 Presentation to the Paramount Board.

National Amusements Stock Purchase Program

19. Lazard reviewed the Viacom stock purchases made by National Amusements under its longstanding, publicly disclosed stock purchase program in order to determine whether those purchases had inflated the market price of Viacom's shares.

20. As of Friday, September 10, 1993, National Amusements had been out of the market for Viacom stock for approximately three weeks and Viacom's stock price had been unaffected by National Amusements' departure from the market. Lazard discussed the National Amusements stock purchase program with the Paramount Board at the September 9 and 12, 1993 Board meetings, and took it into account in rendering its fairness opinion to the Paramount Board on September 12, 1993.

Involvement of Paramount's Outside Directors

21. Both Paramount's outside and inside directors took an active role in considering the Viacom proposal. The Executive Committee of Paramount's Board was advised of the negotiations

with Viacom since at least July 7, 1993. During the portions of the Board meetings on September 9 and 12, 1993 which I attended, Paramount's outside and inside directors took an active role in questioning management and Paramount's advisors and discussing the merits of the proposed merger with Viacom.

22. In my experience, except in the case of management buyouts, parent-subsidary mergers, or other similar situations, I do not recall outside directors being directly involved in the day-to-day negotiations of major transactions, which are usually handled by company management or the company's financial advisors and attorneys.

Response to Affidavit of Hugh R. Lamle

23. I have reviewed Mr. Lamle's affidavit, dated November 11, 1993, which argues that somehow the provision for Viacom to pay for option shares using a senior subordinated debenture note (the "Note") "poses tremendous risks for any other would be [sic] acquiror. . . ." Lamle Aff. ¶ 9. However, Mr. Lamle disregards the provision in Section 1.04 of the Stock Option Agreement for pricing the Note and in Section 5.02(c) giving registration rights to Paramount. In light of those provisions and the fact that Viacom has been an active issuer in the public debt market, Lazard believed that the Note was likely

to be "money good" and marketable. Consequently, I disagree with Mr. Lamle's analysis.


Felix G. Rohatyn

Sworn to before me this
13th day of November 1993


Notary Public

ELEANOR PRESCOTT
NOTARY PUBLIC, State of New York
No. 31-3156339
Qualified in New York County
Commission Expires Dec. 31, 1993