

1986. I also sit on the Board of Directors of Genentech, Inc., IBM and Mobil Corporation. I am fully familiar with the facts stated herein based on personal knowledge.

Background of the Merger

3. Time is engaged primarily in the publication of magazines and books, the distribution of pay television services and the operation of cable television systems. Time's strategic objective is to become a worldwide media and entertainment company that can compete internationally. Toward that end, Time publicly announced in July 1988 that it planned to expand substantially its participation in the production and distribution of motion pictures and television series and in the manufacture and distribution of videocassettes. Time has also sought to expand its participation in the music business and to expand its cable television and book publishing operations. Time has explored a wide range of acquisition alternatives as a means of achieving its strategic objectives, including an acquisition of Gulf + Western Inc. (now plaintiff Paramount Communications Inc.). Senior management of Time and Time's Board of Directors rejected all those other alternatives as less attractive than Warner Communications Inc. ("Warner").

4. At various times during 1987 and early 1988, members of senior management of Time held discussions with representatives of Warner, a company engaged primarily in

filmed entertainment, recorded music and music publishing, cable and broadcasting, publishing and related distribution. Time and Warner explored the possibility of combining certain of their respective businesses in a joint venture. These exploratory discussions focused initially on a possible joint venture of their respective cable television, filmed entertainment and pay television operations.

5. Eventually, officials of Time and WCI began to believe that a complete combination of the two companies might be even more desirable than the joint venture. At various times during the summer of 1988, members of the senior management of Time and Warner and their financial and legal advisors had discussions regarding the possible terms of a merger of the two companies. Beginning in late June 1988, Mr. N. J. Nicholas, Jr., President and Chief Operating Officer of Time, and I held a series of individual meetings with Time's outside directors to advise them of the discussions with Warner and to seek their views as to a possible acquisition of Warner by Time.

6. At a regularly scheduled meeting of the Board of Directors of Time held on July 21, 1988, Time's senior management, its financial advisors Shearson Lehman Hutton Inc. ("Shearson") and Wasserstein, Perella & Co., Inc. ("Wasserstein Perella"), and its legal advisors made presentations concerning a possible acquisition of Warner.

Discussions between the respective managements and financial and legal advisors of Time and Warner continued into August, when such talks were terminated.

The Merger

7. In January 1989, members of senior management of Time and Warner re-opened on a preliminary basis discussions concerning a proposed combination of the two companies. In February 1989, members of management and financial and legal advisors of the two companies commenced detailed discussions over the definitive structure for the proposed combination and the definitive terms of a merger agreement and related documents.

8. A special meeting of Time's Board of Directors was held on March 3, 1989 to consider a proposal in which a subsidiary of Time, TW Sub Inc. ("Sub"), would be merged with and into Warner, which would be the surviving corporation (the "Merger"); following the merger, Time would change its name to Time Warner, Inc. ("Time Warner"), and Warner shareholders would receive .465 of a share of Time Warner common stock in exchange for each share of Warner common stock. Detailed presentations concerning the proposed Agreement and Plan of Merger and an associated Share Exchange Agreement were made to the Board of Directors by senior management, Shearson, Wasserstein Perella and legal

advisors. After careful consideration, the Board of Directors of Time approved those transactions. Warner's Board of Directors also approved the Merger subject to the approval of Warner's shareholders, after special meetings that were held on March 2 and 3, 1989.

9. Following approval of the transactions, Time, Sub and Warner executed an Agreement and Plan of Merger dated as of March 3, 1989, as amended and restated as of May 19, 1989 (the "Merger Agreement"). Time and Warner also executed a Share Exchange Agreement dated as of March 3, 1989, as amended as of April 12, 1989 (the "Share Exchange Agreement").

10. In determining to approve the Merger Agreement and the Share Exchange Agreement, the Time Board considered, among other things: (i) information concerning the financial performance, condition, business operations and prospects of each of Time and Warner; (ii) the proposed structure of the transaction and the provisions for management succession; (iii) the terms of the Merger Agreement, the Share Exchange Agreement, employment agreements and other documents to be executed in connection with the Merger; and (iv) the opinions of Shearson and Wasserstein Perella.

11. When the Merger, the Merger Agreement and the Share Exchange Agreement were considered and approved by Time's Board, that Board was composed of a very large

majority of "outside" directors who were neither officers nor employees of Time. During the relevant period, the only Time directors who were Time officers or employees were Mr. N. J. Nicholas (Time's President and Chief Operating Officer); Mr. Gerald M. Levin (Time's Vice Chairman); Mr. Jason D. McManus (Time's Editor-In-Chief); and myself. As of March 1989, Time's other directors were:

John R. Opel, Chairman of the Executive Committee of International Business Machines Corporation; a Time director since 1984, Mr. Opel is also a director of Pfizer, Inc., and The Prudential Insurance Company of America.

David T. Kearns, Chairman and Chief Executive Officer of Xerox Corporation; a Time director since 1978, Mr. Kearns is also a director of The Chase Manhattan Corporation, Dayton-Hudson Corporation and Ryder Systems, Inc.

James F. Bere, Chairman and Chief Executive Officer of Borg-Warner Corporation; a Time director since 1979, Mr. Bere is also a director of Abbott Laboratories, American Information Technologies Corp., K mart Corporation, Temple-Inland Inc. and The Tribune Company.

Donald S. Perkins, former Chairman of Jewel Companies, Inc.; a Time director since 1979, Mr. Perkins is also a director of American Telephone and Telegraph Company, Aon Corporation, Cummins Engine Company, Inc., Inland Steel Industries, Inc., K mart Corporation, LaSalle Street Fund, Inc., The Putnam Group of Funds and Springs Industries, Inc.

Henry C. Goodrich, former Chairman of Sonat, Inc.; a Time director since 1978, Mr. Goodrich is also a director of Ball Corporation, Cousins Properties Inc., Protective Life Insurance Co., Sonat Inc. and Temple-Inland Inc.

Edward S. Finkelstein, Chairman and Chief Executive Officer of R.H. Macy & Co., Inc.; a Time director

since 1984, Mr. Finkelstein is also a director of The Chase Manhattan Corporation.

Michael D. Dingman, Chairman and Chief Executive Officer of The Henley Group, Inc.; a Time director since 1978, Mr. Dingman is also a director of the Ford Motor Company and The Wheelabrator Group Inc.

Clifton R. Wharton, Jr., Chairman and Chief Executive Officer of Teachers Insurance and Annuity Association--College Retirement Equities Fund; a Time director since 1982, Dr. Wharton is also a director of Federated Department Stores, Inc., and the Ford Motor Company.

Arthur Temple, Chairman of Temple-Inland, Inc.; a Time director since 1983, Mr. Temple is also a director of AMCA International Limited, The Henley Group, Inc., and Henley Manufacturing Corporation.

Clifford J. Grum, President, Chief Executive Officer and a director of Temple-Inland, Inc.; a Time director since 1980, Mr. Grum is also a director of Cooper Industries, Inc., and Premark International, Inc.

Henry Luce, III, President of the Henry Luce Foundation, Inc.; a Time director since 1967, Mr. Luce is also a director of the First New York Bank for Business.

Matina S. Horner, President of Radcliffe College; a Time director since 1975, Mrs. Horner is also a director of Boston Edison Company and Liberty Mutual Insurance Company.

12. None of the outside directors named above has or had any financial interest in the Merger other than that common to Time shareholders generally.

13. At the March 3, 1989 Board meeting, the 15 directors present (Dr. Wharton being the absent member) unanimously approved the Merger Agreement and Stock Exchange Agreement.

14. At the time that Time and Warner entered into the Merger Agreement, there was no takeover offer for Time. The Merger was not developed, proposed or approved in response to any known effort or intention of any party to acquire or make a bid for Time (or, for that matter, for Warner). (In fact, on several past occasions I had brief conversations with Mr. Martin S. Davis, Paramount's Chairman and Chief Executive Officer about his desire to combine Paramount (then Gulf + Western) and Time. During these conversations, he repeatedly and explicitly assured me that Paramount would never make a hostile bid for Time.)

15. The Merger was considered and negotiated by Time and Warner over an extended period of time, and the Board of each company firmly believed that the Merger was in its, and its shareholders', best interest. The Merger was approved by Time's Board on its business merits and in the belief that the Merger provides a very valuable business opportunity to Time and to Warner and to their respective shareholders.

The Share Exchange Agreement

16. The Share Exchange Agreement provides that Time will issue to Warner Time common stock representing 11.1% of its voting power, and that Warner will issue to Time Warner common stock representing approximately 8.7% of

its voting power, in each case after giving effect to such issuance. As of March 3, 1989, the prices of Time and Warner stock were such that the blocks of shares to be exchanged under the Agreement were approximately equal in value.

17. Although the exchange of shares was initially to take place following approval of the Merger by Time's Board on March 3, 1989, the SEC raised certain accounting issues with the parties in view of which the terms of the Share Exchange Agreement pertaining to share issuance were amended. As set forth in the Share Exchange Agreement, the exchange of shares and closing thereunder will take place on the earlier of (a) February 28, 1990, when the Merger Agreement will terminate if not by then consummated, and (b) the fifth business day following the giving of written notice subsequent to a "trigger event" by either party of its election to cause the closing to occur; a "trigger event" is defined in the Merger Agreement as either the acquisition by a third party of 10% or more, or the announcement of by a third party a tender or exchange offer which would lead to acquisition of 25% or more, of the voting power of either Time or Warner. As amended, the Share Exchange Agreement also provides that the exchange of shares will not take place if shares have not theretofore been exchanged and a majority of the shareholders of either

Time or Warner do not approve the Merger at the shareholders meetings scheduled to occur on June 23, 1989.

18. The purposes of the Share Exchange Agreement were twofold:

(a) As a result of the talks leading up to the Merger, Time and Warner wished to make investments in each other and wished to do so even if the Merger were not concluded. The Share Exchange Agreement provides a means for Time and Warner to make such investments.

(b) Time and Warner both wished to protect the Merger in the event that a third party sought to disrupt it by making a hostile bid for Time or Warner. Time's Board recognized that following announcement of the Merger one or more third parties might attempt to disrupt the transaction by commencing a tender offer or other attempt to acquire Time or Warner. Accordingly, the Share Exchange Agreement was designed to provide Time's and Warner's Boards with an opportunity to protect their shareholders from potentially coercive acquisition proposals or other maneuvers that threaten to deprive those shareholders of the substantial benefits the Merger promises. The Share Exchange Agreement provides a mild deterrent to such a hostile bid by creating a potential for a slight increase in the net cost of acquiring Time or Warner.

19. In addition, the Share Exchange Agreement has the following effect: It provides a mechanism for compensating each other for their respective efforts toward effectuating and their investment in the Merger, and also for the loss of the valuable business opportunity represented by the Merger, if the Merger were disrupted by a hostile bid. The Share Exchange Agreement provides such a mechanism in that if shares are exchanged and a bid is commenced for either Time or Warner, the company that is not the target of such a bid will probably be able to dispose of its shares in the target for greater consideration than that it will have given up in exchanging its own shares.

Time Is Not for Sale, and the Merger Does Not
Constitute a "Sale" or Transfer of "Control of Time

20. Time's directors and officers have repeatedly stated that Time has not in the past been and is not now for sale. Time's Board of Directors believes that Time should remain independent. That belief rests in part upon Time's status and stature as a journalistic enterprise. It is our belief that in view of Time's activities in journalism, it should remain publicly-owned, and thus accountable to the public it serves. At the March 3, 1989 Time Board meeting, Time's officers and directors were advised by its investment advisers that the Merger in no way constituted a "sale" of Time.

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21. The Merger is not in any sense a "sale" of Time. A sale involves a transfer of an ownership interest in exchange for something. Time's shareholders are not parting with their ownership interest in the Company any more than they would be if Time were issuing new shares in a public offering.

22. The Merger does not involve a change of "control" of Time. The Time Warner shares that will be issued to Warner shareholders in exchange for their Warner shares will be widely distributed, just as Warner's shares are now widely distributed. Because the Warner shareholders are numerous and do not act in concert with each other, they cannot be said to exercise "control" any more than the public shareholders of a company ordinarily do. Again, the proper analogy is not to a "sale", but to a public offering of shares, which does not result in a change of "control" any more than it constitutes a "sale".

23. In addition, publicly filed information indicates that approximately 80 percent of the outstanding Time common stock is owned by persons who also own a sufficient amount of Warner common stock (approximately 30 percent of the total amount of Warner common) that they will control approximately 60 percent of Time Warner's outstanding common

stock after the Merger. Thus, the same persons who collectively own a majority interest in Time before the Merger will own a majority of Time Warner after the Merger.


J. Richard Munro

Sworn to before me this
8th day of June, 1989.



SELENE SEUBERT
Notary Public, State of New York
No. 41-4669903
Qualified in Queens County
Commission Expires June 30, 1991.

