

## Huge Changes For AOL Time Warner

--A complete upper management shake-up for  
the struggling company --

### **BACKGROUND:**

Whether you watch it, read it, listen to it, or log on to it, chances are it comes from the mighty colossus that is AOL Time Warner. The product of the 2001 marriage of online king America Online with media titan Time Warner, AOL Time Warner's reach extends across the vast properties of the two companies from which it originated.

**TIME:** At an Army training camp in 1918, Henry Luce and Briton Hadden conceived their idea for a magazine. Thinking that people were being bombarded with information and headlines but were less informed, the friends set about changing it with Time, a weekly magazine started with \$86,375 borrowed from friends and Yale classmates, fewer than 20,000 subscribers; and losses of \$39,454 in the first year. The second year they made a profit.

As Time moved on, they started other magazines such as People, Sports Illustrated, Life, Fortune, Money and others. They created Time Life Inc. (1961), a book publishing division, and acquired others such as Southern Progress Corp. (1985). Their magazine titles have expanded from about two dozen in 1994 to today's 140 regular titles with numerous special issues.

**WARNER:** Warner Brothers was founded by four brothers: Harry Warner (1881-1958), Albert Warner (1884-1967), Samuel Warner (1887-1927), and Jack Warner (1892-1978). The three oldest brothers were born in Poland and the youngest was born in London, Ontario. By 1903 Warner's had opened a nickelodeon (early movie theater named for its nickel admission price) in New Castle, Penn. In 1912 they began to produce films in New York City. They opened their own studio in Hollywood, California on a 10 acre lot

on Sunset Boulevard, in 1918, and five years later they founded Warner Bros. Pictures, Inc.

They made the first "partial talkie," *The Jazz Singer* in 1927, and their first all-talking picture was *Lights of New York* in 1928. They went on to create classic movies such as *Little Caesar* (1930), *42nd Street* (1933), *Casablanca* (1942), *Bonnie and Clyde* (1967) and develop great stars such as James Cagney, Bette Davis, Joan Crawford, and Humphrey Bogart.

Warner, over the years moving into music and cable, merged with Time Inc. in 1989.

**TURNER:** In 1970, R. E. (Ted) Turner, then head of an Atlanta-based outdoor advertising firm, purchased WJRJ-Atlanta, Channel 17. In 1976, he originated the "superstation" concept, transmitting via satellite to cable systems.

In 1979, the company changed its name to Turner Broadcasting System, Inc. In 1980, the company broke new ground with the launch of CNN, the first 24-hour all-news network, forever changing the way the world saw breaking news.

TBS, Inc. now consists of many networks and businesses: TBS Superstation, Turner Network Television (TNT), Cartoon Network, and Turner Classic Movies (TCM) to name a few. TBS also has interests in professional sports as it controls the Atlanta Thrashers (NHL), the Atlanta Braves (MLB) and the Atlanta Hawks (NBA).

In 1996 Time Warner Inc. and Turner Broadcasting System, Inc. merged creating the world's leading entertainment, information and media company spanning film and TV, music, cable networks and systems, publishing, and professional sports.

**AOL:** America Online began in 1985, originally founded as Quantum Computer Services. It officially became America Online in 1989. In 1990 Steve Case was named president. Three

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years later, in 1993, AOL had only 500,000 members. It provided access to the Internet, and, in addition, offered access to its own online information and services. Now, AOL has more than 34 million members worldwide. America Online brought its online service, CompuServe, Netscape, and several interactive online services to the AOL Time Warner fold when the two companies merged on January 11, 2001.

### **STORY:**

NEW YORK--Out with the new and in with the old. Two veteran Time Warner executives were promoted to Chief Executive Richard Parson's top deputies in a move that gives the old media executives much of the control of the world's largest media company only 18 months after AOL completed its \$106.2 billion acquisition of Time Warner. The highly touted Chief Operating Officer Robert W. Pittman has decided to step down as COO and director of AOL Time Warner, and depart the company.



**COO Robert W Pittman steps down after instigating the merger of AOL and Time Warner.**

Under the new structure, **Don Logan**, formerly Chairman and Chief Executive Officer of Time Inc., becomes Chairman of the new Media & Communications Group (America Online, Time Inc. and Time Warner Cable, the AOL Time Warner Book Group and Interactive Video unit). **Jeff Bewkes**, formerly Chairman and CEO of HBO, becomes Chairman of the new Entertainment & Networks Group (HBO, New Line Cinema, The WB, Turner Networks, Warner Bros. and Warner Music). The Group Chairmen will report directly to Mr. Parsons.

Both Bewkes and Logan are highly regarded in the industry. Bewkes, who has been

with HBO since 1979, has been credited with reviving HBO with shows like Emmy-winning "The Sopranos" and "Sex and the City." Logan has been chief executive of the world's largest magazine publisher since 1994 and has been a part of the company since 1985 when Time bought Southern Progress Corp.

The reshuffling comes as the company faces investors who have battered the stock based on concerns about AOL's growth prospects, fears about complex accounting, heavy debt loads and disappointment in the lack of a clear strategy.

Mr. Parsons said, "We have the best media, entertainment and communications businesses in the world, but our challenge-and our goal in making these changes-is to take the lessons we've learned over the past two years and use them to make the parts work together to create greater value for our shareholders."

### **FUTURE:**

The original premise--that AOL Time Warner could offer advertising packages across a wide spectrum of properties--has not been as successful as predicted due to the lull in advertising created by the slow economy, as well as the fact that the packages are offered at large discounts where individual divisions could negotiate higher prices. Add to this the Internet start-up crash of a few years ago and AOL is faced with low revenues and increased competition.

In an effort to respark interest and keep clients within AOL advertising space, AOL's new version is set for official launch in the fall. It shows some cosmetic changes such as wallpaper designs on instant messaging, e-mail stationery and new instant message sounds as well as filters for junk e-mail and parental controls. Most significantly however, AOL 8.0 presents a program that allows users to make their online experience more personalized and functional, according to sources familiar with the new software. For example, areas of the desktop background could be used to show scrolling stock symbols or periodically promote Time Warner

content such as new shows on the WB Network or even advertising messages.

The success that AOL Time Warner has seen this past year is because of the huge success of its cable and film divisions, specifically *Harry Potter*, *Lord of the Rings*, and their "collections." If AOL Time Warner can translate that success to their other enterprises, they could become the complete media empire they envisioned.

**NOTE:** Please see feature.

## New Hope for Alzheimer's Diagnosis

--A new method of brain scanning may be able to diagnose Alzheimer's disease in its early stages.--

### **BACKGROUND:**

Alzheimer's is a disease associated with the gradual loss of brain cells that causes a steady decline in memory. This results in dementia, loss of intellectual functions severe enough to interfere with everyday life. Common symptoms include problems with reasoning/judgment, disorientation, difficulty in learning, loss of language skills, and decline in the ability to perform routine tasks. People with dementia also experience changes in their personalities and behavioral problems, such as agitation, anxiety, delusions (believing in a reality that does not exist), and hallucinations (seeing things that do not exist). Other diseases which cause dementia are Lewy bodies, Parkinson's disease, Creutzfeldt-Jakob disease, and Huntington's disease. All of these disorders involve disease processes that destroy brain cells.

When German physician Alois Alzheimer described the disease in 1907, it was considered rare. Today, AD is the most common cause of dementia, affecting 10 percent of people 65 years old, and nearly 50 percent of those age 85 or older. An estimated 4 million Americans have AD.

The duration of the illness may often vary from 3 to 20 years, with the average life expectancy at 8 years. The areas of the brain that

control memory and thinking skills are affected first, but as the disease progresses, cells die in other regions of the brain. How rapidly the disease advances varies by the individual. Communication becomes difficult as the person with AD struggles to find words, finish thoughts, or follow directions. Eventually, Alzheimer's sufferers become unable to care for themselves.

Scientists are still not certain what causes the disease. Certainly age plays an important role as the percentage of Alzheimer sufferers jumps from 10 to 50 percent from 65 to 85 years old. But what are the other factors?

Scientists are exploring the role of genetics in the development of Alzheimer's, focusing on chromosome 19. A person's risk of developing the disease seems to be slightly higher if a first-degree relative (brother, sister, parent) has the disease. This situation is called "familial," which means there could be a genetic factor involved, or perhaps family members were exposed to something in the environment that caused the disease. Cases where several members of a single family have had autopsy-confirmed diagnoses of Alzheimer's disease are rare. Much more is the situation where a single family member is diagnosed as having probable Alzheimer's (meaning that the physician is 80 to 90 percent certain that it is Alzheimer's).

Rarer forms of the disease, which strike people in their 30's and 40's, often run within families and appear to be related to chromosomes 1, 14, and 21. This is called "early-onset" and represents less than 10 percent of Alzheimer cases.

Some evidence shows that disorders such as high cholesterol and high blood pressure (factors that cause strokes and heart disease); may also increase the risk for developing AD. Doctors and scientists admit that it is a complex issue.

Symptoms include: disorientation to time and place; memory loss; difficulty performing familiar tasks; problems with language; poor or decreased judgment; problems with abstract thinking; changes in mood or behavior; changes in personality; and loss of initiative. Healthy people

can experience these problems to a certain extent, but with AD it affects the ability to function in daily life. For example, anyone can temporarily misplace a wallet or key. A person with AD may put things in unusual places: an iron in the freezer or a wristwatch in the sugar bowl.

Although current drugs cannot alter the progressive loss of cells, they may help minimize or stabilize symptoms. These medications may also delay the need for constant care. There are four drugs approved by the U.S. Food and Drug Administration for the treatment of AD: Tacrine (approved in 1993), Donepezil (1996), Rivastigmine (2000), and Galantamine (2001). These four medications are in a class of drugs known as cholinesterase inhibitors. They are designed to prevent the breakdown of a chemical messenger in the brain that is important for memory and other thinking skills. About half of the people who take cholinesterase inhibitors experience a modest improvement in cognitive symptoms. Also, Vitamin E supplements are often prescribed as a treatment for Alzheimer's disease because they may help brain cells defend themselves from attacks.

## **STORY:**

A new imaging technique that allows doctors to see the plaques that gum up the brains of Alzheimer's patients may offer a way to test for the mind-robbing disease before the devastating symptoms appear. Currently, Alzheimer's disease can only be definitively diagnosed by looking at the brain after a patient has died. So diagnosis in living patients is usually done through a process of elimination with MRI scans, mental evaluations and blood and urine tests performed to rule out other possible causes of dementia. While researchers do not know exactly what causes the dreaded disease, protein deposits known as amyloid plaques found in the spaces between nerve cells of the brain are a hallmark of AD. So researchers have been trying to develop brain-scanning technologies that could identify these plaques as way to speed up diagnosis.

Next week at the International Conference

on Alzheimer's Disease and Related Disorders in Stockholm, Bengt Langstrom of Uppsala University in Sweden will present the results of his small study of a promising new brain-imaging technique to identify this sign of Alzheimer's in living patients. "The advances in brain imaging being presented in Stockholm could have profound implications for the diagnosis and treatment of the disease before symptoms appear and open new doors for Alzheimer research," said William Thies, vice president of medical and scientific affairs for the Alzheimer's Association.

## **SIGNIFICANCE:**

### **Some Facts:**

- Approximately 4 million Americans have AD.
- 14 million Americans will have AD by the middle of this century (2050) unless a cure or prevention is found.
- The US spends at least \$100 billion a year on AD. Neither Medicare nor most private health insurance covers the long-term care most patients need.
- More than 7 of 10 people with Alzheimer's disease live at home. 75% of the home care is provided by family and friends. The remainder is paid care costing an average of \$12,500 per year. Families pay almost all of that out-of-pocket.
- Half of all nursing home residents suffer from AD or a related disorder. The average cost for nursing home care is \$42,000 per year but can exceed \$70,000 .
- The average lifetime cost per patient is \$174,000.
- AA has granted nearly \$120 million dollars in research grants (since 1982).
- The federal government estimates spending approximately \$598.9 million for Alzheimer disease research in 2002.



**The information in this article was provided by The Alzheimer's Association. If you would like more information or have any questions, please visit their web site at: <http://www.alz.org>.**

## WHO YOU NEED TO KNOW:

LIZA  
MINNELLI

Liza May Minnelli, singer, dancer, stage and screen actor was born on March 12, 1946 in Los Angeles to film director Vincente Minnelli (1910-'86) and actress Judy Garland (1922-'69). Though Garland is quoted as saying "The trouble with me is that I have never been able to love anyone very much, not even my own children," that did not stop her from introducing Liza to the biz at an early age. Much of Liza's childhood was spent in the MGM studios while her parents worked long hours. At 3, Liza made her screen debut in "In the Good Old Summertime" costarring her mother. In 1964, the two again appeared together in London, which proved to be a turning point in both Liza's career and in their relationship.

In 1965, at age 19, Liza was the youngest actor ever to win a Tony Award for "Flora the Red Menace". Other dramatic roles in films followed such as "Charlie Bubbles" ('67), "Tell Me that You Love Me Judie Moon" ('70), Academy Award winning "Cabaret" ('72), "New York, New York" ('77), "Arthur" films (80's), and "Stepping Out" ('91). She is the only singer in history to sell out Carnegie Hall for 3 weeks straight.

Although Liza has battled many lows including her parents divorce in 1951, three failed marriages, substance abuse, insecurity, and health problems, she has continued to entertain audiences worldwide and her career has recently taken a positive turn. She married producer David Gest in March, 2002, opened on Broadway in June, retains a close friendship with Michael Jackson, and there are rumors that she may be considering a Osbourne-like TV series.

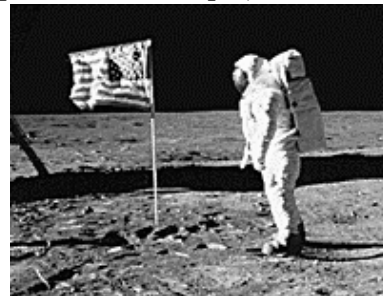
## THIS WEEK IN HISTORY:

## MAN ON THE MOON

Apollo 11 was launched on July 16, 1969 at 9:32 AM from Kennedy Space Center, Florida carrying the three astronauts lucky enough to be chosen for the mission that would leave the first human footprints in lunar dust: Neil A. Armstrong-Commander, Michael Collins-Command Module Pilot, Edwin "Buzz" E. Aldrin Jr.-Lunar Module Pilot.

"Houston, Tranquillity Base here. The Eagle has landed." Four days later, on July 20 and 4:17 PM, the Apollo 11 lunar excursion module, bearing Armstrong and Aldrin, landed in the area of the moon known as the Sea of Tranquillity. It was the first manned lunar landing mission. The United States flag and a plaque that stated, "Here Men From Planet Earth First Set Foot Upon the Moon July 1969 AD. We Came In Peace For All Mankind" was placed there. They explored the surface and gathered moon rocks for over two hours. These first samples were basalts, dark-colored igneous rocks, which were about 3.7 billion years old. The next day they fired off the surface, rejoining Collins in the orbiting ship. The Apollo 11 mission lasted slightly over 8 days, splashing down to Earth on July 24 at 12:50 PM.

As Neil Armstrong made his first step from the space craft, he uttered those famous words, "That's one small step for man, one giant leap for mankind." (Incidentally, he meant to say "one step for a man," oops!)



Aldrin posed for this picture next to the U.S. flag. The rod to hold the flag out horizontally would not extend fully, so the flag ended up with a slight waviness, giving the appearance of being windblown. The flag itself was difficult to erect, only penetrating about 6 to 8 inches into the lunar soil. It actually fell over during the take off of the lunar module.



## FEATURE:

## What is Cooking the Books?

You have heard of cooking the books, creative accounting, and corporate fraud. They are being thrown about today's media with increasing regularity. But what do these phrases really mean? And how do they affect us as consumers and investors?

For example, as previously mentioned, stock analysts have recently expressed some skepticism in AOL Time Warner's accounting methods. They say that financial reports may not be reflecting their true financial state. But how can that happen? Companies, and their accountants, supposedly follow the GAAP, the generally accepted accounting principles.

The GAAP is a body of principles that govern accounting of financial transactions that underlie the preparation of financial statements. They are compiled from the Financial Accounting Standards Board, the American Institute of Certified Public Accountants and other textbooks, articles and papers. Methods, practices and conventions evolve over time and eventually become widely used and part of the GAAP. Having an industry standard allows companies and investors to compare financial profiles and make decisions. However, they sometimes manipulate these financial statements to make them seem more profitable or closer to profit projections.

One example from AOL Time Warner's books is that AOL sold ads on behalf of Ebay, Inc., then counted the revenue as their own. It is admitted that this was a relatively small dollar amount and perhaps a minor mistake, but any accounting issues brought into the news are not good in this environment. AOL's auditor Ernst and Young reviewed the transactions and said that they were under GAAP guidelines.

Another more serious case may be that AOL might not be making the proper deductions

on their balance sheets. Last year their rapid growth *earnings before taxes, depreciation and amortization* (Ebitda) rose 18%. This is good, but the large increase may be a sign that the company is taking everyday expenses that ought to be deducted from revenue and shifting them to capital accounts. The items in capital accounts are considered assets and are deducted over longer periods. Their Ebitda is enhanced, their revenues seem larger and their net earnings are not affected. They look like they are doing better than they really are.

Another sign that this may be happening is that while the Ebitda grew by \$9.9 billion last year, its free cash flow (cash from operations minus invested cash) amounted to only \$24 million. The large discrepancy may be a sign that there is an overstatement in the companies reported earnings.

As of today, these are only signs, and AOL defends their accounting practices; pointing out that cash flow can be very volatile from quarter to quarter and must be looked at over long periods.

An example from Enron's case is that they made contracts to supple power for a fixed price; then made optimistic projections (sometimes for as long as 10 years) based on the then-current market, and reported the profit as soon as the contract was signed. When profits failed to materialize and/or regulations changed over a large number of deals, Enron found itself in the midst of corporate scandle.

Another way to account creatively is to lump costs together so that investors cannot compare how the individual costs change from year to year. Also, for a quick late quarter pick-me-up, some companies have been known to trade stocks amongst themselves in an effort to drive up the stock price, create a fake demand, then sell, making a large profit on their own stocks.

Of course there are many other ways companies can appear to do better than they really are, and some probably know most of them, but we have to hope that the new government task force created by Bush will be able to stop it.

*Quote of the Week:*

A little nonsense now and then,  
Is relished by the wisest men. -Unknown

*Fact of the Week:*

10% of Californians own a convertible.

*Word of the Week:*

Eclectic (ek\*lek'tik) a. Choosing what seems to be the best from others; not original or following and one model; choosing at will from the doctrine, works, etc or others.

**Thank You For Reading  
And  
Have a Great Week!**

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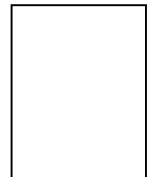
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