

Newsweek

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Bono the Crusader
BUSH'S MONEY MACHINE

CITIZEN CASE

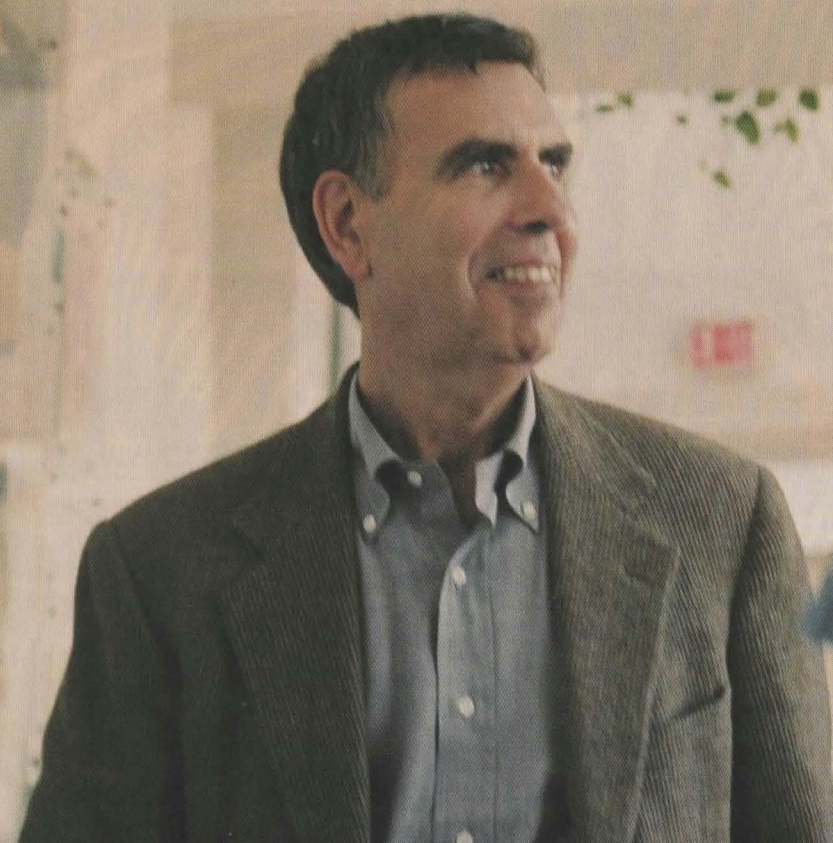
**THE MAN BEHIND THE
AOL TIME WARNER DEAL**

**WHAT THE MERGER
WILL MEAN FOR YOU**

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AOL Chairman Steve Case

Desperately Seeking A Deal



Meet the New Guy

WEDNESDAY, DULLES, VA.: Case gives Levin a tour of AOL. Later, with both stocks falling, the CEOs dispatch execs to brief key investors on the deal's merits.

THE MERGER



There were high-fives all around after **AOL** unveiled its plan to buy **Time Warner**. But AOL had been eying other suitors, and the deal was driven as much by **fear** of being left out as by any shared **vision**. BY JOHNNIE L. ROBERTS

EERILY CALM, STEVE Case and Gerald Levin are riding an elevator in a Manhattan skyscraper. Case, chairman of America Online, and Levin, his counterpart at Time Warner, chat amiably. Levin looks haggard, the effects of a cold and a grueling, nine-hour board meeting that ended late the previous night. As a New Year's resolution, he has just shaved his mustache for the first time in 35 years; his wife had never before seen his hairless face. Even in the serenity of an elevator, away from the jammed press conference they left behind, Case and Levin can't escape the fallout

PHOTOGRAPH BY JAKE CHESSUM, DIGITALLY RETOUCHEE

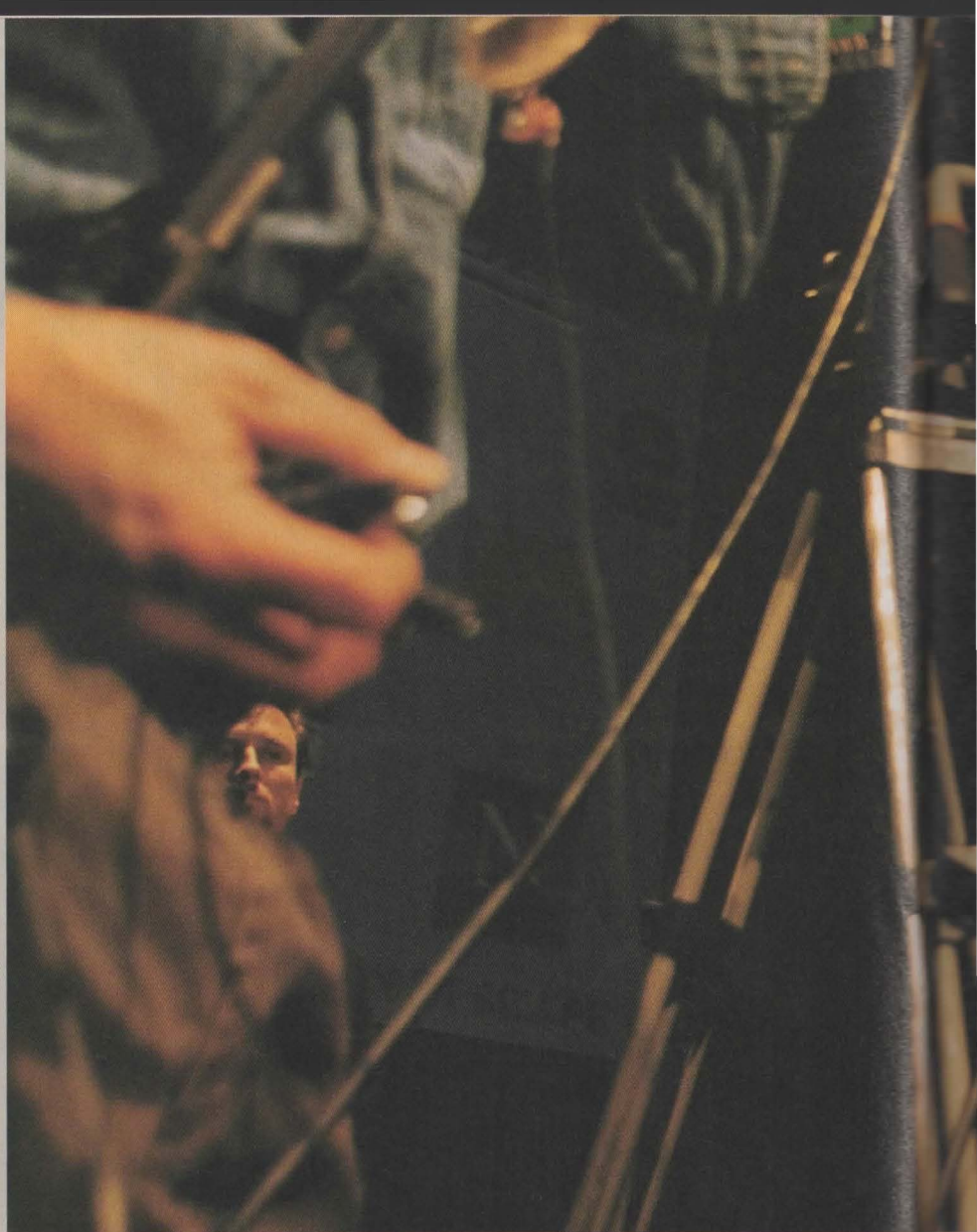
of the global explosion they set off moments earlier.

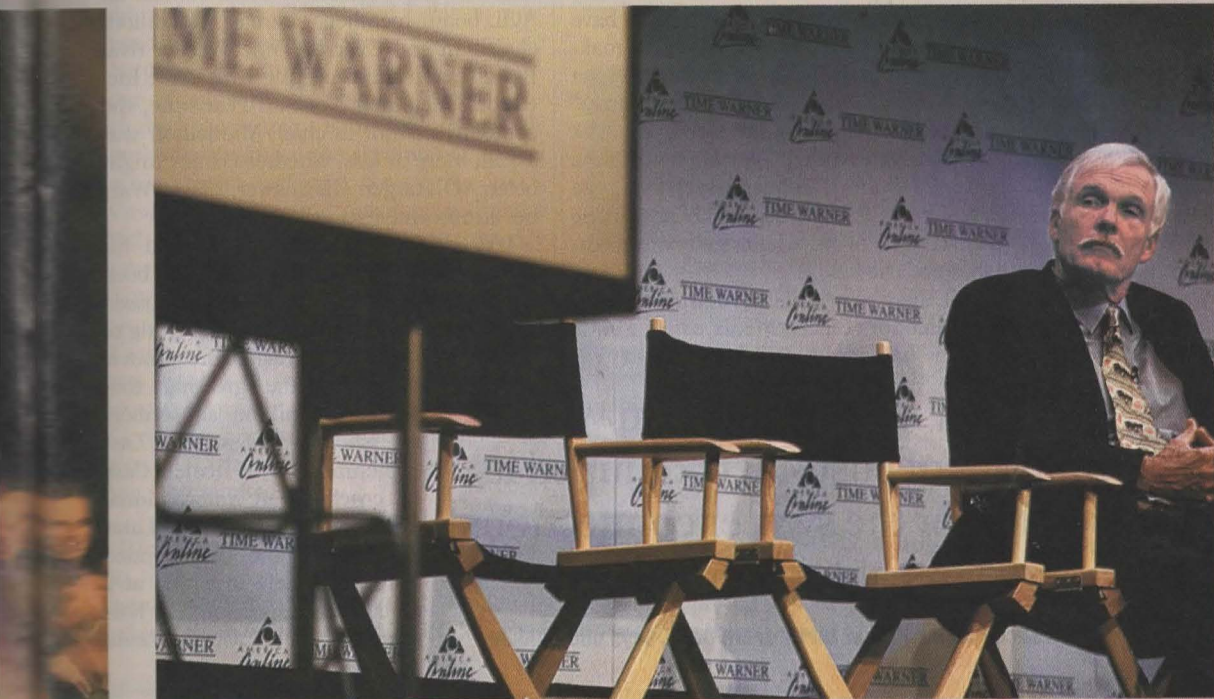
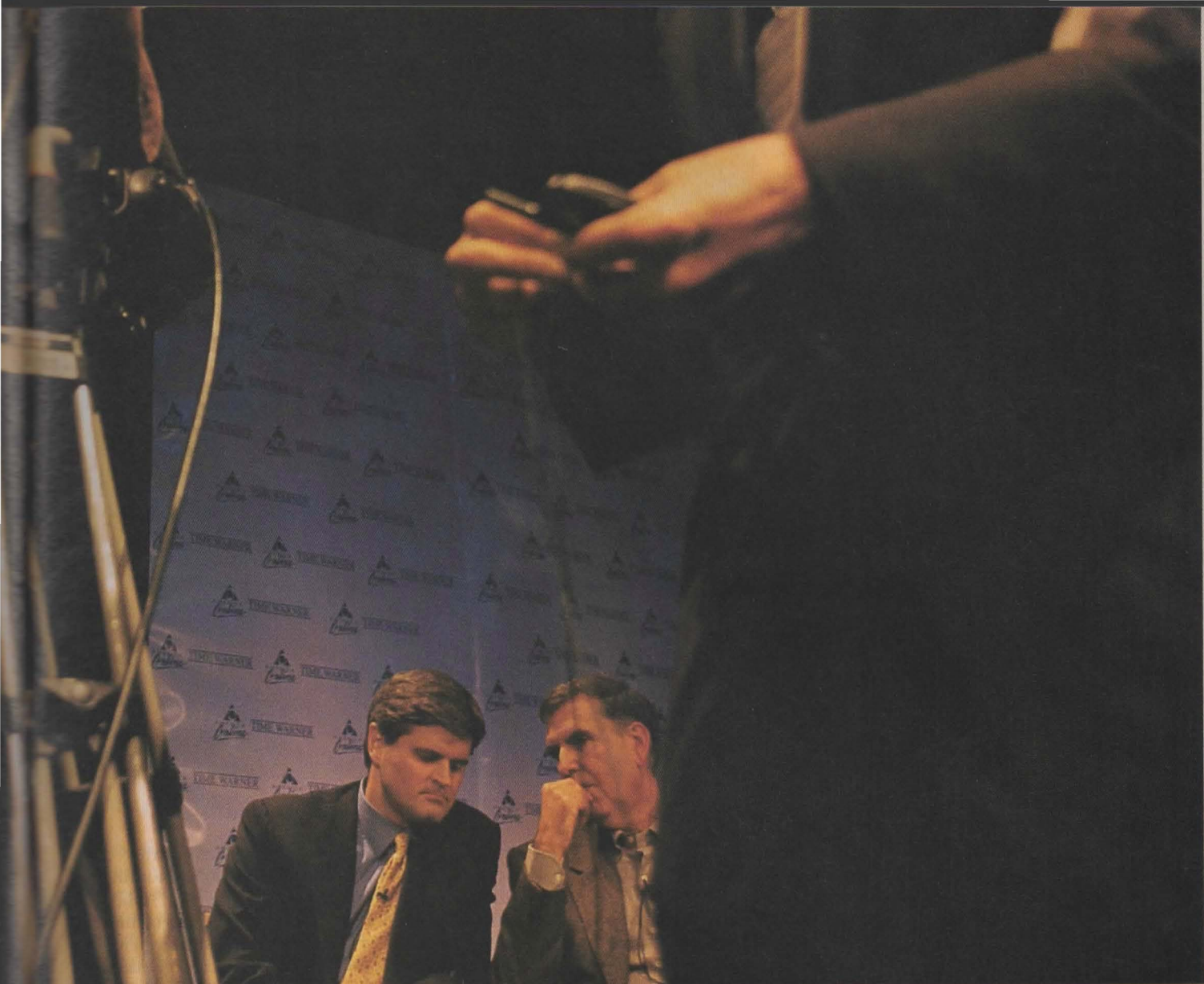
The reverberations reach Levin from the outside world through a tiny wireless gadget that delivers stock prices and e-mail. Pulling it from his pocket, Levin looks at the small screen and smiles with relief. So far, Time Warner's stock is rising. And America Online's isn't plunging, even though the stock market has begun to digest the giant gamble the two men have just placed. Moments earlier, before a crush of television cameras and photographers, the pair unveiled the breathtaking \$172 billion pact to marry Case's AOL, the world's biggest Internet company, with Time Warner's massive media empire. They outlined a vision of a new Wired World in which AOL Time Warner is ubiquitous in all its digital, branded glory. Case and Levin proclaimed their creation—crafted, amazingly enough, in near-total secrecy—as the dawn of “The Internet Century, a Digital Revolution.”

Speeding to the revolution, however, they've bypassed a few diplomatic niceties. For one, no one bothered to call Henry Luce III, son of the late founder of the weekly magazine that's part of Time Warner's name. Driving in to New York from his country home, Luce took a cell call from a friend and was stunned by the news. And while Case and Levin briefed a select few industry titans (including AT&T's chief executive, Michael Armstrong) early that morning, they have yet to call the White House. Such an era-defining moment as the birth of AOL Time Warner would seem to have warranted a heads-up. “We just haven't had time,” Case says, his tone sincere, as the elevator glides to a halt. “But we'll get to everyone.”

The unmade call only underscores the degree to which the Internet boom has eclipsed politics—and everything else, for that matter—as the nation's most captivating playing field. A perfect marker for the new millennium, the deal brings home the way the Net has moved from the margin to the mainstream. It's realigned the competitive landscape, forcing worried corporations to respond—sometimes hastily—with new ventures and huge deals. Time Warner was driven by Levin's fear that the digital age was bypassing his company, despite expensive and repeated attempts to go digital. And AOL saw an equally scary future, where millions of customers dumped its service for the swifter connections offered by cable companies like Time Warner. The deal sent shock waves across the country. On the other coast,

FOR A LIVE TALK ABOUT THE AOL-TIME WARNER DEAL, LOG ON TO NEWSWEEK.COM ON WEDNESDAY, JAN. 19, AT NOON EST



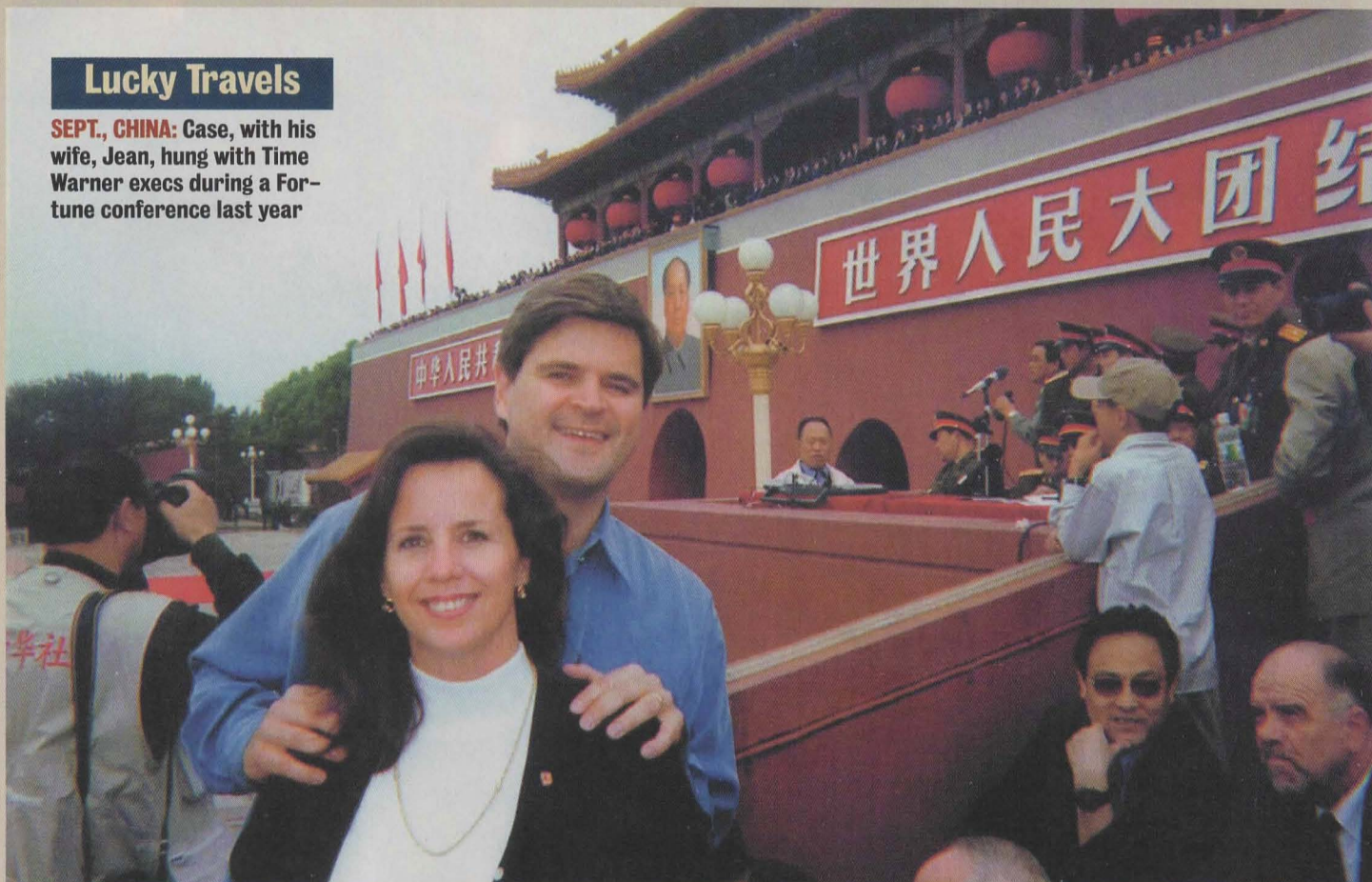


Show Time

MONDAY, NEW YORK: Although AOL had been in the hunt for a powerful partner since last year, its deal with Time Warner was kept remarkably quiet until it was unleashed on the world, generating maximum volume. Levin and Case huddle (above) and hug (far left) at the announcement; before approving the deal, Turner (left) jokingly made the Time Warner board vote twice.

Lucky Travels

SEPT., CHINA: Case, with his wife, Jean, hung with Time Warner execs during a Fortune conference last year



Microsoft announced it was liberating Bill Gates from his day-to-day duties running the company so that he could devote himself full time to developing software that would push Microsoft's own, quite different view of the digital future.

The speed with which AOL and Time Warner came together has quickly become part of the instant mythology. According to the nascent lore, Case and Levin cobbled together a deal after a couple of friendly dinners over a few months. But AOL's interest in acquiring Time Warner has a deeper, more complicated history. NEWSWEEK has learned that AOL, with its potent stock, might have been prepared earlier last year to make a hostile bid for Time Warner. AOL also targeted several other media companies, including Rupert Murdoch's NewsCorp. and German media giant Bertelsmann.

Given AOL's longstanding interest in ac-

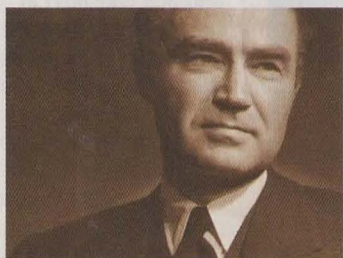
quiring a media company, it's all the more remarkable that the two companies kept the deal quiet until Jan. 10. Maintaining secrecy—while assembling legions of staffers, lawyers and investment bankers needed to complete the voluminous paperwork and convene meetings of both companies' boards to approve the deal—was extremely difficult. But it was vital; a leak could have caused a run on Time Warner stock, making the deal prohibitively expensive. Secret code names—Time Warner's was "Tango" and AOL's, "Alpha"—were deployed. The two sides figured their best hope would be to do the work quickly and keep everyone virtually sequestered at AOL's and Time Warner's law firms, where the board meetings were also held.

Still, there were hints. Several months ago John Malone of Liberty Media, a major Time Warner shareholder, told a top industry ex-

ecutive that the AOL-Time Warner deal would happen in early 2000, according to the executive. Robert Bennett, Liberty's CEO, confirms that Malone knew of the deal ahead of time, but doesn't know when Malone became aware of it. And in December some of Time Warner's top journalists got a hint but didn't realize it. Their source: an AOL board member, Thomas Middelhoff, chairman and CEO of Time Warner rival Bertelsmann. In a meeting with Time Inc. editors, including Norman Pearlstine, the company's editor in chief, Middelhoff was asked, more or less, whether Disney might be an AOL target. His answer: "Time Warner is more interesting."

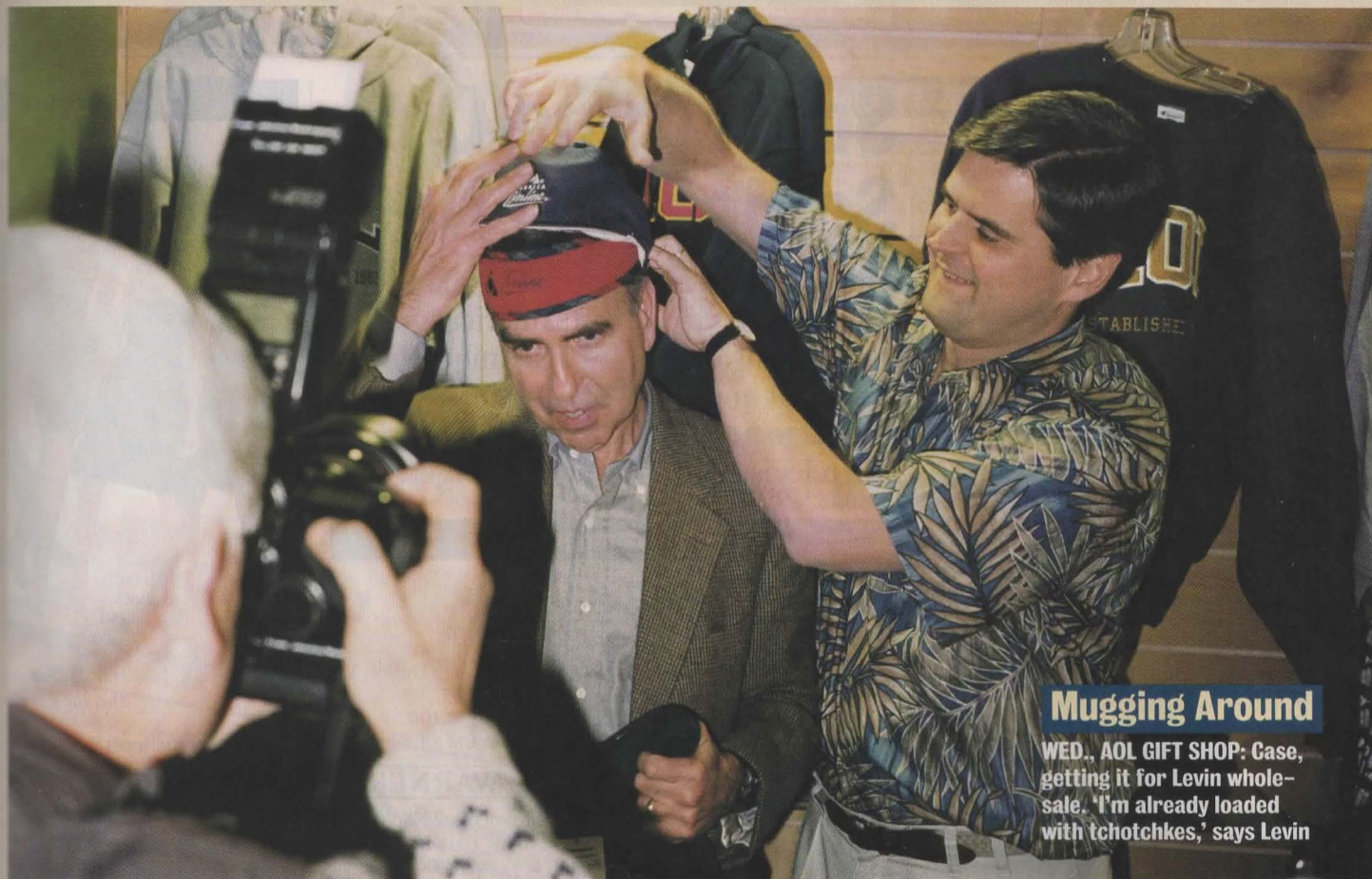
Indeed, AOL had been interested for some time. Levin and Case had long been casually acquainted. They once crossed paths at the White House at a screening of "You've Got Mail," the Warner Bros. movie

based on the greeting that AOL's 20 million subscribers get when e-mail arrives. Last September, Levin invited Case to co-chair an international business forum in Paris. Later that month the two bonded again, this time in China at a global forum sponsored by Fortune magazine. Case and Levin



AOL saw a scary future in which millions of customers dumped its service for the swifter connections offered by cable companies

Time's Luce: 'Separated at birth' from Case, says one banker



Mugging Around

WED., AOL GIFT SHOP: Case, getting it for Levin wholesale. 'I'm already loaded with tchotchkes,' says Levin

discovered they share similar views—that, for example, corporations should stand for more than just profits. “He was reflecting with me at the time that that’s the model he was driving AOL toward,” Levin says. “We weren’t talking about putting the companies together then.”

By mid-October the two executives were doing just that; Case called Levin to propose a corporate coupling. According to NEWSWEEK sources, Case had Time Warner—along with other big-media game, including NewsCorp.—in his cross hairs early on last year. And if the accounts of several senior media-industry execs are correct, Case was prepared to make an unfriendly bid for Time Warner. The idea quickly evaporated, these people say, when a major Time Warner shareholder, fund manager Gordon Crawford, supposedly learned of Case’s plan and opposed it. NEWSWEEK was unable to reach Crawford. An AOL exec vehemently denies the scenario. The German magazine *Der Spiegel* is reporting that AOL also offered to buy Bertelsmann but was rebuffed.

Yet the rumblings reached top Time Warner execs. “You hear rumors from time to time,” Richard Parsons, the company’s president, told NEWSWEEK. But, he added, there was “no tangible evidence” of

any hostile intent by AOL. Levin was already mindful of the possibility of a hostile approach from an Internet company. After all, several Internet companies had passed Time Warner and Disney in market value. So in theory, Levin said, “they could take a run” at the media giants. “I’ve talked to [Case] about it,” he adds. “I don’t think it was in his constitution to do it.”

LEVIN’S OWN CONSTITUTION, which has always responded to technology’s ability to transform markets, made him especially receptive to Case’s overtures. Under Levin, Time Warner bulked up on cable, spending billions of dollars to buy systems in the early 1990s. And Levin identified the Internet as a huge growth area earlier than his mogul counterparts, even though Time Warner has largely faltered on its own. The company spent millions on an interactive-TV project in Orlando, Fla., only to have it fail. In 1994 it launched Pathfinder, an ambitious umbrella site for the company’s magazines that meandered from one strategy to the next.

But Levin persisted. Last summer he abruptly traded in his wardrobe of pinstriped suits and rep ties for chinos and open-collar shirts, a kind of Silicon Valley-

style makeover. He swears the new look (his wife calls it “unseemly”) wasn’t a sartorial signal of his Internet ambitions. Still, it was around this time that Levin revamped Time Warner’s Web approach. After five years and \$40 million in estimated losses, he scrapped Pathfinder. In June he created Time Warner Digital Media. The mission: Time Warner’s digital transformation. And that’s where things more or less stood when, as Case and Levin tell it, they jump-started the personal contacts that would culminate in the AOL-Time Warner union.

When Case called in October to propose a combination, Levin was growing increasingly restive about his company’s place in the fast-changing world. He was ready to listen. Levin could be CEO and run the company, the AOL chief offered right away. On Nov. 1 the two talked further over dinner at New York’s posh Rihga Royal Hotel. But they quickly collided over the complex task of determining how many of AOL’s high-priced shares would be forked over for each of Time Warner’s shares.

Just before Thanksgiving the talks all but collapsed over the valuation issue. But in early December the two companies took another unsuccessful crack at it. By now Levin seemed much more anxious, determined and frustrated about the world Time Warner

inhabited. In a companywide memo on Dec. 14, he complained that the market wasn't acknowledging the company's "superior worth." And he seemed to bemoan the flighty values assigned to Internet stocks. "It's not my purpose to compare Time Warner to a dot-com company," he wrote. "By whatever measure you use ... we're so much more." Still, on Dec. 23 yet another AOL-Time Warner meeting ended without results.

Levin and his family spent the holidays in Vermont. He pondered the prospects of an AOL Time Warner when he wasn't weighed down with other worries—year-end budgets, choosing a director of the Harry Potter movie. John Rocker, the ace relief pitcher for the company's Atlanta Braves, had slurred minorities, gays and others in an interview. "There was a lot on my mind," Levin recalls. Still, by the time the holidays ended, he had all but decided to embrace the deal.

Things quickly fell into place. Two days after returning to New York, Levin accepted an invitation to join Case at his McLean, Va., home. And there they sealed the deal. "Nice dinner, good wine, good dessert," Levin recalls. "It was a nice environment."

That left a final nine-hour marathon meeting to convince the Time Warner board that selling out was the best course. Board member Carla Hill, the former U.S. trade representative, spent the entire nine hours on the phone from China. The meeting included a rousing speech by a Time Warner adviser, the star Morgan Stanley Internet analyst Mary Meeker, who said Time founder "Henry Luce and Steve Case were separated at birth," an attendee recalled. When it was time to vote, the exhausted directors did so with little vigor. The irrepressible Ted Turner, Time Warner's biggest individual shareholder, told NEWSWEEK he wanted a more rousing vote and that he called for a repeat. "I said, 'Don't you think we ought to vote more enthusiastically?'" he recalls. "You might as well go out of the locker room at half time with everybody giving high-fives."

Despite Turner's loopy benediction, completing the world's largest corporate merger won't be all fun and games. It's unlikely that regulators will stop the two companies from joining, because their businesses don't overlap much. But if AOL's shares continue to fall, as they did for much of last week, shareholders could scuttle the deal. Even if the market cooperates, melding the two corporate cultures will keep management consultants busy for years. Assuming their vision of the future is accurate, it will be some time before the foot soldiers of AOL Time Warner can lay down their rifles and claim victory in the digital revolution. ■

Something Old, Something New

The marriage of traditional media giant Time Warner to upstart America Online kicks off the century with a unique company that hopes to make the Internet as central to people's lives as the telephone and television. A look at the merger:

The companies



AOL's headquarters

The deal: Last week, AOL agreed to buy Time Warner for \$172 billion, the biggest merger in history. The new company will be named AOL Time Warner Inc.

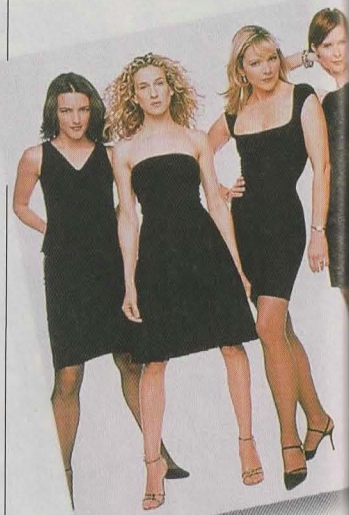


- HEADQUARTERS: Dulles, Va.
- FOUNDED: 1985
- EMPLOYEES: 12,100
- 1999 REVENUE: \$4.8 billion

TIME WARNER

- HEADQUARTERS: N.Y. City
- FOUNDED (TIME INC.): 1922
- EMPLOYEES: 70,000
- 1998 REVENUE: \$26.8 billion

Cable networks



HBO's 'Sex and the City'

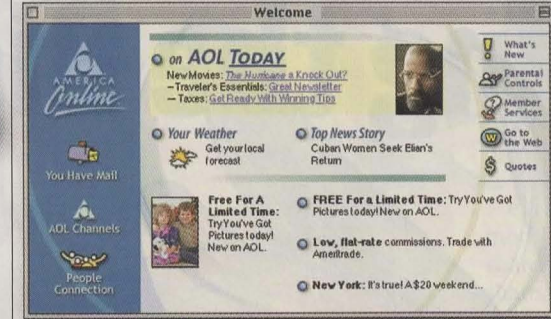
Prime time redefined: Smart, sexy HBO programs like 'The Sopranos' and 'Sex and the City' are attracting new audiences. CNN is expanding its franchise worldwide, while TNT and the Cartoon Network hold strong.



'Scooby-Doo'

CNN

Internet and cable systems

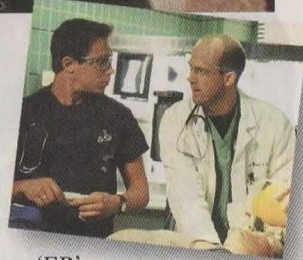


AOL: Buying Time Warner gives AOL access to the technologically advanced broadband-delivery systems necessary to expand its Internet franchises. **Road runner:** Time Warner's jointly owned cable broadband service connects to the Internet at speeds more than 100 times faster than dial-up.

TV and movies



'You've Got Mail'



'ER'

Show business: Warner Bros. is the entertainment company behind such hit movies as 'You've Got Mail' and 'Analyze This' and television powerhouses 'ER,' 'Friends' and 'The Drew Carey Show.'

Publishing



The printed word: Time Inc. reaches more than 120 million magazine readers with 32 titles; four are weekly consumer magazines—Time, People, Sports Illustrated and Entertainment Weekly. In 1998, the book division had 31 titles on the NYT best-seller list.

Music

Off key: Warner Music Group has an impressive roster of stars but has been unable to cash in on the teen-pop craze. In three years, market share dropped from 20.9 to 13.7 percent.



(L-R) Faith Hill, Cher, Madonna, Jewel

The pitfalls

The massive deal between AOL and Time Warner raises huge questions that may keep the combined company from living up to expectations. Among them:

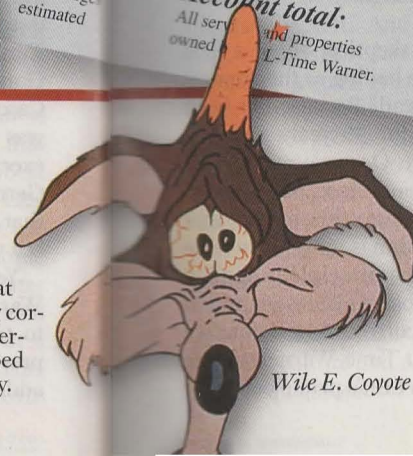
- If the stock prices of these two companies fall too far,

shareholders may sour on the merger and vote it down.

- AOL is Steve Case's creation, but he's turning it over to Gerald Levin, the head of Time Warner, who will be CEO of the merged company. What will happen if

chairman Case does not approve of how Levin runs things?

- Time Warner values long-range planning. AOL is used to reacting at Internet speed. Clashing corporate cultures may undermine the much-ballyhooed opportunities for synergy.



Wile E. Coyote

AOL-TIME WARNER

JOHN DOE
24 MAIN ST.
SMITHVILLE, TX 77645

Account number: 9999 999 999 9999

Billing date: January 04, 2002

Customer Service is available 24 hours a day for all your concerns and questions

Account Details

Monthly pipeline charges - Service from 1/10/02 to 2/09/02

01/10 - 02/09 Basic cable package and surcharges Time Warner Cable \$37.95

01/10 - 02/09 HBO Premium channel HBO \$37.95

01/10 - 02/09 ROAD RUNNER High-speed Internet connection Road Runner Cable Access \$6.95

01/10 - 02/09 AOL Internet service provider (ISP) America Online \$39.95

01/10 - 02/09 AOL-per-service media charges - From 1/10/02 to 2/09/02 \$9.95

01/10 - 02/09 AOL Movies AOL Moviephone service charge (4 tix) Tickets (2/Any Given Sun., 2/Magnolia) \$6.95

01/10 - 02/09 CDNow Albums (1/Madonna) \$6.95

01/10 - 02/09 People Magazines Annual renewal (2/ST, People) \$10.00

01/10 - 02/09 Book-of-the-Month Titles (1/LIFE: Our Century in Pic.) \$66.00

Not an actual bill. All charges estimated.

Account total: All services and properties owned by AOL Time Warner. Balance due \$ 297.73

Payment due date 1/25/02