

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

IN RE AMERICAN FAMILY PUBLISHERS x
BUSINESS PRACTICES LITIGATION

No. 1235
Master Docket No 98 CV 385 (NHP)

IN RE AMERICAN FAMILY ENTERPRISES,
ET AL, DEBTORS x

Chapter 11 Case Nos. 99-41774,
-41775, 99-41776, and 99-41777

**NOTICE OF PROPOSED CLASS ACTION SETTLEMENT
AND BANKRUPTCY PLAN OF REORGANIZATION**

TO: ALL PERSONS IN THE UNITED STATES, ITS TERRITORIES, AND THE COMMONWEALTH OF PUERTO RICO WHO RECEIVED ANY SWEEPSTAKES ENTRY MATERIALS SENT UNDER THE NAME "AMERICAN FAMILY PUBLISHERS" FROM JANUARY 20, 1992 THROUGH DECEMBER 9, 1999.

THIS NOTICE MAY AFFECT YOUR RIGHTS. PLEASE READ IT CAREFULLY.

This notice summarizes the terms of a proposed class action settlement of litigation involving the direct mail and sweepstakes business commonly known as "American Family Publishers" (the "Proposed Settlement") and a related Chapter 11 Bankruptcy Plan of Reorganization. **The full text of the Proposed Settlement appears in the Settlement Agreement, which is available for review at the office of the Clerk of the Court and on the website www.afpsettlement.com**

PLEASE NOTE THE FOLLOWING:

- 1 Under the Proposed Settlement, \$32 million will be made available for partial refunds to certain persons who purchased magazines and/or merchandise from American Family Publishers in the belief that such purchases were either necessary to win a sweepstakes prize or enhanced their chances of winning a sweepstakes prize. **TO BE ELIGIBLE FOR A PARTIAL REFUND, YOU MUST FILL OUT AND MAIL THE ENCLOSED CLAIM FORM ON OR BEFORE MAY 5, 2000**
- 2 Under the Proposed Settlement, American Family Publishers has agreed to modify its business practices, including its sweepstakes mailings, billing and collections practices, and to remind certain high-volume purchasers that no purchase is necessary to enter or win any sweepstakes prize
- 3 Under the Proposed Settlement, ten separate special sweepstakes prizes of \$100,000 each (totaling \$1 million) also will be awarded. The winners will be selected at random from those persons who purchased magazines and/or merchandise from American Family Publishers between January 20, 1992 and December 9, 1999, as shown on the company's records. If you made a purchase during the Class Period, you will be automatically entered in the special sweepstakes. You do not need to fill out a Claim Form or do anything else to be eligible to win a special sweepstakes prize.
- 4 If the Proposed Settlement and Chapter 11 Bankruptcy Plan of Reorganization are finally approved by the Court, any claims you may have related to the business of American Family Publishers will be released and discharged, and you will be permanently barred and enjoined from pursuing any such claims. The terms of the release are summarized below

5. A hearing on whether the Proposed Settlement should be finally approved, and the application of plaintiffs' counsel for an award of attorneys' fees and costs and awards to named plaintiffs, and a hearing on confirmation of the Chapter 11 Bankruptcy Plan of Reorganization will be held on August 9, 2000 at 10 a m at the United States District Court for the District of New Jersey, Courtroom 5076, 50 Walnut Street, Newark, New Jersey.
6. This is a mandatory class and does not allow for any opt-outs. If you fall within the definition of the Class, you are automatically included in this settlement. If you wish to object to the Proposed Settlement, confirmation of the Chapter 11 Bankruptcy Plan of Reorganization, or the application of plaintiffs' counsel for an award of attorneys' fees and costs, or awards to named plaintiffs, YOU MUST DO SO IN WRITING ON OR BEFORE MAY 5, 2000. You do not need to attend the hearing.

Each of these matters is described in greater detail below.

I. THE LITIGATION

Beginning in January 1998, class action lawsuits were filed in federal and state courts regarding the direct mail and sweepstakes business commonly known as "American Family Publishers." In August 1998, the cases pending in federal court were transferred to the United States District Court in New Jersey (the "Court") for pretrial proceedings. The Court is now also overseeing the Chapter 11 bankruptcy filed by American Family Enterprises and three of its affiliates.

The Master Complaint in the federal cases names as defendants American Family Enterprises ("AFE"), its affiliate, Magazine Associates, which uses the trade name "American Family Publishers" ("MA" or "AFP"), and AFE's current general partners, TAF Holdings, Inc. and AFP Associates, L.L.C. (collectively, the "Settling Defendants"), together with their predecessors, corporate affiliates, and celebrity spokespersons, Ed McMahon and Dick Clark. The Master Complaint alleges, among other things, that the defendants engaged in deceptive practices by using direct mail solicitations sent under the name of "American Family Publishers" to mislead recipients into purchasing magazine subscriptions and/or merchandise in the belief that such purchases were either necessary to win or enhanced their chances of winning a sweepstakes prize, and that certain defendants breached contracts to pay prize money to recipients of these solicitations.

The defendants deny that they have engaged in any misconduct or that they are liable to the Class Representatives or the Class (as defined below), and have asserted numerous affirmative defenses. Although the Settling Defendants deny any liability, they have agreed with the Class Representatives and their counsel that the Proposed Settlement is in the best interests of all concerned.

On December 9, 1999, the Court issued an order preliminarily approving the Proposed Settlement as appearing to be fair, reasonable, and adequate, and entered a preliminary injunction barring the commencement, continuation, maintenance or prosecution of similar lawsuits pending a final determination of whether the Proposed Settlement should be approved.

II. THE SETTLEMENT CLASS AND SUBCLASS

The Court has preliminarily certified, for settlement purposes only, a mandatory class consisting of all persons in the United States, its Territories, or the Commonwealth of Puerto Rico who, during the period of January 20, 1992 through and including December 9, 1999 (the "Class Period"), received any direct mail marketing materials containing sweepstakes entry materials sent under the name "American Family Publishers" that offered an opportunity to purchase magazine subscriptions or merchandise (the "AFP Solicitation Materials"), and a Subclass consisting of all persons who ordered and made any payment for magazines and/or merchandise in response to these materials. **You are a member of the Class if you received any of these materials during this time period. You are also a member of the Subclass if, during this time period, you ordered and made any payment for magazine subscriptions and/or merchandise in response to these materials.**

The Court has designated the following plaintiffs in the Master Complaint – Dorothy Jackson, Helena Stachula, Ina V. Brown, Hilda Moliere, Priscilla Young, June G. Hardesty, Brian Johnson, and Perry Land – as representatives of

the Class and Subclass, and plaintiffs Edgar Gentle and Linda DiCiaccio as representatives of the Class. The Court has appointed the law firms of Lieff, Cabraser, Heimann & Bernstein, LLP, 275 Battery Street, San Francisco, California 94111-3339, Johnson, Blakely, Pope, Bokor, Ruppel & Burns, PA, 100 North Tampa Street, Suite 1800, Tampa, FL 33601-1100, and Carr, Korein, Tillery, Kunin, Montroy, Cates & Glass, 10 Executive Woods Court, Belleville, IL 62226, as Lead Counsel for the Class and Subclass

III. THE PROPOSED SETTLEMENT

The Proposed Settlement provides for (1) partial refunds to certain Subclass members, (2) changes to AFP's business practices, (3) a special sweepstakes in which Subclass members will automatically participate, and (4) a Release of claims. Each of these components of the Proposed Settlement are described below

A. Refunds

Under the terms of the Proposed Settlement, \$32 million will be made available for partial refunds. If you are a member of the Subclass, you may apply for a partial refund by completely and properly filling out the enclosed Claim Form; including checking the box indicating that you purchased magazine subscriptions and/or merchandise from AFP in the belief that the purchases were either necessary to win or enhanced your chances of winning a sweepstakes prize, and signing the Claim Form under penalty of perjury. To be eligible for a partial refund, **YOUR COMPLETED CLAIM FORM MUST BE MAILED TO THE AFP SETTLEMENT ADMINISTRATOR, P.O. BOX 9347, GARDEN CITY, NY 11530-9347 BY MAY 5, 2000.**

As set forth on the Claim Form, you may base your claim on either (1) the amount of your purchases as shown on AFP's records, or (2) the amount of your purchases as shown by your personal records. If you base your claim on your personal records and claim more purchases than are shown on AFP's records, you may be asked at a later date to provide copies of your personal records. For further assistance in filling out a claim form, you may call 941-906-9164.

DO NOT SUBMIT YOUR PERSONAL RECORDS, COPIES OF YOUR PERSONAL RECORDS, OR ANY OTHER DOCUMENTS WITH YOUR CLAIM FORM UNLESS AND UNTIL YOU ARE SPECIFICALLY REQUESTED TO DO SO. ANY INFORMATION NOT SPECIFICALLY REQUESTED ON THE CLAIM FORM (SUCH AS TYPED OR HANDWRITTEN COMMENTS) WILL NOT BE REVIEWED.

Under the proposed plan of distribution preliminarily approved by the Court, your allowable refund will be calculated by: (1) taking the net amount of your purchases made in each calendar year during the Class Period (i.e., the total of your dollars paid less any dollars refunded for previous cancellations or returns), (2) subtracting from each year's total the greater of (a) \$40 (up to the amount of your net purchases in that year), or (b) the percentage of those net purchases NOT influenced by the belief that a purchase was either necessary to win or enhanced your chances of winning a sweepstakes prize, and (3) adding together the resulting amounts for each year. Your allowable refund may be reduced if you received any refund from AFP other than a refund for canceled magazine subscriptions or returned merchandise, or a payment from a consumer fund established under earlier settlement agreements.

Each Subclass member submitting a valid claim for an allowable refund will receive his or her pro rata share of the available funds. No checks for less than \$5 will be issued. The exact amount of any person's refund cannot be determined until all claims have been processed.

Claims will be processed by an independent claims administrator, who will handle claims in accordance with a claims administration protocol (which is part of the Settlement Agreement). The work of the independent claims administrator will be subject to review by a monitor and the Court.

Nothing in the Settlement Agreement changes in any way AFP's policy that magazine subscriptions can be canceled at any time for a refund on any unserved issues and that products can be returned for a refund if you are unsatisfied for any reason. You do not need to return any magazines or merchandise in order to participate in the settlement.

B. Changes to Business Practices

As set forth in full in the Settlement Agreement, AFP will agree, by way of injunction, to modify its practices nationwide with respect to its sweepstakes and related marketing, billing, and other financial and business practices. Among other things, AFP will be required to include a clear and conspicuous "No Purchase Necessary" message in

the Official Rules and the AFP Solicitation Materials; to print its Official Rules in at least 8 point type, to include in the Official Rules the estimated odds of winning the sweepstakes prizes, to print the Official Rules so that they are capable of being retained by the consumer after entry into the sweepstakes; to clarify the deadlines for return of sweepstakes entries; to refrain from representing that a recipient is a winner unless in fact the recipient is a winner; to comply with requirements governing the use of conditional language, including using prominent and readily understandable terms, to refrain from mailing solicitations that, when viewed in their entirety, simulate government documents; to notify consumers of how they can be removed from AFP's mailing lists; to refrain from making representations that a recipient's order history enhances the chances of winning the sweepstakes or that entries with orders will have an enhanced chance of winning the sweepstakes; to allow for all AFP sweepstakes entries (whether containing an order or not) to be returned to the same city, to refrain from representing that a failure to respond will result in the loss or forfeiture of any previously submitted sweepstakes entry or claim, to provide reminder letters to certain high-volume purchasers that no purchase is necessary to enter or win, and to change certain of AFP's billing practices, including with respect to treatment of duplicative payments, timing of billing cycles, information included on invoices, and collection practices

C. Special Sweepstakes Prizes

Under the terms of the Proposed Settlement, special sweepstakes prizes of \$100,000 will be awarded to ten Subclass members (totaling \$1,000,000) selected by random drawing by an independent judging company. These prizes will be separate from and in addition to AFP's regular sweepstakes prizes. If you ordered and made any payment for magazines and/or merchandise from AFP during the Class Period, as reflected on AFP's records, you will be automatically entered in the special sweepstakes. You do not need to fill out a claim form or do anything else to be eligible to win a special sweepstakes prize. (In the event that the proposed settlement is approved in all respects except for the special sweepstakes, then the amount available for refunds will be increased by \$1 million, from \$32 million to \$33 million, without any further notice)

D. Release of Claims

The full release is contained in the Settlement Agreement. The following is a summary of the release **IF THE PROPOSED SETTLEMENT IS GIVEN FINAL APPROVAL, THE LITIGATION WILL BE DISMISSED WITH PREJUDICE, AND, IF YOU ARE A MEMBER OF THE CLASS, YOU WILL RELEASE AND BE BARRED FROM EVER BRINGING ANY CLAIMS THAT YOU HAVE OR COULD HAVE BROUGHT IN ANY CAPACITY (WHETHER INDIVIDUALLY, AS A CLASS REPRESENTATIVE OR MEMBER, A PRIVATE ATTORNEY GENERAL OR OTHERWISE) AGAINST ANY OF THE SETTLING DEFENDANTS OR DEFENDANTS TIME INC., TIME INC. HOME ENTERTAINMENT, TIME CUSTOMER SERVICE, INC., TIME WARNER INC., WARNER COMMUNICATIONS INC., AFP ASSOCIATES, ED MCMAHON, DICK CLARK, OLIVE ENTERPRISES, INC., AND ANY OF THEIR OFFICERS, DIRECTORS, EMPLOYEES, PARTNERS, MEMBERS AND SHAREHOLDERS, OR OTHER RELATED PERSONS AND ENTITIES, CONCERNING IN ANY WAY TO THEIR CONDUCT OR ACTIONS CONCERNING THE AFP SOLICITATION MATERIALS OR MAILINGS, THE CONDUCT, PROMOTION, TECHNIQUES AND PRACTICES AND ADMINISTRATION OF THE SWEEPSTAKES AND THE MARKETING, BILLING AND OTHER FINANCIAL AND BUSINESS PRACTICES RELATING TO THE SETTLING DEFENDANTS.**

IV. THE CHAPTER 11 BANKRUPTCY PLAN OF REORGANIZATION

On October 29, 1999, AFE and MA, along with affiliates Merchandise Associates and Mailist Associates (collectively, the "Debtors"), filed bankruptcy petitions for reorganization under Chapter 11 of the U S Bankruptcy Code. A meeting of creditors under Section 341 of the U S Bankruptcy Code was held on January 10, 2000 at the Office of the United States Trustee in, Newark, New Jersey. The Lead Counsel for plaintiffs attended and participated in that meeting. The Debtors' Plan of Reorganization (the "Plan"), will incorporate the Settlement Agreement and propose to treat the claims of the Class and Subclass against AFE and MA in the manner provided in the Settlement Agreement

Under the Plan, the funds required to implement the Proposed Settlement will be provided by certain non-Debtor defendants and their affiliates, on behalf of themselves, the Debtors, the other non-Debtor defendants, and their affiliates. The Proposed Settlement is contingent on confirmation of the Plan.

The Plan, if confirmed, will (1) discharge and release all claims against the Debtors, including the claims of the Class and Subclass; (2) provide that all of your claims will be channeled to, that is, paid exclusively from, the funds

available for making refunds, and (3) provide for a permanent injunction barring all members of the Class and Subclass, among others, from ever asserting the claims released in the Settlement Agreement (the "Injunction")

V. ATTORNEYS' FEES AND COSTS AND AWARDS TO NAMED PLAINTIFFS

At the Final Approval Hearing, Lead Counsel for the Class will apply to the Court for an award of attorneys' fees and reimbursement for out-of-pocket expenses not to exceed \$11,750,000 to be paid by the Settling Defendants, who may oppose the application. Payment of attorneys' fees and costs to plaintiffs' counsel will not reduce the benefits being made available to the Class. You will not be required to pay any portion of plaintiffs' attorneys' fees and costs. At the Final Approval Hearing, Lead Counsel may also apply to the Court for awards to certain named plaintiffs in recognition of their efforts for the benefit of the Class in a total amount not to exceed \$50,000

VI. THE FINAL APPROVAL AND PLAN CONFIRMATION HEARINGS

As set forth above, hearings will be held before the Honorable Nicholas H. Politan of the United States District Court for the District of New Jersey at the United States Courthouse located at 50 Walnut Street, Newark, New Jersey 07101-0999 to determine in accordance with Rule 23 of the Federal Rules of Civil Procedure and Rule 9019 of the Federal Rules of Bankruptcy Procedure whether (1) the Proposed Settlement is fair, reasonable and adequate; (2) the Class and Subclass should be certified for settlement purposes only, (3) the Master Complaint and all other actions pending before the Court as part of this multidistrict litigation should be dismissed with prejudice, (4) the members of the Class should be bound by the release set forth in the Settlement Agreement and summarized above; and (5) the application of plaintiffs' counsel for an award of attorneys' fees and costs and awards to named plaintiffs should be approved. On or about the same date and time, the Court will hold a hearing on confirmation of the Plan and issuance of the Injunction. If the Court approves the Proposed Settlement, it will retain exclusive jurisdiction to enforce its provisions, including the obligations of AFP to modify its business practices

VII. YOUR CHOICES AND DEADLINES

You may choose to do any one or more of the following

(1) If you are a member of the Subclass and wish to apply for a partial refund as described above, you must fill out the enclosed Claim Form, following its instructions, and mail it to the American Family Publishers Settlement Administrator, P O Box 9347, Garden City, NY 11530-9347 with a postmark no later than May 5, 2000. Please do not send any other materials to this address at this time. If you are a member of the Subclass, you will be automatically entered in the special sweepstakes. Class members do not need to take any action to benefit from the injunctive relief

(2) You may object to any aspect of the settlement by either (a) filing a written objection explaining the basis for your objection to the settlement, or (b) filing such a written objection *and* appearing at the Final Approval Hearing in person or through your own attorney. While you need not appear at the Final Approval Hearing, if you choose to appear you must file, along with your objection, a notice of intent to appear. If you are appearing through your attorney, your attorney must also file, along with your objection, a notice of appearance. Any such filings must include the case number (98 CV 3850 (NHP)), your name, the control number indicated on your Claim Form, and the address(es) at which you have received AFP Solicitation Materials. Any such filings must be filed with the Court and served upon the AFP Settlement Service Administrator at P.O. Box 9347, Garden City, N.Y. 11530-9347 no later than May 5, 2000. Please do not send any other material to this address. No person will be heard in opposition to the proposed settlement and no papers or briefs submitted by any person will be accepted or considered by the Court unless these instructions have been followed. Any member of the Class who does not make and serve written objections in the manner provided above shall be deemed to have waived any objections and shall be forever foreclosed from making any objections (by appeal or otherwise) to the proposed settlement

(3) You may object to confirmation of the Plan or the issuance of the Injunction (described in the Plan) by filing an objection to confirmation of the Plan in writing, specifying the objection and giving the legal basis therefor. Any such filing must be filed with the Court and served upon (i) Logan & Company, Inc., 546 Valley Road, Upper Montclair, N J 07043, Attention Maritza Martinez, and (ii) the Office of the United States Trustee, One Newark Center, Newark, N J. 07102, no later than May 5, 2000.

(4) The Class Representatives have agreed as part of the Proposed Settlement to support confirmation of the Plan. Accordingly, they will cast a ballot in favor of the Plan on behalf of the Class, except for those Class members

entitled to vote who wish to cast their own ballots. Class members wishing to cast a ballot must write to obtain a ballot and copy of the Disclosure Statement and Plan from Logan & Company, Inc , 546 Valley Road, Upper Montclair, New Jersey 07043, Attention: Maritza Martinez. The deadline for the return of ballots is May 5, 2000

Notice of the postponement of any court hearing dates will be given solely by being posted on the website, www.afpsettlement.com.

PLEASE DO NOT CALL THE COURT OR THE CLERK OF THE COURT

Dated: February 4, 2000
Newark, New Jersey

Clerk of the Court