

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

QVC NETWORK, INC.,

Plaintiff,

v.

PARAMOUNT COMMUNICATIONS INC.,
VIACOM INC., MARTIN S. DAVIS,
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.

C.A. No. 13208

AFFIDAVIT OF
LESTER POLLACK

STATE OF NEW YORK)

: ss.:

COUNTY OF NEW YORK)

LESTER POLLACK, being duly sworn, deposes and says:

1. My deposition was noticed in this case. I made myself available to testify and was prepared to do so when the deposition was unilaterally cancelled by QVC's attorneys at Wachtell, Lipton, Rosen & Katz. If deposed, I would have testified to the facts and events described in this affidavit.

2. I am a General Partner of the investment banking firm of Lazard Freres & Company. I am a member of the Board of Directors and of the Executive Committee of

Paramount Communications Inc. ("Paramount"), and am Chairman of Paramount's Audit Committee. I have been a Paramount director since 1985. This affidavit is based on my own personal knowledge, and is submitted in opposition to QVC Network, Inc.'s ("QVC") motion for a preliminary injunction to enjoin Paramount's merger with Viacom Inc. ("Viacom").

3. I received a bachelor's degree from Brooklyn College in 1955, and I graduated from New York University School of Law in 1957. I am currently a Trustee of New York University.

4. From 1958 to 1965, I was a member of a New York law firm. Thereafter, I was executive vice president of Loews Corporation from 1965 until 1979, and vice chairman and co-chief operating officer of United Brands Company from 1979 to 1981. Beginning in 1981, I became a general partner in Odyssey Partners. In 1986, the year after I became a member of the Paramount Board, I joined Lazard Freres, where I am a general partner. My principal duties at Lazard Freres are as the Chief Executive Officer of Centre Partners and the Senior Managing Director of Corporate Partners, both of which are investment affiliates of Lazard Freres.

5. In addition to my Board membership at Paramount, I am a director of Loews Corporation, CNA Financial Corporation, Sunamerica Corp., Kaufman & Broad Home Corporation, Parlex Corporation, Transco Energy Company, Polaroid Corporation, Continental Cablevision, Inc., and Tidewater Inc.

6. Since at least 1985, when I began my service as a Paramount Board member, Paramount (which was then called Gulf + Western) and Martin Davis have

aggressively pursued a strategy of reshaping and refining the Company into a major force in the entertainment and publishing fields.

7. That strategy, which I understand began to be implemented in approximately 1983, was pursued by divesting assets that were unrelated to the core of the Company's business, by reducing debt, and by making carefully-chosen acquisitions geared to enhancing Paramount's entertainment and publishing businesses.

8. The year 1989 was, in my view, a symbolic turning point for the Company. In that year, the Company changed its name from Gulf + Western to Paramount Communications Inc., clarifying for the world the focus of the Company's direction.

9. That year also marked the sale of The Associates, a financial services company, for \$3.35 billion. The Associates was a very strong and successful enterprise, which accounted for a substantial portion of the Company's earnings. Nonetheless, it was sold because of the Company's evolving emphasis on entertainment and publishing.

10. Also in 1989, Paramount attempted -- and failed -- to acquire Time Inc. That attempt was a bold step on a course that Paramount has consistently followed for the last ten years, committing itself to grow into a world-level media enterprise. This strategic plan has been manifested in a series of transactions, the most recent of which is Paramount's successful bid for the Macmillan publishing house.

11. Having been thwarted in the Time transaction, Paramount has not looked back and has not wavered from its strategic plan. Instead, it has looked ahead to a future of growth. Paramount has spent four years exploring, examining, and searching for

advantageous acquisitions and, ultimately, for the ideal partner with which to merge into a truly global entertainment giant.

12. In those years, Paramount has explored a great many potential opportunities. Martin Davis and the Board have discussed time and again various candidates, only to find them unsuitable, incompatible, or unavailable. I was always kept fully informed, through regular telephone conversations with Mr. Davis, on what our options were and Paramount's exploration of those options.

13. We have learned a great deal in our years of searching. Mr. Davis and the Board have become increasingly selective and discerning. We have chosen Viacom to be our partner in a merger of equals -- equals in size, in assets, in value, in talent, in vision, in ambition. From my vantage point, our agreements with Viacom have been hard fought and arm's-length in every sense of the word. The result of those sometimes difficult negotiations is a fundamentally fair and honest agreement to unite two singular companies into a single whole.

14. As I said, the negotiations were often difficult, breaking off more than once. In early July of this year, the Executive Committee of the Board met to discuss talks that had been occurring with Viacom. The transaction under discussion would have entailed Paramount's shareholders receiving from Viacom amounts of its Class A and Class B stock plus a cash component with a total value per share in the low \$60s. At the meeting, Mr. Davis explained that Lazard Freres believed the value of the package proposed by Viacom

was too low. The Committee then discussed the possible transaction, and decided to reject the proposal because of inadequate price.

15. I learned that discussions recommenced in August, but then soon broke off again because the amount per share proposed by Viacom was still inadequate.

16. In early September I spoke with Martin Davis, who told me that negotiations about a possible merger with Viacom had started again.

17. I was present at the September 9 Board meeting where there were two presentations. In the first presentation, Mr. Davis described in detail the major issues involved in the current negotiations with Viacom. He described the negotiations on price. He discussed how Viacom was demanding an option to purchase Paramount stock at a specific price if the deal was not consummated. Viacom originally wanted the option price set at a price lower than the proposed merger share price, but it had now given in on this point. He further described how Viacom had also agreed to a lower termination fee. Originally, Viacom was demanding a \$150 million termination fee; it was now willing to accept a \$100 million termination fee. Viacom also wanted asset lock-ups, but Paramount refused. Mr. Davis described how the parties had negotiated over the right of the Paramount Board to consider other potential transactions if so required by the Board's fiduciary duties. He also told the Board that regardless of whether Paramount would merge into Viacom or Viacom would merge into Paramount, in any event, Sumner Redstone would emerge as the controlling shareholder of the combined company.

18. The second presentation at the September 9 meeting was conducted by Messrs. Rohatyn, Rattner and Ezersky from Lazard Freres. This presentation consisted of a detailed written report distributed to each Board member, as well as an oral explanation of what was contained in the report. I remember this presentation containing a helpful chronology of negotiations between Viacom and Paramount dating back to early July of 1993, as well as a detailed analysis of the financial status and multiples of both Paramount and Viacom. The Lazard presentation included analyses of trading prices of Viacom stock from August 1992 through the present, and specifically included a discussion of the trading activities of National Amusement Inc. in Viacom stock that had taken place prior to August 20, 1993.

19. Both Mr. Davis and the representatives from Lazard emphasized that in comparison to other possible mergers or acquisitions that had been studied for quite some time, Viacom was the best choice because of the remarkable way the two companies' assets would complement each other.

20. At the end of the presentations, there were extensive discussions among the members of the Board and the representatives from Lazard. The Board members asked several questions of both management and the representatives from Lazard.

21. Three days later, on September 12, the Board held a special meeting in order to consider the proposed merger between Paramount and Viacom.

22. Joel Hoffman from Simpson Thacher & Bartlett gave a presentation on the terms of the proposed merger agreement and related agreements. A written summary of

the merger agreement was distributed and Mr. Hoffman walked us through the principal terms of the proposed merger agreement, including operation of the proposed stock option and termination fee. Mr. Hoffman then answered many questions from different Board members regarding the terms of the merger agreement.

23. Lazard then made another presentation. Mr. Rohatyn made some remarks, followed by a lengthy presentation by Messrs. Rattner and Ezersky. Lazard distributed a detailed report to supplement the oral presentation. Lazard first presented an overview of the opinion of Lazard Freres in regard to the fairness of the merger to Paramount's stockholders from a financial perspective. The presentation then focused on key financial statistics such as pro forma net income, earnings per share, dilution and EBITDA multiples. The presentation also analyzed comparable transactions, and concluded that the implied multiples of the proposed merger were generally consistent with those paid for MCA by Matsushita and for Warner by Time, although somewhat lower than the multiples paid for Columbia by Sony. In particular, Felix Rohatyn was invited to comment on whether the stock option and termination fee that Viacom was insisting upon would preclude other bidders. Lazard responded that these provisions were by no means unusual in these types of transactions, that historically they have not had a preclusive effect, and that the provisions being negotiated with Viacom would not be so burdensome as to preclude other companies from entering into a combination transaction with Paramount.

24. After a lengthy meeting in which many questions were asked by the Board members, we unanimously adopted the merger agreement and recommended that

Paramount's stockholders approve it. My decision to vote in favor of the merger agreement and the recommendation was based on many factors, including my understanding of Paramount's long-standing strategy, the detailed presentations to the Board and my substantial experience with corporate transactions of this nature.

25. At the close of the meeting, a draft press release announcing the merger agreement was presented to the Board. I reviewed this draft and made comments on it before it was released.

26. Each Board member was acutely aware that the decisions being made on September 12, and thereafter, were vitally important to the future of Paramount and the interests of its shareholders. As I mentioned, I have had substantial experience in my various capacities with important corporate transactions, and I have seen many corporate boards carry out their functions. The Paramount Board exercised its fiduciary duties with the highest diligence and care, and its informed decisions should not be called into question.

27. I would like to add certain details regarding the October 24 Board meeting which I recall. We learned at that meeting that Viacom had proposed to Paramount on October 22 an amended agreement that would have severely limited Paramount's ability to act, particularly with regard to other proposals. For example, Viacom had proposed that Paramount's shareholder rights plan be amended to allow a tender offer by Viacom to succeed, but that no amendment could be made to allow a tender offer by anyone else. We were told, however, that in intense negotiations on October 22, 23 and 24, Paramount's

advisors and counsel had obtained several concessions from Viacom that were substantial improvements for Paramount over the original merger agreement.

28. Thus, in addition to a 29% increase in the value per share (from the value of the original deal based on the October 22 close of \$62 per share), with a far higher cash component, Viacom had agreed to Paramount's demand that the rights plan stay in place for everyone until Paramount, consistent with its fiduciary duties and in its sole discretion, decided to redeem it. Paramount also obtained the specific contractual right to withdraw its recommendation of the merger with Viacom, if our fiduciary duties required us to proceed with another alternative.

29. A final QVC allegation to which I would like to respond is its argument that the transaction with Viacom is somehow worth less to the Paramount stockholders because they will be receiving a greater percentage of Viacom non-voting stock. This, however, should not even be an issue since Sumner Redstone will be the controlling shareholder of the combined entity. Even if Paramount stockholders were to receive a larger percentage of Viacom voting stock, they will never have a controlling vote, so they are therefore not losing anything by receiving a greater percentage of non-voting stock.

30. In light of the merger agreement with Viacom and the unsolicited QVC offer, Paramount has found itself faced with a complex situation. Like my fellow directors, throughout this process, I fulfilled my obligation to our shareholders to educate myself through Board meetings, conversations with senior management executives, and relevant written materials. The decisions made by the Board at all of our meetings -- on September 9,

12, 27, October 11 and 24, and November 6 – were the product of highly informed and diligently exercised judgment, which should not be disturbed.

LPOLLER

Sworn to before me this

~~11th~~ day of November, 1993.



Notary Public

DENNIS C. O'DONNELL
NOTARY PUBLIC, State of New York
No. 31-500855
Qualified in New York County
Certificate filed in New York County
Commission Expires in August 24, 1994