#166

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

PARAMOUNT COMMUNICATIONS INC. and KDS ACQUISITION CORP., Plaintiffs, -against- TIME INCORPORATED, TW SUB INC., JAMES F. BERE, HENRY C. GOODRICH, CLIFFORD J. GRUM, MATINA S. HORNER, DAVID T. KEARNS, GERALD M. LEVIN, J. RICHARD MUNRO, N. J. NICHOLAS, JR., DONALD S. PERKINS, CLIFTON R. WHARTON, MICHAEL D. DINGMAN, EDWARD S. FINKELSTEIN, HENRY LUCE III, JASON D. McMANUS, JOHN R. OPEL and WARNER COMMUNICATIONS INC., Defendants.	C.A. No. 10866 AFFIDAVIT OF HENRY C. GOODRICH

STATE OF ALABAMA)
) ss.:
COUNTY OF JEFFERSON)

HENRY C. GOODRICH, being duly sworn, deposes and says:

1. I am the President of Richgood Corporation. I served on the Board of Directors of Time Incorporated ("Time") (the "Board") from November 17, 1978 until June 7, 1989. I make this affidavit in response to the Motion for a Preliminary Injunction filed by Plaintiffs Paramount

Communications Inc. and KDS Acquisition Corp. (collectively referred to as "Paramount").

2. I received a B.S. in Civil Engineering from the University of Tennessee in 1943. I served as an Officer in the Navy Civil Engineer Corps during World War II. I have also held the positions of Chairman and Chief Executive Officer of Sonat Inc.; Chairman and Chief Executive Officer of Inland Container Corporation; Senior Vice President and Director of Rust Engineering Company; and Chairman of Georgia Kraft Company.

3. I currently serve as a director of Sonat Inc., Ball Corporation, BE&K Inc., Cousins Properties Incorporated, Protective Life Corporation and Temple-Inland Inc. In addition, I serve on the board of directors or as a trustee of the following organizations: the Birmingham Chamber of Commerce; the Boy Scouts of America (Birmingham Council); Indian Springs School; Southern Research Institute; the University of Alabama at Birmingham Research Foundation Board; and the Advisory Board, Private Investors Consortium, Memphis.

Background: Time's Goal of Obtaining a Video Programming Outlet

4. The desirability of Time's achieving some form of business combination with a video product producer, such as a motion picture producer, has been a subject of ongoing

discussion among the Board members for at least the last three years. The directors recognized that Time, particularly its wholly owned subsidiary Home Box Office Inc. ("HBO"), was almost entirely dependent on the major motion picture producers for product. Time and HBO had attempted to produce theatrical motion pictures a number of times, and all such efforts had been unsuccessful. The directors recognized that an association with one of the major motion picture producers would alleviate this source of vulnerability.

5. The Board considered attempting to formulate transactions with a number of companies. About two years ago, a potential transaction with Warner Communications Inc. ("Warner") became the focus of consideration.

Initial Consideration of a Transaction Between Time and Warner

6. In the spring of 1987, the Board was advised of discussions between Time and Warner regarding a potential business combination. The first form of transaction with Warner considered and discussed by the Board involved the establishment of a joint venture that would operate Time's and Warner's cable companies, HBO and Warner Bros. studios. By the summer of 1988, the discussions between Time and Warner had evolved to consideration of a full business combination.

7. At its July 1988 meeting, the Board considered in detail a full business combination between Time and Warner. Time's financial advisors presented a detailed analysis of a combination of Time and Warner to be effectuated by an exchange of Warner shares for a proportionate amount of Time shares. A variety of exchange ratios for such a transaction were reviewed and discussed. The directors discussed the likelihood that a premium would be built into the exchange ratio, and the consensus view was that whatever premium was paid should be as small as possible. The directors were advised that discussions with Warner about such a transaction were still underway. Therefore, no vote was taken with respect to this matter at that time.

8. However, at the July 1988 meeting, the consensus of the directors was that Warner represented the best business fit for Time and, therefore, should be Time's first choice for a business combination. The Board considered the merits of a business combination with several other video program producers and reviewed detailed analyses of Columbia, MCA-Universal, Twentieth Century Fox, Disney and Paramount in addition to Warner. The primary reason I concluded that Warner should be Time's first choice for a business combination was my view that Time needed a first rate motion picture producer, and Warner filled that need.

9. At the July 1988 meeting, several directors stated that it was their strong view that in order to ensure the success of the combination, Time management should be in charge of operations at the combined company after any business combination. All the directors concurred, and the Board concluded that it was unwilling to consider any proposal which did not include provisions to assure that Time management would be in control of business operations after the proposed transaction was consummated.

10. Shortly after the July 1988 Board meeting, Mr. Munro informed me that discussions between Time and Warner had terminated. I understood that those discussions had terminated because the parties were not able to agree on provisions for management of the combined company. As noted above, the Board was insistent that, after the transaction, Time management ultimately be in charge of operations at the combined company.

The Merger Agreement

11. In late 1988 or early 1989, Mr. Munro informed the Board that discussions with Warner about a possible business combination were again ongoing. On March 3, 1989, the Board unanimously approved a Merger Agreement with Warner pursuant to which each outstanding share of Warner common stock would be exchanged for 0.465 a share of Time common stock.

12. I voted in favor of approving the Merger Agreement because I believe Warner provides the best strategic fit for expansion of Time's business operations. I believe that Warner's movie studios, its international distribution outlets and its substantial participation in the recording industry provide an excellent complement to Time's existing businesses.

13. I voted in favor of the Merger Agreement because I believe that a combination of Warner's business operations with Time's business units will substantially enhance the value to be obtained by Time's shareholders. I had no desire to entrench myself or any of my fellow directors. In fact, I believe such a proposition is ridiculous given the unquestionable integrity of the Board. As far as I was concerned, entrenchment was absolutely no part of my motivations. I believe this fact is amply demonstrated by my decision to resign after the Merger Agreement was approved. If we had wanted to entrench ourselves, we would have structured a deal whereby all directors would remain on the Board.

14. I had no defensive motivation in voting for the Merger Agreement. I do not, and did not, believe that the business combination envisioned by the Merger Agreement can have any meaningful effect on the likelihood of a third party making an acquisition proposal or succeeding once such

a proposal is made. Size is not a takeover defense as the recent RJR Nabisco buyout amply demonstrates.

15. I viewed the transaction contemplated by the Merger Agreement as a business combination, that is, neither company would have been acquired by the other as a result of such a transaction. I do not believe an interpretation that Warner would have acquired Time as a result of that transaction is correct. I certainly did not hold that view, and as far as I knew no other director of Time did. At the March 3 meeting, the Board considered the fact that, in the transaction, Warner shares would be converted into a majority of the combined company's outstanding stock. I did not and do not understand that fact to mean that Warner would have acquired Time. After the transaction, there would be no identifiable group of Warner shareholders or Time shareholders; all shareholders would be Time Warner shareholders. There is no reason to believe that the Warner shareholders as a group have loyalty to any particular interest. The simple fact is that Warner's stock is held by a large number of individuals and institutions with widely disparate interests. Acquisition of more than 50 percent of a corporation's stock by such a large, disparate group does not to my mind constitute a change of control.

16. The Merger Agreement contemplated that the business combination was to be effectuated by an exchange of

Time stock for Warner stock. Such a transaction qualified for pooling-of-interests accounting treatment which would result in a very attractive balance sheet for the combined company. In the March 3, 1989 Board meeting, however, management specifically noted that they believed the transaction would be beneficial to Time's shareholders even if purchase rather than pooling accounting were to be applied and would recommend that the Board approve of the transaction even if purchase accounting were required. The Board determined to not make a decision about such a transaction at that time. We were advised that such a transaction was at that time unacceptable to Warner.

17. I believe the compensation packages approved for Messrs. Munro, Nicholas and Ross were appropriate. The terms and conditions of the employment contract approved for Mr. Ross were essentially the same as those in his then existing contract with Warner. The Board discussed the fact that the amount of compensation Mr. Ross received at Warner would not be unusual for an owner whose company was bought out and recognized that Mr. Ross was equivalent to an owner since he had essentially created the modern Warner out of the studio and several other business entities. There were no significant adjustments made to Mr. Munro's or Mr. Nicholas' compensation levels; they received very modest increases.

18. I also believe the length of the employment contracts provided to Messrs. Munro and Nicholas were appropriate. The ten year terms were included to guarantee that Time management would ultimately have sole operating control of the combined company as the Board had previously directed. The Board believed that control was necessary to preserve the tradition of editorial independence at Time. I believe that preservation of that tradition was very important to all the directors.

19. I was not concerned about, and I do not believe my fellow directors were concerned about, the provision in the merger agreement which specified that Time and Warner would not solicit or encourage other offers prior to termination of the Agreement. I found nothing unusual about that provision and believe it would be foolish to enter an agreement that would permit both parties to solicit offers after having negotiated for at least two years to achieve that agreement.

The Share Exchange Agreement

20. The Board also approved a Share Exchange Agreement between Time and Warner at its March 3, 1989 meeting. I did not view the Share Exchange Agreement as a defensive maneuver. It was proposed as a mechanism whereby both sides could declare their full faith in the Merger and, thus, was viewed as a way of cementing the deal.

21. The Board discussed whether the Share Exchange Agreement would have any effect on a third party's takeover proposal or could be perceived as a defensive maneuver. The directors concluded that the Share Exchange Agreement could perhaps be perceived as protecting the proposed Time/Warner combination, but it would have a very modest defensive effect for either company standing alone. At most, the Share Exchange Agreement would be a modest deterrent to a third party acquiror because it increases the number of shares each company has outstanding and, therefore, potentially increases the total price of acquiring all of each company's outstanding stock.

The Shareholder Rights Plan

22. Time's Shareholder Rights Plan was amended in January 1989 to update that Plan in light of legal developments since the Plan was adopted in 1986. The Board was not concerned with any particular threat at that time. I serve on several other corporate boards and revisions of Rights Plans of the sort adopted in January 1989 are approved quite regularly.

My Decision to Resign

23. I submitted my resignation from the Board in April of 1989. I decided to resign because I was nearing the mandatory retirement age under Time's current By-laws and was due to retire next year in any event. I felt it was

best that the decisions facing Time after the effectuation of its business combination with Warner be made by continuing Board members who would be involved in the policies and future of the company.

24. My resignation in no way indicates that I was not in full agreement with the decision to enter the Merger Agreement with Warner. I firmly believe that effectuation of the Merger Agreement would have been good for Time's shareholders and would have created value both in monetary terms and in opportunity.

25. My resignation was scheduled to become effective at the Time Annual Shareholders Meeting and my plan to resign was published in the proxy statement covering the proposed Time-Warner merger. When the Paramount offer was announced I accelerated my resignation because, as noted above, I believe that the major decisions that would need to be made as a result of that offer should be made by continuing Board members.

26. My decision to accelerate my resignation should not be taken to indicate my views about the Paramount Offer or any action the Board has taken subsequent to that Offer. It remains my belief, which I have often expressed,

that Time remaining an independent company is in the best interests of its stockholders.

Henry C. Goodrich

Sworn to before me this
day of July 1989

Notary Public