AOL TIME WARNER INC
Form 10-Q/A
January 28, 2003
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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q/A
Amendment No. 1 to

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934 for the quarterly period ended June 30, 2002 or**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934 for the transition period from to .**

Commission file number 1-15062

AOL TIME WARNER INC.
(Exact name of registrant as specified in its charter)

Delaware	13-4099534
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

75 Rockefeller Plaza
New York, New York 10019
(212) 484-8000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Description of Class	Shares Outstanding as of July 31, 2002
Common Stock $.01 par value	4,292,109,290
Series LMCN-V Common Stock $.01 par value	171,185,826

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Restatement of Prior Financial Information

As previously disclosed, AOL Time Warner Inc. (AOL Time Warner or the Company) has been conducting an internal review of certain advertising and commerce transactions at the AOL segment under the direction of the Company s Chief Financial Officer. In connection with this internal review, the financial results for each of the quarters ended September 30, 2000 through June 30, 2002 are being restated. The total impact of the adjustments is a reduction of the Company s consolidated advertising and commerce revenues of $190 million over these eight quarterly periods, with corresponding reductions in EBITDA, operating income and net income for that same time period of $97 million, $83 million and $46 million, respectively. For the AOL segment, the impact of the adjustments is a reduction of advertising and commerce revenues of $168 million over these eight quarterly periods, with corresponding reductions in EBITDA and operating income for that same time period of $97 million and $83 million, respectively. The remaining impact on the Company s consolidated advertising and commerce revenues of $22 million represents a reduction in revenues from certain transactions related to the AOL segment in which the advertising was delivered by other AOL Time Warner segments. The adjustments represent approximately 1% of the AOL segment s total revenues for that same two-year period, approximately 3.4% of its advertising and commerce revenues, approximately 1.9% of its EBITDA and approximately 2.1% of its operating income. The largest impact of the adjustments is in the quarter ended September 30, 2000, where advertising and commerce revenues are reduced by $66 million, both EBITDA and operating income are reduced by $30 million and net income is reduced by $18 million. The restatement results in a decrease in basic earnings per share of $0.01 in both the third and fourth quarters of 2000.

The financial results presented in this report reflect the restatement of the Company s financial results. For the three months ended June 30, 2002 and 2001, the total impact of these adjustments is a reduction of the Company s consolidated advertising and commerce revenues of $0 and $42 million, respectively, with a corresponding increase (decrease) in EBITDA of $1 million and $(7) million, respectively, operating income (loss) of $3 million and $(5) million, respectively, and consolidated net income (loss) of $2 million and $(3) million, respectively. For the AOL segment, for the three months ended June 30, 2002 and 2001, the impact of these adjustments is a reduction of advertising and commerce revenues of $0 and $28 million, respectively, with a corresponding increase (decrease) in EBITDA of $1 million and $(7) million, respectively, and operating income (loss) of $3 million and $(5) million, respectively. The remaining impact on advertising and commerce revenues of $0 and $14 million for the three months ended June 30, 2002 and 2001, respectively, represents a reduction in revenues from certain transactions related to the AOL segment in which the advertising was delivered by other AOL Time Warner segments.

For the six months ended June 30, 2002 and 2001, the total impact is a reduction of the Company s consolidated advertising and commerce revenues of $12 million and $56 million, respectively, with a corresponding reduction in EBITDA of $14 million and $8 million, respectively, operating income of $10 million and $5 million, respectively, and net income of $2 million and $3 million, respectively. For the AOL segment, for the six months ended June 30, 2002 and 2001, the impact of these adjustments is a reduction of advertising and commerce revenues of $6 million and $41 million, respectively, with a corresponding reduction in EBITDA of $14 million and $8 million, respectively, and operating income of $10 million and $5 million, respectively. The remaining impact on advertising and commerce revenues of $6 million and $15 million for the six months ended June 30, 2002 and 2001, respectively, represents a reduction in revenues from certain transactions related to the AOL segment in which the advertising was delivered by other AOL Time Warner segments.

Based on the substantial work done to date, the Company does not expect any further restatements as a result of its internal review. However, as previously disclosed, the Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) are investigating the financial reporting and disclosure practices of the Company. The Company cannot predict the outcome of these investigations at this time. The Company will continue its efforts to cooperate with the investigations.

Subsequent Events Resulting in Retroactive Adjustment

In addition to the restatement of prior financial information relating to certain advertising and commerce transactions at the AOL segment, this document reflects subsequent events that result in retroactive adjustments. During the third quarter of 2002, Advance/Newhouse Partnership assumed responsibility for the day-to-day operations of certain cable systems held by the Time Warner Entertainment Advance/Newhouse Partnership (TWE-A/N). As a result, the Company has deconsolidated the financial results of these systems and has retroactively presented such results as discontinued operations for all periods presented. In addition, the Company also began consolidating the financial position and results of operations of Road Runner. As permitted under generally accepted accounting principles, the Company has consolidated the results of Road Runner retroactive to the beginning of 2002. Details of the transaction resulting in the discontinued operations and the consolidation of Road Runner are provided under Restructuring of TWE-Advance/Newhouse Partnership and Road Runner on page 3 and the impact of the discontinued operations is provided under Discontinued Operations on page 5.

Except for the retroactive application of the TWE-A/N restructuring, which is discussed in the preceding paragraph, the Company has not updated the information contained herein for events and transactions occurring subsequent to the date of the original Quarterly Report on Form 10-Q for the quarter ended June 30, 2002. The Company therefore recommends that this report be read in conjunction with the Company s reports filed subsequent to the original filing date, including the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Amended Items

The Company hereby amends the following items, financial statements, exhibits or other portions of its Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as set forth herein:

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Part I Financial Information

Item 1. ***Financial Statements*****.**

The financial information of the Company is amended to read in its entirety as set forth at pages 28 through 65 herein and is incorporated herein by reference.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations*****.**

The information set forth under the caption Management s Discussion and Analysis is amended to read in its entirety as set forth at pages 1 through 27 herein and is incorporated herein by reference.

Part II Other Information

Item 6. ***Exhibits and Reports on Form 8-K*****.**

The list of exhibits set forth in, and incorporated by reference from, the Exhibit Index, is amended to include the following additional exhibit, filed herewith:

99.1 Certification of Principal Executive Officer and Principal Financial Officer of the registrant pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to Amendment No. 1 on Form 10-Q/A to the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002

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AOL TIME WARNER INC.
MANAGEMENT S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of AOL Time Warner Inc. s (AOL Time Warner or the Company) financial condition, changes in financial condition and results of operations. The MD&A is organized as follows:

Overview. This section provides a general description of AOL Time Warner s businesses, as well as recent developments that the Company believes are important in understanding the results of operations, as well as to anticipate future trends in those operations.
Results of operations. This section provides an analysis of the Company s results of operations for the three and six months ended June 30, 2002 relative to the comparable periods in 2001. This analysis is presented on both a consolidated and segment basis. In addition, a brief description is provided of transactions and events that impact the comparability of the results being analyzed.
Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of June 30, 2002 and cash flows for the six months ended June 30, 2002.
Caution concerning forward-looking statements and risk factors. This section discusses how certain forward-looking statements made by the Company throughout MD&A and in the consolidated financial statements are based on management s current expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.

OVERVIEW

Description of Business

AOL Time Warner is the world s leading media and entertainment company. The Company was formed in connection with the merger of America Online, Inc. (America Online) and Time Warner Inc. (Time Warner), which was consummated on January 11, 2001 (the Merger). As a result of the Merger, America Online and Time Warner each became a wholly owned subsidiary of AOL Time Warner.

AOL Time Warner classifies its business interests into six fundamental areas: *AOL*, consisting principally of interactive services, Web properties, Internet technologies and electronic commerce services; *Cable*, consisting principally of interests in cable television systems; *Filmed Entertainment*, consisting principally of interests in filmed entertainment and television production; *Networks*, consisting principally of interests in cable television and broadcast network programming; *Music*, consisting principally of interests in recorded music and music publishing; and *Publishing*, consisting principally of interests in magazine publishing, book publishing and direct marketing.

The Company has undertaken a number of business initiatives to advance cross-divisional activities, including shared infrastructures and cross-promotions of the Company s various products and services, as well as cross-divisional and cross-platform advertising and marketing opportunities for significant advertisers. The Company s integrated Global Marketing Solutions Group develops individualized advertising programs through which major brands can reach customers over a combination of the Company s print, television and Internet media.

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Use of EBITDA

AOL Time Warner evaluates operating performance based on several factors, including its primary financial measure of operating income (loss) before noncash depreciation of tangible assets and amortization of intangible assets (EBITDA). AOL Time Warner considers EBITDA an important indicator of the operational strength and performance of its businesses, including the ability to provide cash flows to service debt and fund capital expenditures. In addition, EBITDA eliminates the uneven effect across all business segments of considerable amounts of noncash depreciation of tangible assets and amortization of certain intangible assets deemed to have finite useful lives that were recognized in business combinations accounted for by the purchase method. As such, the following comparative discussion of the results of operations of AOL Time Warner includes, among other measures, an analysis of changes in EBITDA. However, EBITDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) and other measures of financial performance reported in accordance with generally accepted accounting principles. In addition, EBITDA should not be used as a substitute for the Company s various cash flow measures (e.g., operating cash flow and free cash flow), which are discussed in detail beginning on page 21.

Recent Developments

Investment in Time Warner Entertainment Company, L.P.

A majority of AOL Time Warner s interests in the Filmed Entertainment and Cable segments, and a portion of its interests in the Networks segment, are held through Time Warner Entertainment Company, L.P. (TWE). As of March 31, 2002, AOL Time Warner owned general and limited partnership interests in TWE consisting of 74.49% of the pro rata priority capital (Series A Capital) and residual equity capital (Residual Capital), and 100% of the junior priority capital (Series B Capital). The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE were held by MediaOne TWE Holdings, Inc., a subsidiary of AT&T Corp. (AT&T).

During the second quarter of 2002, AT&T exercised a one-time option to increase its ownership in the Series A Capital and Residual Capital of TWE. As a result, on May 31, 2002, AT&T s interest in the Series A Capital and Residual Capital of TWE increased by approximately 2.13% to approximately 27.64% and AOL Time Warner s corresponding interest in the Series A Capital and Residual Capital of TWE decreased by approximately 2.13% to approximately 72.36%. In accordance with Staff Accounting Bulletin No. 51, Accounting for Sales of Stock of a Subsidiary , AOL Time Warner has reflected the pretax impact of the dilution of its interest in TWE of approximately $690 million as an adjustment to paid-in capital (Note 6).

AT&T has the right, during 60-day exercise periods occurring once every 18 months, to request that TWE incorporate and register its stock in an initial public offering. If AT&T exercises such right, TWE can decline to incorporate and register its stock, in which case AT&T may cause TWE to purchase AT&T s interest at the price at which an appraiser believes such stock could be sold in an initial public offering, subject to certain adjustments. In February 2001, AT&T delivered to TWE a notice requesting that TWE reconstitute itself as a corporation and register AT&T s partnership interests for public sale. In June 2002, AT&T and TWE engaged Banc of America Securities LLC (Banc of America) to perform appraisals and make other determinations under the TWE Partnership Agreement. In July 2002, AOL Time Warner and AT&T agreed to temporarily suspend the registration rights process so that they can pursue discussion of an alternative transaction. For the time being, AOL Time

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Warner and AT&T have asked Banc of America not to deliver the determinations. The Company cannot at this time predict the outcome or effect, if any, of these discussions or the registrations rights process, if resumed.

Restructuring of TWE-Advance/Newhouse Partnership and Road Runner

As of June 30, 2002, the TWE-Advance/Newhouse Partnership (TWE-A/N) was owned approximately 64.8% by TWE, the managing partner, 33.3% by the Advance/Newhouse Partnership (Advance/Newhouse) and 1.9% indirectly by AOL Time Warner. Prior to August 1, 2002, the financial position and operating results of TWE-A/N were consolidated by AOL Time Warner and TWE, and the partnership interest owned by Advance/Newhouse was reflected in the consolidated financial statements of AOL Time Warner and TWE as minority interest. In addition, Road Runner, a high-speed cable modem Internet service provider, was owned by TWI Cable Inc. (a wholly owned subsidiary of AOL Time Warner), TWE and TWE-A/N, with AOL Time Warner owning approximately 65% on a fully attributed basis (i.e., after considering the portion attributable to the minority partners of TWE and TWE-A/N). AOL Time Warner s interest in Road Runner was accounted for using the equity method of accounting prior to August 1, 2002 because of certain approval rights held by Advance/Newhouse, a partner in TWE-A/N.

On June 24, 2002, TWE and Advance/Newhouse agreed to restructure TWE-A/N, which, on August 1, 2002 (the Debt Closing Date), resulted in Advance/Newhouse assuming responsibility for the day-to-day operations of certain TWE-A/N cable systems serving approximately 2.1 million subscribers located primarily in Florida (the Advance/Newhouse Systems). The restructuring is anticipated to be completed by the end of 2002, upon the receipt of certain regulatory approvals. On the Debt Closing Date, Advance/Newhouse and its affiliates arranged for a new credit facility to support the Advance/Newhouse Systems and assumed and repaid approximately $780 million of TWE-A/N s senior indebtedness. As of the Debt Closing Date, Advance/Newhouse assumed responsibility for the day-to-day operations of the Advance/Newhouse Systems. As a result, AOL Time Warner and TWE have deconsolidated the financial position and operating results of these systems. Additionally, all prior period results associated with the Advance/Newhouse Systems, including the historical minority interest allocated to Advance/Newhouse s interest in TWE-A/N, have been reflected as a discontinued operation for all periods presented. Under the new TWE-A/N Partnership Agreement, effective as of the Debt Closing Date, Advance/Newhouse s partnership interest tracks only the economic performance of the Advance/Newhouse Systems, including associated liabilities, while AOL Time Warner retains all of the economic interests in the other TWE-A/N assets and liabilities.

As part of the restructuring of TWE-A/N, on the Debt Closing Date, AOL Time Warner effectively acquired Advance/Newhouse s interest in Road Runner, thereby increasing its ownership to approximately 82% on a fully attributed basis. As a result of the termination of Advance/Newhouse s minority rights in Road Runner, AOL Time Warner has consolidated the financial position and results of operations of Road Runner with the financial position and results of operations of AOL Time Warner s Cable segment. As permitted under generally accepted accounting principles, the Company has consolidated the results of Road Runner retroactive to the beginning of the year.

In connection with the TWE-A/N restructuring, AOL Time Warner recognized a noncash pretax gain of approximately $1.4 billion during the third quarter of 2002, which is included as part of discontinued operations. Of this gain, approximately $1.2 billion related to the difference between the carrying value and fair value of AT&T s interest in the Advance/Newhouse Systems, with the fair value being determined by reference to the fair value of AT&T s additional interest acquired in the remaining TWE-A/N systems. However, because this gain relates in

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large part to AT&T s interest in TWE-A/N, it is substantially offset by minority interest expense, which is similarly included as part of discontinued operations. The remaining pretax gain of $188 million relates to the amount that the fair value of AOL Time Warner s acquired interest in the TWE-A/N systems remaining under the control of AOL Time Warner exceeded the carrying value of AOL Time Warner s interest in the Advance/Newhouse Systems, and primarily relates to the portion of TWE-A/N debt assumed by Advance/Newhouse in excess of its pro rata share in effective compensation for certain adverse tax consequences to the Company as a result of the restructuring. The gain is significantly less than the gain recognized by AT&T because the carrying value of AOL Time Warner s interest in TWE-A/N, including its interest in the Advance/Newhouse Systems, was recently adjusted to fair value as part of the purchase accounting for the Merger. The $188 million pretax gain is also included as part of discontinued operations during the third quarter of 2002. Exclusive of the gains associated with these transactions recognized during the third quarter of 2002, the impact of the TWE-A/N restructuring on AOL Time Warner s consolidated net income is substantially mitigated because the earnings of TWE-A/N attributable to Advance/Newhouse s historical one-third interest was reflected as minority interest expense. As stated previously, this historical minority interest expense is currently classified as part of the discontinued operations for all periods presented. Additionally, there is no impact on AOL Time Warner s consolidated net income of consolidating Road Runner since the Company had previously accounted for its interest in Road Runner under the equity method of accounting.

Sale of Columbia House

In June 2002, AOL Time Warner and Sony Corporation of America reached a definitive agreement to each sell 85% of its 50% interest in the Columbia House Company Partnerships (Columbia House) to Blackstone Capital Partners III LP (Blackstone), an affiliate of The Blackstone Group, a private investment bank. The sale has resulted in the Company recognizing a pretax gain of approximately $59 million, which is included in other expense, net, in the accompanying consolidated statement of operations. In addition, the Company has deferred an approximate $28 million gain on the sale. As a result of the sale, the Company s interest in Columbia House has been reduced to 7.5%. As part of the transaction, AOL Time Warner will continue to license music and video product to Columbia House for a five-year period (Note 4).

$10 Billion Revolving Credit Facilities

In July 2002, AOL Time Warner, together with certain of its consolidated subsidiaries, entered into two new, senior unsecured long-term revolving bank credit agreements with an aggregate borrowing capacity of $10 billion (the 2002 Credit Agreements) and terminated three financing arrangements under certain previously existing bank credit facilities with an aggregate borrowing capacity of $12.6 billion (the Old Credit Agreements) which were to expire during 2002. The 2002 Credit Agreements are comprised of a $6 billion five-year revolving credit facility and a $4 billion 364-day revolving credit facility, borrowings under which may be extended for a period up to two years following the initial term. The borrowers under the 2002 Credit Agreements include AOL Time Warner, TWE, TWE-A/N and AOL Time Warner Finance Ireland. Borrowings will bear interest at specific rates, generally based on the credit rating for each of the borrowers, which is currently equal to LIBOR plus .625%, including facility fees of .10% and .125% on the total commitments of the 364-day and five-year facilities, respectively. The 2002 Credit Agreements provide same-day funding, multi-currency capability and letter of credit availability. They contain maximum leverage and minimum GAAP net worth covenants of 4.5 times and $50 billion, respectively, for AOL Time Warner and maximum leverage covenant of 5.0 times for TWE and TWE-A/N, but do not contain any ratings-based defaults or covenants, nor an ongoing covenant or representation specifically relating to a material adverse change in the Company s financial condition or results of operations. Borrowings may be used

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for general business purposes and unused credit will be available to support commercial paper borrowings (Note 9).

RESULTS OF OPERATIONS
Transactions Affecting Comparability of Results of Operations

Significant Transactions

AOL Time Warner s results for 2002 have been impacted by the following significant transactions that cause them not to be comparable to the results reported in 2001.

Consolidation of AOL Europe, S.A. (AOL Europe). On January 31, 2002, AOL Time Warner acquired 80% of Bertelsmann AG s (Bertelsmann) 49.5% interest in AOL Europe for $5.3 billion in cash and on July 1, 2002 acquired the remaining 20% of Bertelsmann s interest for $1.45 billion in cash (Note 5). As a result of the purchase of Bertelsmann s interest in AOL Europe, AOL Time Warner has a majority interest in and began consolidating AOL Europe, retroactive to the beginning of 2002.

Consolidation of IPC Group Limited (IPC). In October 2001, AOL Time Warner s Publishing segment acquired IPC, the parent company of IPC Media, from Cinven, one of Europe s leading private equity firms, for approximately $1.6 billion.

Discontinued Operations

As previously discussed in Restructuring of TWE-Advance/Newhouse Partnership and Road Runner, the Company s results of operations have been adjusted to reflect the results of the Advance/Newhouse Systems as a discontinued operation for all periods presented. For the three and six months ended June 30, 2002,the net impact of the deconsolidation of these systems is a reduction of the Cable segment s revenues of $363 million and $715 million, respectively, EBITDA of $172 million and $333 million, respectively and operating income of $107 million and $206 million, respectively. For the three and six months ended June 30, 2001, the net impact of the deconsolidation of the Advance/Newhouse Systems is a reduction of the Cable segment s previously reported revenues of $304 million and $596 million, respectively, EBITDA of $137 million and $271 million, respectively, and operating income of $75 million and $151 million, respectively. In addition, as of June 30, 2002, the Advance/Newhouse Systems had current assets and total assets of approximately $57 million and $2.7 billion, respectively, and current liabilities and total liabilities of approximately $186 million and $748 million, respectively, including debt assumed on the Debt Closing Date. As of December 31, 2001, the Advance/Newhouse Systems had current assets and total assets of approximately $64 million and $2.7 billion, respectively, and current liabilities and total liabilities of approximately $210 million and $963 million, respectively, including debt assumed on the Debt Closing Date.

New Accounting Standards

In addition to the transactions previously discussed, in the first quarter of 2002, the Company adopted new accounting guidance in several areas, which are discussed below.

New Accounting Standard for Goodwill and Other Intangible Assets

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During 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (FAS 142), which requires that, effective January 1, 2002, goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life, cease amortizing (Note 3). The new rules also require that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. During the first quarter of 2002, the Company completed its impairment review and recorded a $54 billion noncash pretax charge for the impairment of goodwill, substantially all of which was generated in the Merger. The charge reflects overall market declines since the Merger was announced in January 2000, is non-operational in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated financial statements (Note 3). In order to enhance comparability, the Company compares current year results to the prior year exclusive of this charge.

Reimbursement of Out-of-Pocket Expenses

In November 2001, the FASB Staff issued as interpretive guidance Emerging Issues Task Force (EITF) Topic No. D-103, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (Topic D-103). Topic D-103 requires that reimbursements received for out-of-pocket expenses be classified as revenue on the income statement and was effective for AOL Time Warner in the first quarter of 2002. The new guidance requires retroactive restatement of all periods presented to reflect the new accounting provisions. This change in revenue classification requires retroactive restatement of all periods presented to reflect the new accounting provisions and impacts AOL Time Warner s Cable and Music segments, resulting in an increase in both revenues and costs of approximately $109 million for the second quarter of 2001 and $195 million for the first six months of 2001.

Emerging Issues Task Force Issue No. 01-09

In April 2001, the FASB s EITF reached a final consensus on EITF Issue No. 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor s Products, which was later codified along with other similar issues, into EITF 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products (EITF 01-09). EITF 01-09 was effective for AOL Time Warner in the first quarter of 2002. EITF 01-09 clarifies the income statement classification of costs incurred by a vendor in connection with the reseller s purchase or promotion of the vendor s products, resulting in certain cooperative advertising and product placement costs previously classified as selling expenses to be reflected as a reduction of revenues earned from that activity. The new guidance requires retroactive restatement of all periods presented to reflect the new accounting provisions and impacts AOL Time Warner s AOL, Music and Publishing segments. As a result of applying the provisions of EITF 01-09, the Company s revenues and costs each were reduced by an equal amount of approximately $48 million in the second quarter of 2001 and $110 million for the first six months of 2001.

Other Significant Transactions and Nonrecurring Items

As more fully described herein and in the related footnotes to the accompanying consolidated financial statements, the comparability of AOL Time Warner s operating results has been affected by certain significant transactions and nonrecurring items in each period.

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AOL Time Warner s operating results for the six months ended June 30, 2002 included (i) merger and restructuring costs of $107 million in the first quarter (Note 2), (ii) a noncash pretax charge of $945 million ($364 million in the second quarter) to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value and to reflect changes in equity derivative instruments. The changes in equity derivative instruments resulted in noncash pretax income of $8 million (a loss of $1 million in the second quarter) (Note 4), (iii) an approximate $59 million gain in the second quarter on the sale of a portion of the Company s interest in Columbia House (Note 4) and (iv) an approximate $31 million gain in the second quarter on the redemption of a portion of the Company s interest in TiVo Inc. (TiVo) (Note 4).

For the six months ended June 30, 2001, AOL Time Warner s operating results included (i) merger-related costs of approximately $71 million in the first quarter (Note 2) and (ii) a noncash pretax charge of approximately $620 million in the first quarter to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value (Note 4).

The impact of the significant transactions and nonrecurring items discussed above on the operating results for the three and six months ended June 30, 2002 and 2001 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions, except per share amounts)			
Adjustments for significant and nonrecurring items:				
Merger and restructuring costs	$	$	$ 107	$ 71
Gain on sale of Columbia House	(59)		(59)	
Gain on redemption of TiVo	(31)		(31)	
Loss on write down of investments	364		945	620
Pretax impact of adjustments	274		962	691
Income tax impact of adjustments	(110)		(385)	(276)
Net income impact of adjustments	$ 164	$	$ 577	$ 415
Impact on basic income (loss) per common share before cumulative effect of accounting change	$ 0.04	$	$ 0.13	$ 0.10
Impact on diluted income (loss) per common share before cumulative effect of accounting change	$ 0.03	$	$ 0.12	$ 0.10

Revenues and EBITDA by business segment are as follows (restated; in millions):

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	Three Months Ended June 30			
	Revenues		EBITDA	
	2002	2001(a)	2002	2001
AOL	$ 2,266	$ 2,105	$ 474	$ 794
Cable	1,762	1,478	675	640
Filmed Entertainment	2,386	1,893	328	250
Networks	1,957	1,828	420	444
Music	972	935	102	87
Publishing	1,396	1,155	337	271
Corporate			(80)	(71)
Merger and restructuring costs				
Intersegment elimination	(505)	(441)	11	(22)
Total revenues and EBITDA	$ 10,234	$ 8,953	$ 2,267	$ 2,393
Depreciation and amortization [c]			(747)	(2,197)
Total revenues and operating income	$ 10,234	$ 8,953	$ 1,520	$ 196

	Six Months Ended June 30			
	Revenues		EBITDA	
	2002	2001(a)	2002	2001
AOL	$ 4,557	$ 4,200	$ 892	$ 1,477
Cable(b)	3,445	2,879	1,327	1,274
Filmed Entertainment	4,522	4,105	509	363
Networks	3,743	3,527	851	893
Music	1,919	1,839	198	181
Publishing	2,477	2,084		