

Richard D. Parsons

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October 19, 2005

Mr. Parsons addressed two subjects: corporate responsibility and Social Security reform. As to the first, what was fresh in his mind was the response of Corporate America to the disaster wrought by hurricane Katrina. Corporate America within a matter of literally days amassed and contributed some \$350 million, hard money. There has been a sea change in the corporate community regarding the need and responsibility of corporations to be good citizens. As to the second, the reality is, the Social Security System is structurally unbalanced. It cannot work. At some point in time, it has to break. This System has to be fixed. It's a System that has to be moved to a new place, the nation must start to migrate the System to one that is funded now.

Vernon Jordan

Since becoming CEO in 2002, the year following Time Warner's merger with AOL, Richard Parsons has strengthened the company's balance sheet, simplified its corporate structure, and carried out a disciplined approach to realigning Time Warner's portfolio of assets to improve returns. I think of particular interest to a Washington audience, Mr. Parsons was reported to have recently said that the AOL unit now represents one of Time Warner's primary growth opportunities.

Before taking on the top job, Mr. Parsons served as Time Warner's Co-Chief Operating Officer, overseeing the company's content businesses – Warner Bros, New Line Cinema, Warner Music Group, and the Time Warner Book Group. He has held various positions in both state and federal government, including serving as counsel for Nelson Rockefeller and as a senior White House aide under President Gerald Ford. He serves on the boards of Citigroup, Estee Lauder, the Colonial Williamsburg Foundation, the Museum of Modern Art, and Howard University.

Ladies and gentlemen, it is a great pleasure to welcome to The Economic Club of Washington, Richard Parsons.

Richard Parsons

About the only thing Vernon didn't tell you about me was that I was the president of my third grade class. Two years in a row. [Laughter.] Uncle Vernon, thank you. It is not easy to follow Uncle Vernon. Uncle Vernon and I are not really related by blood. He is like a Dutch Uncle to me. He is a man of uncommon wisdom, good old-fashioned common sense, great character, judgment, insight, and compassion, all of which he has shared with me. You are lucky to have him as the President of your Club and I am lucky to have him as a friend. [Applause.]

I am going to talk about two subjects: corporate social responsibility and the seemingly unrelated need for Social Security reform.

First, on corporate social responsibility, what is fresh in my mind is the response of Corporate America to the disaster styled as Katrina. It wasn't that long ago, when it was not uncommon to hear around corporate board table or discussed among corporate leaders whether in fact it was even appropriate for corporations to be spending shareholder money on social causes or in a charitable context. Many corporations did, some didn't. There was a constant debate. You'd sometimes hear even at annual meetings that it's the shareholders money, give it back to us and we'll decide what to do with it. Particularly in light of the fact that, when you read the papers nowadays or hear corporations referred to, it's almost always in the context of Enron, WorldCom, Global Crossings, all of the scandals, Adelphia. The fact is, on the heels of Katrina, I think Corporate America within a matter of literally days amassed and contributed some \$350 million, hard money, and probably some order of magnitude of that number in terms of in-kind or soft cause. Our company, AOL, made substantial dollar contributions and sent trucks with wireless capacity down so the people could get in touch with their families. Warner Brothers contributed lots of DVDs and other sorts of material so that people could not only stay in touch with one another, but could amuse and entertain themselves and achieve some level of normalcy while they were in these shelters. Wal-Mart sent hundreds of truckloads of supplies. Home Depot began helping people to rebuild their homes. The outpouring of response and responsibility from the corporate sector was phenomenal. Not much was recorded, by the way, for which I blame us, the media, and the rest of the media.

But there has been a sea change in the corporate community regarding the need and responsibility of corporations to be good citizens. It stems out of two things: First, an increasing recognition that it is good business to be a good citizen, a good corporate citizen. The best example I can think of dawned on me for the first time when I was chairman of a bank in New York. We had about 90 branches, some in good neighborhoods, some not. As you would travel around, you would realize that nobody actually opens a branch in a bad neighborhood, they open a branch and the neighborhood subsequently goes bad. But, when it does, what happens is that your branch and your business go right down with the neighborhood. You can't move a bank. Banks are bricks and mortar. At least in the old days they were. The lesson of keeping a community viable so that your business, which is rooted in that community can remain viable, is most easily seen in that kind of context. Most of our corporate leaders around and abroad in the land now have taken that lesson on board, that our businesses are rooted in the communities in and around our country. If those communities don't stay healthy, dynamic, viable, thriving—our businesses can't stay healthy, dynamic, viable and thriving. Therefore, it is in our interest to keep them that way and to work like other citizens to help keep them that way. Very infrequently anymore do you actually hear people say, "Should a corporation be giving its shareholders money or investing itself some way?" In the larger community, people understand that we need to do that if we are going to maintain a vibrant economy in which we can do good business. But, then there is the other side of it and that is the "do what is right" side. I once heard a speech by Norman Schwartzkof who was talking about leadership. He said, "You only need to know two things to be a leader in the 21st century. First, when put in a position of

command, take charge. Second, do what is right. Now that is a moral imperative. Do what is right. I think maybe for the first time in history of Corporate America, there is by far a preponderance of view that corporations have to do what is right.

I spoke before the Jewish Theological Seminary a couple of weeks ago. We were talking about charity and good works and the Hebrew term commonly used for acts of charity, “tzedekah,” and one of the theologians said to me afterwards, “You know, the origin of that term, it doesn’t actually mean acts of charity, it means justice. It has been interpreted over the course of time to be acts of charity in the common sense. But, what it actually means is doing justice.” That reminded me of probably the only thing I’ll read tonight, but I remember the first time I read it, it was in Martin Luther King’s *Letters from a Birmingham Jail*. Even though these words were written over four decades ago, they resonate so much for me and particularly in the context of the disaster called Katrina. Let me just share these words with you. Dr. King writes: “I am cognizant of the inter-relatedness of all communities and states. I cannot sit idly by in Atlanta and not be concerned about what happens in Birmingham. Injustice anywhere is a threat to justice every where.”

This is my favorite phrase, I love this: “We are caught in an inescapable network of mutuality tied in a single garment of destiny. What ever affects one directly affects all indirectly.”

Perhaps stepping up a little far in terms of the rest of my colleagues in Corporate America, I think Corporate America has inculcated that. They have grasped that, that today more than ever we are in fact tied in a single garment of destiny. It is all one seamless thing, and as you looked at the images that came out of Louisiana and Mississippi, and as you saw the desperation on the faces of the people who had not the ability to care for themselves, whether you were an individual or corporate leader or government leader, you knew that we were all wrapped up in this together. Injustice anywhere results in a lack of justice everywhere, and we have to do something about this. I've spent a lot of time talking to people in Corporate America, and I think we are finding ways, particularly as our society evolves, to become more and more present at the table as citizens and as entities able and prepared to help and with the responsibility to help. As government becomes more and more tied up in their own knickers and unable to respond quickly, and at the local level, the responsibility of Corporate America to step up and fill the void is something corporations are prepared and willing to take on and are taking on. So, as you read all the headlines and think about all the Sarbanes-Oxley stuff and if you look behind the curtain, I think you'll see 98% to 99% of us who are trying to manage these large global enterprises are stepping up and taking our share of the responsibility for the management of our society and the allocation of our society's bounty. I think it is cause and reason for optimism. I thought, what better group to share that with than this one.

Now, let me move to what may seem like an unrelated subject, Social Security and the need for Social Security reform. I am doing this because I met with the President just a

week ago and he said, "I understand you are going to talk to The Economic Club of Washington." I said, "Yes, I am." He said, "Don't forget to talk about Social Security!" So when he shows up here, next week, you can say, when Dick was here he mentioned this thing. A lot of you probably think that this subject is essentially yesterday's news, that the President and everybody have walked away from the issue, and that we will hear about it again sometime in the future. You may be right. I hope not. Let me tell you why. I had the privilege of co-chairing with our deceased former Senator Daniel Patrick Moynihan, the President's Commission on Securing Social Security. While I did not know a lot about it when I went into it, I learned a lot and not only found it fascinating, but also a profoundly important subject to the country. I am not here to advocate a particular answer or method of resolving the problem, but I am here to bring the message that this is a problem that needs to be addressed. It has gotten awfully politicized, as things sometimes do within the Beltway.

The Social Security System was created when not a lot of people would qualify for benefits, not a very high level of benefits, and a whole lot of people who were generating the funds to go into the benefit pool. You had about 40 people in the workforce for every retiree, who had a low level of benefits. They were able to run the system on a "pay-as-you-go" basis. That is the way it still is today. Most people think that somehow, even now, after all the articles have been written, their Social Security money is going into an account somewhere and that when they retire, the money comes out of the account because it has been there earning interest, and so on and so forth. What they don't know is that all the money that goes in comes out with in a matter of 12 to 14 months. There is

no funding. The unfunded liabilities off balance sheet, by the way, on the Social Security System are about \$10 trillion. That is to say, if you stopped it, boom! Ok, how much we owe people or how much we have promised to people who are currently in the System, and how much we have to pay on that promise, is a \$10 trillion spread. That is the about the size of the U.S. GDP. In other words, it would take us a year, the entire company of productive work, to close that gap, spending the money on nothing else. The problem comes out of the fact that, in 1935 there were maybe 40 people in the workforce for every retiree. By the nineteen-fifties, I think it was 16 to 1. Currently, it is about three to one, about three people in the workforce for every retiree. Probably by the year 2020, it is going to be about two to one. So for every two people working, it's going to be one person retired and the level of benefits are going way, way up. The reality is, the System is structurally unbalanced. It cannot work. At some point in time, it has to break. What is the solution? We have had all sorts of talks about private accounts, this, that, and the other thing. But, what I would submit to you and will suggest to you as an Economic Club, the way to think about this is the way I think about it. It is about funding, right? My father worked for 35 years for Pan-American Airways. He retired after 35 years. Pan-Am went bust 3 years after he retired. And 3 years after that, their pension plan was tapped out, no money, nothing, pension stopped. Why? Because they did not fund it. It was done on a pay-as-you go basis on the assumption that they would always make enough money in their business to fund the plan. Well, the government, of course, got after that. It is illegal for companies like mine to do what the United States government now does. Totally illegal, I would be put in jail. Now the government says, well we are different because we can't go bust, we are the government. But, those of you who follow

these things know that that is just words. At some point in time, you have to pay the piper. At some point in time, that \$10 trillion of our balance sheet obligation comes on balance sheet and you have to pay. The money has to come from somewhere. The government can print money, but all that will do is make whatever money you have in your pocket currently worthless. Or they could raise taxes, but when you have two people working to support every two people not working, that is not a viable proposition long term.

This System has to be fixed. It's a System that has to be moved to a new place, we have to start to migrate the system to one that is funded now. The President will be here next week. He will talk to you, I am sure, about his view of how to do that best, which is to start creating private accounts, i.e., to not keep the money in the government because it seems to get spent there, and leave it in people's pockets. That is just one approach. There are a lot of approaches, but the fundamental issue is that we have to start funding these liabilities and not just let them accrue, and assuming that down the road your children or your grandchildren will pay for your retirement. So, what better place to deliver this message than to The Economic Club here in Washington, because you are part of the debate and the discussion that goes on. It is a very serious issue.

Now, to attempt what probably is impossible, to connect up the first thing I talked about, which was Katrina, and the second thing I talked about, which is Social Security reform. Katrina was an unprecedented disaster in our country. But, it was not an unpredicted disaster. FEMA actually put out a report, I think in March 2001, before 9/11, by the way,

giving their number one, two, and three major disaster scenarios that could befall us and we need to get prepared for. One: Terrorist attack on New York City. Two: Force four or five hurricane hitting New Orleans. Three: A major 8 or above earthquake hitting San Francisco. Of course, we prepared for none, and so far we are two out of three. I heard some general on television say that we knew that the levees in New Orleans would fail if we had a force 4 or 5 hurricane, but the likelihood of that happening was 0.5%, one-half of 1%, so 1 out of 200 times. So they rolled the dice, and they lost.

With Social Security, it is not even a roll of the dice. We know the storm is coming. It is going to hit. Do we have to wait until it actually impacts the shores before we do something? I would hope that our duly elected legislators and the Administration would move off of the partisan sniping and carrying-on and start dealing with some of these issues that are going to affect us all in our lifetimes and affect our children in a way that is sensible. I am not here to advocate a particular point of view or particular resolution of the issue, but simple to say that there is a major storm brewing. We have to do something about it now as opposed to waiting until it is too late to do anything sensible, and our options are taken away from us. I thank you for your patience and your indulgence, and I will be happy to answer questions as long as my Uncle Vernon makes me.

Questions and Answers

Vernon Jordan: There is not a question here about corporate social responsibility or Social Security. Isn't that funny! So, Dick, in the past 18 months, your AOL unit has seemingly been transformed from the ugly duckling to the belle of the ball. Where does

AOL fit in your long-range plans, and are you considering selling a stake in AOL to Microsoft?

Richard Parsons: I knew this was going to happen. Seated at that table are my handlers. They said, don't talk about the business because we don't want you to make news. They never want me to make news. But, I knew Uncle Vernon was going to get me, or one of you. AOL has been a very interesting journey. AOL has in fact gone from being the runt of the litter to now being the prettiest girl at the ball. Fascinating! What is happening are several things. The pendulum never moves initially to the exact right spot. The pendulum always overshoots the spot, and it has to swing back and forth a few times before it comes down to where it wants. The reaction to the collapse of value in our merged company AOL Warner back in 2001, when the internet bubble popped, was so severe that the pendulum swung way, way over to one side, and AOL became the whipping boy of Corporate America. People did not want to hear about it. If I went anywhere, people came up to me in the street and said, "Dick, you ought to spin that thing off, sell it, get rid of it, it's a dog." The reality is, it was and remains a major, major presence in the on-line space. We still have domestically 20 million subscribers. That probably represents something on the order of 40 million to 50 million unique users because, somebody subscribes and he and his wife or their kids use the same account. So we think there are about 2.2 unique users per subscriber. So there are somewhere between 40 million and 50 million subscribers, and these are people who have been on-line for a long time and who spend a lot of time on-line. What has happened is, the model of advertising has grown up, the so-called television model on the web. People

now realize that, whoa, these AOL guys have their arms around a whole bunch of people who use this medium, and if we could get access to that and keep access to that audience and we could make a lot of money.

So to put it in inside the Beltway terms, and the great battle between Microsoft and Yahoo! and Google over who is going to control the on-line web space from an advertising perspective, AOL has become the major swing voter. We are now perceived by them to be the entity that can king make. Now are we going to sell it, or sell a piece to Microsoft? All I will say is, we think we can play in the game ourselves. We are looking at all of our options. I don't want to lose control of AOL because, believe it or not, while the timing was wrong, and the price was certainly wrong, and maybe even the management was wrong in 2001 when we brought AOL and Time Warner together to make this work, the day is coming when the theory of the merger is right. The theory is that this entryway into the on-line world, this on-ramp onto the internet, can work not only on its own behalf, but on behalf of all the other assets that you heard Vernon rattle off that we have in our company, in terms of bringing those assets which are in the analog space into the on-line world. We like our position. We have a long way to go. This is not a game-over thing because a few people have written articles saying AOL has gone from the ugly duckling to the beautiful princess. But, people are beginning to understand that this is still a very powerful company in the on-line space, and that if we can get it right we can create a lot of value for our shareholders.

Vernon Jordan: The governors will tell you that Medicaid is the biggest problem.

What say you?

Richard Parsons: Medicaid is certainly as big a problem, maybe a bigger problem than Social Security. My wife operates by what I call the millennium theory. By that I mean when you go to fix something, it doesn't do to fix that thing unless you fix those other eight things along with it, which means that the millennium arrives before you get everything done. The fact that Medicaid is a big problem doesn't mean that we should not deal with the Social Security problem. It is fundamentally the same in its nature, the same kind of problem. It is an entitlement program, and we are creating huge unfunded liabilities. In the fullness of time, both of them need to be addressed. But, the fact that I don't have, or nobody has, right now the solution to the Medicaid part of it, doesn't mean we shouldn't tackle the part where solutions can be fashioned and maybe create a path to dealing with the larger Medicaid issue.

Vernon Jordan: What grade would you give the media for its coverage of Katrina and why?

Richard Parsons: A-. I am going to be a little bit prejudiced. I thought CNN did a fabulous job. I thought Anderson Cooper, Paula Zahn, and Aaron Brown did a terrific job. I thought our print media did a terrific job and *Time*, even *People*, *Fortune*. A lot of the other media did a great job of bringing to people's attention not only the magnitude of the disaster itself, but also the magnitude of the continuing disparity that exists in this

country. I am as guilty of this as anybody, out of sight out of mind, I don't like to see things that are upsetting or disquieting, but once inequity, injustice, unfairness are brought to the attention of the American population, they quickly resolve to do something about it. I think that was a huge, huge potential positive of the coverage. The reason I give them an A- is that in this 24-hour, 7-days a week 365-day news world, they just pound things to death. In our building, of course, we have all these LED screens everywhere, so you get on the elevator, you get off the elevator, you go into your office, you are pounded with the news, and sometimes it can be just a bit overbearing. It is unrelenting, because the assumption is that everybody has a 20-minute news cycle. They repeat themselves every 20 minutes. So, I think we need to work on that. But, I thought the coverage of Katrina was actually quite good and for the Nation quite beneficial and therapeutic.

Vernon Jordan: Bottom line, has Sarbanes-Oxley been good for Corporate America?

Richard Parsons: I am going to be somewhat contrary here. The safe and comfortable and conventional thing to say is, well, there are a lot of parts of it that don't make a lot of sense and aren't particularly beneficial, but overall in the main it has been strong but good medicine for Corporate America. That is not my view. I just think that there have been some pluses, but it has resulted in a lot more minuses. Example, there is a section in Sarbanes-Oxley, 404, where you have to go through every publicly listed corporation with your auditors and make sure that you have levels of controls that give you assurance that bad stuff isn't happening now. All of you have common sense experience that you

know the guys who are doing bad stuff don't offer it up and say, oh, when you send in the questionnaire, yeah we're engaged in poaching the books over here. So, for my company, the 404 compliance exercise we ran last year cost us \$50 million, \$30 million to our outside auditors and about \$20 million in additional staff and staff time to run through all these traps. I talked to my outside auditors and I said, "Guys, how much of this was money well spent?" Zero! I think Sarbanes-Oxley, frankly, is an example of trying to do surgery with a broad sword instead of a scalpel. While I understand the impetus, and I understand that something needed to be done, I think it was just an overreach, it is a tool that needs to be sharpened and refined and brought more closely to what they are trying to accomplish. Because, frankly we are a \$45-billion a year revenue company, so \$50 million, I can afford that. There are a lot of smaller companies that are literally being driven out of access to the public markets because they cannot afford to do all this compliance stuff. That, I think, is actually stifling both growth and access to public markets and growth of the corporate sector. I don't give it an A-, I give it a C-.

[Applause.]

Vernon Jordan: Given your Katrina analogy and your belief in the private sector, how about out-sourcing FEMA to Wal-Mart and Home Depot?

Richard Parsons: You know, on the surface there is something to be said for the idea. But, here is the problem. One of the other things that just became apparent after Katrina was that, when disaster strikes, American people look to the government. That is ingrained in our culture now. That is the way it is. I think it may have been a surprise to

some people here in Washington that nobody looked to Ray Nagin, the Mayor of New Orleans, or even to the Governor of Louisiana; they looked at the Federal Government and said we are in trouble here. You are the government; you have to come bail us out. You have to come help us. That expectation has become a political reality now. It probably is going to shape the way that the current Administration and future Administrations rethink the role of the government. We have been engaged for the past several years in dismantling a lot of this apparatus that was built to under gird and support our society in the event things went wrong. Now it is going to be put back together because the people expect it and want it. The order of magnitude of resources is just not in order of magnitude that the private sector, at least at its current state of development, can handle. I mentioned earlier that \$350 million in a matter of a week or 10 days was raised by the corporate sector for New Orleans, but we are talking about a \$200 billion rebuild. That order of magnitude is government, and moreover it is what the people expect. That is what they are looking for, and in this country public expectation has become political imperative. So, I think it is an interesting idea and maybe parts of it can be farmed out. But, ultimately that is what people expect from their government and therefore that is what the government is going to have to give them.

Thank you.

Richard D. Parsons is Chairman and CEO of Time Warner Inc., whose businesses include filmed entertainment, interactive services, television networks, cable systems, and publishing. Since becoming CEO in 2002, Mr. Parsons has led Time Warner's turnaround and set the company on a solid path toward achieving sustainable growth. Before becoming CEO, Mr. Parsons served as the company's Co-Chief Operating Officer, overseeing its content businesses—Warner Bros., New Line Cinema, Warner Music Group, and Time Warner Book Group—as well as two key corporate functions: Legal and People Development. Before joining Time Warner, Mr. Parsons was

Chairman and CEO of Dime Bancorp, Inc., one of the largest thrift institutions in the United States. Previously, he was the managing partner of the New York law firm Patterson, Belknap, Webb & Tyler. Prior to that, he held various positions in state and federal government, as counsel for Nelson Rockefeller and as a senior White House aide under President Gerald Ford. Mr. Parsons received his undergraduate education at the University of Hawaii and his legal training at Union University's Albany Law School. Mr. Parsons is Chairman of the Apollo Theatre Foundation, and also serves on the boards of Citigroup, Estee Lauder, the Colonial Williamsburg Foundation, the Museum of Modern Art, Howard University, and the Committee to Encourage Corporate Philanthropy.