TIME WARNER INC.
Form 10-K
February 22, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number 001-15062

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 No.)*

One Time Warner Center
New York, NY 10019-8016
(Address of Principal Executive Offices)(Zip Code)

(212) 484-8000
(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ | Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of the close of business on February 15, 2008, there were 3,576,321,571 shares of the registrant s Common Stock outstanding. The aggregate market value of the registrant s voting and non-voting common equity securities held by non-affiliates of the registrant (based upon the closing price of such shares on the New York Stock Exchange on June 29, 2007) was approximately $75.17 billion.

Documents Incorporated by Reference:

Description of Document	Part of the Form 10-K
Portions of the definitive Proxy Statement to be used in connection with the registrant s 2008 Annual Meeting of Stockholders	Part III (Item 10 through Item 14) (Portions of Items 10 and 12 are not incorporated by reference and are provided herein)

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PART I

Item 1. *Business.*

Time Warner Inc. (the Company or Time Warner), a Delaware corporation, is a leading media and entertainment company. The Company classifies its businesses into the following five reporting segments:

AOL, consisting principally of interactive consumer and advertising services;

Cable, consisting principally of cable systems that provide video, high-speed data and voice services;

Filmed Entertainment, consisting principally of feature film, television and home video production and distribution;

Networks, consisting principally of cable television networks that provide programming; and

Publishing, consisting principally of magazine publishing.

At December 31, 2007, the Company had a total of approximately 86,400 employees.

For convenience, the terms the Company, Time Warner and the Registrant are used in this report to refer to both the parent company and collectively to the parent company and the subsidiaries through which its various businesses are conducted, unless the context otherwise requires.

Caution Concerning Forward-Looking Statements and Risk Factors

This Annual Report on Form 10-K includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management s current expectations or beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to changes in economic, business, competitive, technological, strategic and/or regulatory factors, and other factors affecting the operation of the businesses of Time Warner. For more detailed information about these factors, and risk factors with respect to the Company s operations, see Item 1A, Risk Factors, and Management s Discussion and Analysis of Results of Operations and Financial Condition Caution Concerning Forward-Looking Statements below. Time Warner is under no obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, subsequent events or otherwise.

Available Information and Website

The Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are available free of charge on the Company s website at *www.timewarner.com* as soon as reasonably practicable after such reports are electronically filed with the SEC.

AOL

AOL LLC (together with its subsidiaries, AOL) operates a Global Web Services business that provides online advertising services on the AOL Network and on third-party Internet sites, referred to as the Third Party Network. AOL s Global Web Services business also develops and operates the AOL Network, a leading network of web brands and free client software and services for Internet consumers. In addition, through its Access Services business, AOL operates one of the largest Internet access subscription services in the U.S.

During 2007, AOL continued its transformation from a primarily subscription-based dial-up Internet access business into a primarily advertising-supported web services business. Historically, AOL s primary focus had been its Internet access business. In 2006, due in part to the growth of online advertising, AOL shifted its focus to its advertising business and began offering many of its services for free. Consequently, AOL s focus is on growing its Global Web Services business, while managing costs in this business as well as managing its subscriber base and costs in its Access Services business. In addition, AOL has begun separating its Access Services and Global Web

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Services businesses, which should provide them with greater operational focus and increase the strategic options available for each business.

Global Web Services

AOL s Global Web Services business is comprised of Platform-A and the Publishing business group, which develops and operates the AOL Network (defined more fully below).

Platform-A

In support of its transformation into a primarily advertising-supported web services business, AOL has formed a business group within AOL called Platform-A, which includes advertising sales activities, the Third Party Network advertising business, and advertising-serving platforms. Platform-A offers advertisers access to targeting and measurement tools that will enable AOL to optimize advertising inventory across the Third Party Network and the AOL Network.

AOL offers advertisers a range of advertising services, including customized programs, premier placement of advertising, text and banner advertising, mobile advertising, video advertising, rich media advertising, sponsorship of content offerings for designated time periods, local and classified advertising, contextual and behavioral targeting opportunities, search engine management and lead generation services. Online advertising arrangements generally involve payments by advertisers on either a fixed-fee basis or on a pay-for-performance basis, where the advertiser pays based on the click or customer action resulting from the advertisement.

Advertising services on the Third Party Network are primarily provided by Advertising.com, Inc. (Advertising.com), TACODA, Inc. (TACODA) and Quigo Technologies, Inc. (Quigo), each a wholly owned subsidiary of AOL. To connect advertisers with online advertising inventory, AOL s Platform-A business group purchases this inventory from publishers of the Third Party Network websites and uses proprietary optimization technology to best match advertisers with available inventory.

AOL has expanded its online advertising business through several acquisitions over the past two years. These acquisitions include Lightningcast, Inc., a video ad-serving company, Third Screen Media, Inc. (TSM), a mobile advertising network and mobile ad-serving management platform provider, ADTECH AG (ADTECH), an international online ad-serving company, TACODA, an online behavioral targeting advertising network, and Quigo, a site and content-targeting advertising company. In addition, on February 5, 2008, AOL announced that it acquired Perfiliate Limited (doing business as buy.at), which provides advertisers and publishers a platform for e-commerce marketing programs.

Publishing

AOL s Global Web Services business also includes the products and programming functions associated with the AOL Network. The AOL Network consists of a variety of websites, related applications and services, including those accessed via the AOL and low-cost Internet access services. Specifically, the AOL Network includes owned and operated websites, applications and services such as *AOL.com*, international versions of the AOL portal, e-mail, AIM, MapQuest, Moviefone, ICQ and Truveo (a video search engine). The AOL Network also includes *TMZ.com*, a joint venture with Telepictures Productions, Inc. (a subsidiary of Warner Bros. Entertainment Inc.), as well as other co-branded websites owned by third parties for which certain criteria have been met, including that the Internet traffic has been assigned to AOL.

AOL s audience includes AOL subscribers and other Internet consumers, including former AOL subscribers, who visit the AOL Network. AOL seeks to attract and engage Internet consumers on the AOL Network by offering compelling and differentiated free programming, products and services. AOL has recently introduced, and plans to continue to introduce, several new or enhanced products and services, as well as several programming and product improvements aimed at attracting and engaging Internet consumers.

A part of AOL s strategy is to maintain and expand relationships with current and former AOL subscribers and to increase their activity, whether or not they continue to purchase the dial-up Internet access subscription service. Another component of this strategy is to permit the use of most of AOL s services, including the AOL client

software and AOL e-mail, without charge. As a result, as long as an individual has a means to connect to the Internet, that person is able to access and use most of the AOL services for free.

AOL distributes its free and paid products and services through a variety of methods, including relationships with computer manufacturers, and through search engine marketing and search engine optimization. In an effort to reach a more fragmented audience, AOL is creating versions of certain of its products and services for consumer distribution on the Internet to generate activity on the AOL Network. Additionally, AOL seeks to provide technology to third parties that allows them to incorporate AOL s content and services into their own websites and to enhance AOL s products. AOL also offers paid services to AOL members and to Internet users generally, including storage and online safety and security products.

International

AOL is also expanding its Global Web Services business internationally. Platform-A conducts activities in Europe through AOL s subsidiaries, Advertising.com and ADTECH. In 2007, AOL launched new or refreshed portals in India and in eleven countries in Europe. In September 2007, AOL announced that it signed an agreement with Hewlett-Packard to offer co-branded, localized versions of the AOL portal, toolbar and search services pre-loaded on computers sold in various countries. By the end of 2008, AOL expects to serve over 30 countries. Internationally, the AOL Network also includes applications and services such as ICQ, MapQuest, Truveo and Winamp, and AOL is working to create international versions of other products and services. AOL also conducts other activities internationally, including research and development and customer and corporate support services in India and research and development in China.

In Europe, AOL has transitioned from a primarily subscription-based Internet access business to an advertising-supported web services business. During 2006, AOL sold its French and U.K. Internet access businesses to Neuf Cegetel S.A. and The Carphone Warehouse Group PLC, respectively. In February 2007, AOL completed the sale of its German Internet access business to Telecom Italia S.p.A. For further information regarding this sale, see Management s Discussion and Analysis of Results of Operations and Financial Condition Recent Developments. In connection with the sales of the European Internet access businesses, AOL entered into separate agreements with the purchasers to provide ongoing web services, including content, e-mail and other online tools and services, to the AOL subscribers acquired by the purchasers as well as to their existing subscribers.

Access Services

Historically, AOL s primary product offering has been an online subscription service that includes dial-up Internet access for a monthly fee. In 2007, this subscription service continued to generate the majority of AOL s revenues. As of December 31, 2007, AOL had 9.3 million AOL brand Internet access subscribers in the U.S., which does not include registrations for the free AOL service. The primary price plans offered by AOL are $25.90 and $9.99 per month, which provide varying levels of Internet access service, storage, tools and services. In addition, AOL subsidiaries continue to offer the CompuServe and Netscape Internet access services.

Google Alliance

AOL also earns revenues through its relationship with Google Inc. (Google) under which Google sells certain advertising that appears on the AOL Network and shares the resulting revenues with AOL. On April 13, 2006, AOL, Google and Time Warner completed the issuance to Google of a 5% indirect equity interest in AOL in exchange for $1 billion in cash, having entered into agreements in March 2006 that expanded their strategic alliance. Under the alliance, Google continues to provide search services to, as well as a greater share of revenues generated through searches conducted on, the AOL Network. Google agreed, among other things, to provide AOL the use of a

white-labeled, modified version of its search advertising platform to enable AOL to sell search and contextually-targeted text based advertising directly to certain advertisers on AOL-owned properties, to provide AOL with marketing credits for promotion of AOL s properties on Google s network and other promotional opportunities for AOL content, to collaborate in video search and promotion of AOL s video destination, and to enable Google and AIM instant messaging users to communicate with each other. As part of the April 2006 transaction, Google also received certain registration rights relating to its equity interest in AOL. See

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Management s Discussion and Analysis of Results of Operations and Financial Condition Overview for additional details.

Technologies

AOL employs a multiple vendor strategy in designing, structuring and operating the network services utilized in its businesses. AOL enters into multi-year data technology services agreements to support AOL s businesses. In connection with those agreements, AOL may commit to purchase certain minimum levels of services and/or pay a fixed cost for services. AOL expects to continue to review its services arrangements in order to align its capabilities with market conditions and to manage costs.

AOL s advertising technology systems are designed and managed to maintain availability and performance. AOL s advertising businesses use a combination of in-house and third-party technologies to deliver advertisements across multiple networks and formats including text, banners, rich media, video and mobile. Technology services provided by DoubleClick Inc. (DoubleClick) are currently used by AOL s advertising businesses to manage the delivery of display advertising across the AOL Network. AOL s advertising businesses utilize delivery systems that determine the most effective and profitable advertisements to deliver on behalf of advertisers and publishers. This is achieved through the targeting of advertisements based on a variety of factors, including audience segmentation, contextual relevance, content matching, behavioral targeting and other related factors. AOL s businesses technology systems also feature automated tools that streamline its sales operations, including the setup and management of advertising campaigns.

AOLnet, an Internet protocol (IP) network of third-party network service providers, is used for the AOL Internet access service, certain low-cost Internet access services in North America, and other subscriber services, in addition to being used by outside parties.

AOL also utilizes the AOL Transit Data Network (ATDN), the domestic and international network that connects AOL and CompuServe 2000 customers to the Internet. The ATDN also functions as the conduit between much of Time Warner s content and the Internet, linking together various facilities throughout the world, with its greatest capacity in the U.S. and Europe. The ATDN Internet backbone is built from high-end routers and high-bandwidth circuits purchased primarily under long-term agreements from third-party carriers.

Improving and maintaining AOLnet and the ATDN involves substantial costs in telecommunications equipment and services. In addition to making cash purchases of telecommunications equipment, AOL also finances some of these purchases through leases.

Marketing

To support its goals of attracting and engaging Internet consumers with its interactive products and services, growing the audience of the AOL Network, and developing and differentiating its family of brands, AOL markets its brands, products and services through an array of programs and media, including search engine marketing, web advertising and alternate media. Additionally, through multi-year bundling agreements, AOL s products and services are installed on several different brands of personal computers.

Competition

In its Internet access business, AOL competes with other Internet access providers, especially broadband access providers. With respect to advertising generated on the AOL Network, AOL competes for the time and attention of consumers with a wide range of Internet companies, such as Yahoo! Inc. (Yahoo!), Google, Microsoft Corporation s

(Microsoft) MSN, social networking sites such as Fox Interactive Media, Inc. s MySpace (MySpace) and Facebook, Inc. (Facebook), and traditional media companies, which are increasingly offering their own Internet products and services. The competition AOL s advertising businesses face could intensify when Google s acquisition of DoubleClick is completed and if Microsoft s proposed acquisition of Yahoo! or other similar consolidations occur. The Internet is dynamic and rapidly evolving, and new and popular competitors, such as social networking sites, frequently emerge.

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AOL s Platform-A business group competes with other aggregators of third-party advertising inventory and other companies offering competing advertising products, technology and services, as well as, increasingly, aggregators of such advertising products, technology and services. Competitors include such companies as WPP Group plc (24/7 Real Media), ValueClick, Inc., Google, Yahoo! and MSN. Competition among these companies is intensifying and may lead to continuing increases in costs to acquire advertising inventory from third parties and continuing decreases in prices for advertising inventory. In addition, competition generally may cause AOL to incur unanticipated costs associated with research and product development.

Following the sales of its Internet access businesses, AOL Europe s primary competitors are global enterprises such as Google, MSN and Yahoo!, new entrants such as Facebook, MySpace and other social networking sites and a large number of local enterprises. As AOL expands internationally, it will become increasingly subject to intense competition from global and local competitors.

CABLE

The Company s cable business, Time Warner Cable Inc. (together with its subsidiaries, TWC), is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York state (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of December 31, 2007, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 32.1 million revenue generating units, which reflects the total of all TWC basic video, digital video, high-speed data and voice subscribers. In addition to its video, high-speed data and voice services, TWC sells advertising time to a variety of national, regional and local businesses.

On July 31, 2006, Time Warner NY Cable LLC (TW NY), a subsidiary of TWC, and Comcast Corporation (together with its subsidiaries, Comcast) completed their respective acquisitions of assets comprising in the aggregate substantially all of the cable assets of Adelphia Communications Corporation (Adelphia) (the Adelphia Acquisition). Immediately prior to the Adelphia Acquisition, TWC and Time Warner Entertainment Company, L.P. (TWE), a subsidiary of TWC, redeemed Comcast s interests in TWC and TWE, respectively. In addition, immediately after the Adelphia Acquisition, TW NY exchanged certain cable systems with Comcast. On February 13, 2007, Adelphia s Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, TWC became a public company subject to the requirements of the Exchange Act. Under the terms of the reorganization plan, during 2007, substantially all of the shares of TWC Class A Common Stock that Adelphia received as part of the payment for the systems TW NY acquired in July 2006 were distributed to Adelphia s creditors. On March 1, 2007, TWC s Class A Common Stock began trading on the New York Stock Exchange (NYSE) under the symbol TWC.

Time Warner owns approximately 84% of TWC s common stock (including approximately 83% of the outstanding TWC Class A Common Stock and all outstanding shares of TWC Class B Common Stock), and also owns an indirect 12.43% non-voting equity interest in TW NY. Time Warner is initiating discussions with TWC s management and its board of directors regarding Time Warner s ownership of TWC.

Effective January 1, 2007, TWC began consolidating the results of certain cable systems located in Kansas City, southwest Texas and New Mexico (the Kansas City Pool) upon the distribution of the assets of Texas and Kansas City Cable Partners, L.P. (TKCCP) to TWC and Comcast. For additional information with respect to the distribution of the assets of TKCCP to its partners on January 1, 2007, see Management s Discussion and Analysis of Results of Operations and Financial Condition Recent Developments.

Products and Services

TWC offers video, high-speed data and voice services over its broadband cable systems. TWC markets its services separately and as bundled packages of multiple services and features. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and commercial networking and transport services to commercial customers. Recently, TWC has begun selling voice services to small- and medium-sized businesses as part of an increased focus on its commercial business. TWC customers who subscribe to a bundle receive a discount from the price of buying the services separately as well as the convenience of a single

monthly bill. Increasingly, TWC s customers subscribe to more than one primary service. As of December 31, 2007, 48% of TWC s customers subscribed to two or more of its primary services, including 16% of its customers who subscribed to all three primary services.

Residential Video Services

Programming Tiers. TWC offers three main levels or tiers of video programming Basic Service Tier (BST), Expanded Basic Service Tier (CPST) and Digital Basic Service Tier (DBT). BST generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, and public access, educational and government channels. CPST enables BST subscribers to add national, regional and local cable news, entertainment and other specialty networks, such as CNN, A&E, ESPN, CNBC and MTV. In certain areas, BST and CPST also include proprietary local programming devoted to the communities TWC serves, including 24-hour local news channels in a number of cities. Together, BST and CPST provide customers with approximately 70 channels. DBT offers subscribers up to 50 additional cable networks, including spin-off and successor networks to national cable services, news networks and niche programming services, such as Discovery Home and MTV2. Generally, subscribers to CPST and DBT can purchase thematically-linked programming tiers, including movies, sports and Spanish language tiers, and subscribers to any tier of video programming can purchase premium services, such as HBO and Showtime.

TWC s video subscribers pay a fixed monthly fee based on the video programming tier they receive. Subscribers to specialized tiers and premium services are charged an additional monthly fee, with discounts generally available for the purchase of packages of more than one such service. The rates TWC can charge for its BST service and certain video equipment, including set-top boxes, are subject to regulation under federal law. See Regulatory Matters Cable System Regulation.

Transmission Technology. TWC s customers may receive video service through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital simulcast, digital transmissions only. Customers who receive any level of video service via digital transmissions are referred to as digital video subscribers. As of December 31, 2007, 50% of TWC s homes passed, or approximately 13.3 million customers, were basic video subscribers and of those, approximately 8.0 million (or 61%) were digital video subscribers.

Digital video subscribers using a TWC-provided set-top box generally have access to an interactive program guide, Video on Demand (VOD), which is discussed below, music channels and seasonal sports packages. Digital video subscribers who receive premium services generally also receive multiplex versions of these services.

On-Demand Services. On-Demand services are available to digital video subscribers using a set-top box provided by TWC. Available On-Demand services include a wide selection of featured movies and special events, for which separate per-use fees are generally charged, and free access to selected movies, programs and program excerpts from cable networks, music videos, local programming and other content. In addition, premium service (e.g., HBO) subscribers receiving services via a digital set-top box provided by TWC generally have access to the premium service s On-Demand content without additional fees.

Enhanced TV Services. TWC is expanding the use of VOD technology to introduce additional enhancements to the video experience. For instance, TWC has launched Start Over, which allows digital video subscribers using a set-top box provided by TWC to restart select in progress programs airing on participating cable and broadcast networks directly from the relevant channel, without the ability to fast-forward through commercials. Start Over was available to over one million digital video subscribers as of December 31, 2007, and TWC plans to continue to roll out Start Over in 2008. TWC has begun rolling out other Enhanced TV features such as Look Back, which utilizes the Start

Over technology to allow viewing of previously aired programs, and Quick Clips, which allows customers to view short-form content tied to the cable or broadcast network then being watched. TWC is also working to make available Catch Up, which will allow customers to view previously aired programs they have missed.

DVRs. Set-top boxes equipped with digital video recorders (DVRs), among other things, enable customers to pause and/or rewind live television programs and record programs on a hard drive built into the set-top box.

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Subscribers pay an additional monthly fee for TWC s DVR service. As of December 31, 2007, 42%, or approximately 3.4 million, of TWC s digital video subscribers also subscribed to its DVR service.

HD Television. In its more advanced divisions, TWC offers between 30 and 40 channels of high-definition (HD) television, or HDTV, and expects to add additional programming during 2008. In most divisions, HD simulcasts are provided at no additional charge, and additional charges apply only for HD channels that do not have standard definition counterparts. In addition to its linear HD channels, TWC also offers VOD programming in HD.

Residential High-speed Data Services

As of December 31, 2007, TWC offered residential high-speed data services to nearly all of its homes passed and approximately 7.6 million customers, or 29% of estimated high-speed data service-ready homes, subscribed to a residential high-speed data service. High-speed data subscribers connect to TWC s cable systems using a cable modem, and pay a flat monthly fee based on the level of service received. In virtually all of its systems, TWC offers four tiers of its Road Runner high-speed data service: Turbo, Standard, Basic and Lite. The tiers offer different speeds at different monthly fees.

TWC s Road Runner service provides communication tools and personalized services, including e-mail, PC security, parental controls, news groups and online radio, without any additional charge. The Road Runner portal provides access to content and media from local, national and international providers and topic-specific channels, including games, news, sports, autos, kids, music, movie listings and shopping sites.

High-speed data services are delivered through TWC s hybrid fiber coaxial (HFC) network, regional fiber networks that are either owned or leased from third parties and through backbone networks that provide connectivity to the Internet and are operated by third parties. TWC pays fees for leased circuits based on the amount of capacity available to TWC and pays for Internet connectivity based on the amount of data traffic received from and sent over the provider s backbone network. TWC also has entered into a number of settlement-free peering arrangements with affiliated and third-party networks that allow TWC to exchange traffic with such networks without a fee.

In addition to Road Runner, most of TWC s cable systems provide their high-speed data subscribers with access to the services of certain other on-line providers, including Earthlink.

Residential Voice Services

Digital Phone. TWC has offered its Digital Phone service broadly since 2004. Under TWC s primary calling plan, its customers receive unlimited local, in-state and U.S., Canada and Puerto Rico calling and a number of calling features for a fixed monthly fee. TWC also offers additional calling plans with a variety of calling options that are designed to meet customers particular usage patterns, including a local-only calling plan, an unlimited in-state calling plan and an international calling plan.

As of December 31, 2007, approximately 2.9 million customers, or 12% of estimated voice service-ready homes passed, subscribed to Digital Phone. Since no comparable Internet protocol (IP)-based telephony service was available in the systems acquired in and retained after the 2006 transactions with Adelphia and Comcast (the Acquired Systems) at the time of the closing of the transactions, the continued introduction of Digital Phone in the Acquired Systems, separately and as part of a bundle, was a high priority for TWC during 2007. TWC started selling Digital Phone in the Acquired Systems in 2007 and, as of December 31, 2007, the launch of Digital Phone to residential customers in the Acquired Systems was substantially complete.

Digital Phone is delivered over the same system facilities used by TWC to provide video and high-speed data services. Under a multi-year agreement between TWC and Sprint Nextel Corporation (Sprint), Sprint assists TWC in providing Digital Phone service by routing voice traffic to and from destinations outside of TWC s network via the public switched telephone network, delivering Enhanced 911 service and assisting in local number portability and long-distance traffic carriage. Unlike Internet phone providers, such as Vonage Holdings Corp. (Vonage), TWC does not utilize the public Internet to transport telephone calls.

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Commercial Services

TWC has provided video and high-speed data services to businesses for over a decade and, in 2007, it introduced a commercial Digital Phone service, Business Class Phone, geared to small- and medium-sized businesses. The introduction of Business Class Phone enables TWC to offer its commercial customers a bundle of video, high-speed data and voice services and to compete against bundled services from its competitors.

Video Services. TWC offers business customers a full range of video programming tiers marketed under the Time Warner Cable Business Class brand. Packages are designed to meet the demands of a business environment by offering a wide variety of video services that enable businesses to entertain customers or stay abreast of news, weather and financial information.

High-speed Data Services. TWC offers business customers a variety of high-speed data services, including Internet access, website hosting and managed security. These services are offered to a broad range of businesses and are also marketed under the Time Warner Cable Business Class brand. Business subscribers pay a flat monthly fee, which differs from the fee paid by residential subscribers, based on the level of service received. As of December 31, 2007, TWC had 280,000 commercial high-speed data subscribers. In addition, TWC provides its high-speed data services to other cable operators for a fee, who in turn provide high-speed data services to their customers.

Voice Services. In addition to TWC s existing commercial video and high-speed data businesses, TWC recently introduced Business Class Phone, a business-grade phone service geared to small- and medium-sized businesses. TWC rolled out Business Class Phone in the majority of its systems during 2007 and expects to complete the roll-out of Business Class Phone in the remainder of its systems during 2008.

Commercial Networking and Transport Services. TWC provides dedicated transmission capacity on its network to customers that desire high-bandwidth connections between locations. TWC also offers point-to-point circuits to wireless telephone providers and other carriers and wholesale customers.

Advertising

TWC also generates revenues by selling advertising time to a variety of national, regional and local businesses. As part of the agreements under which it acquires video programming, TWC generally receives an allocation of scheduled advertising time in such programming, generally two or three minutes per hour, into which its systems can insert commercials. The clustering of TWC s systems expands the number of viewers that TWC reaches within a local designated market area, which helps its local advertising sales business to compete more effectively with broadcast and other media. In addition, TWC has a strong presence in the country s two largest advertising market areas, New York City and Los Angeles. TWC is also exploring various means by which it could utilize its advanced services, such as VOD and interactive TV, to increase advertising revenues.

Technology

Cable Systems. TWC transmits its video, high-speed data and voice signals on an HFC network. As of December 31, 2007, according to TWC s estimates, approximately 98% of all homes passed by TWC s cable systems were served by plant that had been upgraded to provide at least 750 megahertz of capacity. TWC believes that its network architecture is sufficiently flexible and extensible to support its current requirements. However, in order for TWC to continue to innovate and deliver new services to its customers, as well as meet its competitive needs, TWC anticipates that it will need to use more efficiently the bandwidth available to its systems over the next few years. TWC believes that this can be achieved largely without costly upgrades. For example, to accommodate increasing numbers of HDTV channels and other demands for greater capacity in its network, TWC is deploying a technology known as switched digital

video (SDV). By using SDV, only those channels that are being watched within a given grouping of households are transmitted to those households. Since it is generally the case that not all channels are being watched at all times by a given group of households, this frees up capacity that can then be made available for other uses.

Set-top Boxes. TWC s digital video subscribers must have either a digital set-top box or a digital cable-ready television or similar device equipped with a CableCARDtm. However, a digital cable-ready television or

similar device equipped with a CableCARD cannot receive certain digital signals and signals for premium programming that are necessary to receive TWC s two-way video services, such as VOD and the interactive program guide. In order to receive TWC s two-way video services, customers generally must have a digital set-top box provided by TWC. TWC purchases set-top boxes and CableCARDs from a limited number of suppliers and leases these devices to subscribers at monthly rates.

Video Programming

TWC carries local broadcast stations pursuant to either the Federal Communications Commission (FCC) must carry rules or a written retransmission consent agreement with the relevant station owner. For more information, see Regulatory Matters Cable System Regulation Communications Act and FCC Regulation Carriage of Broadcast Television Stations and Other Programming Regulation. TWC currently has multi-year transmission consent agreements in place with most of the retransmission consent stations it carries. Cable networks and premium services are carried pursuant to written affiliation agreements, usually with a term of between three and seven years. TWC generally pays a fixed monthly per-subscriber fee for such services. Payments to the providers of some premium services may be based on a percentage of TWC s gross receipts from subscriptions to the service. Generally, TWC obtains rights to carry VOD movies and Pay-Per-View events through iN Demand L.L.C., a company in which TWC holds a minority interest. In some instances, TWC contracts directly with film studios for VOD carriage rights for movies. Such VOD content is generally provided to TWC under revenue-sharing arrangements.

Wireless Joint Venture

TWC is a participant in a wireless spectrum joint venture with several other cable companies, which, in November 2006, was awarded certain advanced wireless spectrum licenses in an FCC auction.

Competition

TWC faces intense competition from a variety of alternative information and entertainment delivery sources, principally from direct-to-home satellite video providers and certain telephone companies, each of which offers a broad range of services through increasingly varied technologies that provide features and functions comparable to those provided by TWC. The services are also offered in bundles of video, high-speed data and voice services similar to TWC s and, in certain cases, these offerings include wireless services. The availability of these bundled service offerings has intensified competition. In addition, technological advances will likely increase the number of alternatives available to TWC s customers from other providers and intensify the competitive environment. See Risk Factors Risks Related to Cable Competition.

Principal Competitors

Direct Broadcast Satellite. TWC s video services face competition from direct broadcast satellite (DBS) services, such as DISH Network Corporation (Dish Network) and DirecTV Group Inc. (DirecTV). Dish Network and DirecTV offer satellite-delivered pre-packaged programming services that can be received by relatively small and inexpensive receiving dishes. These providers offer aggressive promotional pricing, exclusive programming (e.g., NFL Sunday Ticket, which is available only to DirecTV) and video services that are comparable in many respects to TWC s analog and digital video services, including TWC s DVR service and some of its interactive programming features. These providers are also working to increase the number of HDTV channels they offer in order to differentiate their service from services offered by cable operators. In some areas, incumbent local telephone companies and DBS operators have entered into co-marketing arrangements that allow both parties to offer synthetic bundles (i.e., video service provided principally by the DBS operator, and digital subscriber line (DSL), traditional phone service and, in some cases, wireless service provided by the telephone company).

Local Telephone Companies. TWC s high-speed data and Digital Phone services face competition from the DSL, wireless broadband and traditional and wireless phone offerings of incumbent local telephone companies, especially AT&T Inc. (AT&T) and Verizon Communications Inc. (Verizon), and also some smaller local telephone companies. AT&T and Verizon have undertaken fiber optic upgrades of their networks, and the

technologies they are using, such as fiber-to-the-node (FTTN) and fiber-to-the-home (FTTH), are capable of carrying two-way video, high-speed data with substantial bandwidth and IP-based telephony services, each of which is similar to the corresponding services offered by TWC. In addition, these telephone companies can market and sell service bundles of video, high-speed data and voice services plus wireless services provided by the telephone companies owned or affiliated companies.

Cable Overbuilds. TWC operates its cable systems under non-exclusive franchises granted by state or local authorities. The existence of more than one cable system operating in the same territory is referred to as an overbuild. In some of TWC s operating areas, other operators have overbuilt TWC systems and/or offer video, data and voice services in competition with TWC.

Satellite Master Antenna Television (SMATV). Additional competition comes from private cable television systems servicing condominiums, apartment complexes and certain other multiple dwelling units, often on an exclusive basis, with local broadcast signals and many of the same satellite-delivered program services offered by franchised cable systems. Some SMATV operators now offer voice and high-speed data services as well.

Other Competition and Competitive Factors

In addition to competing with the video, high-speed data and voice services offered by DBS providers, local incumbent telephone companies, cable overbuilders and SMATVs, each of TWC s services also faces competition from other companies that provide services on a stand-alone basis.

Video Competition. TWC s video services face competition on a stand-alone basis from a number of different sources, including local television broadcast stations that provide free over-the-air programming that can be received using an antenna and a television set; local television broadcasters, which in selected markets sell digital subscription services; and video programming delivered over broadband Internet connections. TWC s VOD services compete with online movie and other services, which are delivered over broadband Internet connections, online order services with mail delivery and with video stores and home video services.

Online Competition. TWC s high-speed data services face or may face competition from a variety of companies that offer other forms of online services, including low cost dial-up services over ordinary telephone lines, and developing technologies, such as Internet service via power lines, satellite and various wireless services (e.g., Wi-Fi), including those of local municipalities.

Digital Phone Competition. TWC s Digital Phone service also competes with wireless phone providers and national providers of IP-based telephony products such as Vonage. The increase in the number of different technologies capable of carrying voice services has intensified the competitive environment in which TWC operates its Digital Phone service.

Commercial Competition. TWC s commercial video, high-speed data, voice and networking and transport services face competition from local incumbent telephone companies, especially AT&T and Verizon, as well as from a variety of other national and regional business services competitors.

FILMED ENTERTAINMENT

The Company s Filmed Entertainment businesses produce and distribute theatrical motion pictures, television shows, animation and other programming, distribute home video product, and license rights to the Company s feature films, television programming and characters. All of the foregoing businesses are principally conducted by various subsidiaries and affiliates of Warner Bros. Entertainment Inc., known collectively as the Warner Bros. Entertainment

Group (Warner Bros.), and New Line Cinema Corporation (New Line). The Company is exploring increased operational efficiencies within the Filmed Entertainment segment, including the potential for a closer strategic integration of the New Line business with Warner Bros.

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Feature Films

Warner Bros.

Warner Bros. produces feature films both wholly on its own and under co-financing arrangements with others, and also distributes its films and completed films produced by others. The terms of Warner Bros. agreements with independent producers and other entities are separately negotiated and vary depending upon the production, the amount and type of financing by Warner Bros., the media and territories covered, the distribution term and other factors. Warner Bros. feature films are produced under both the Warner Bros. Pictures and Castle Rock banners, and also by Warner Independent Pictures (WIP).

Warner Bros. strategy focuses on offering a diverse slate of films with a mix of genres, talent and budgets that includes several event movies per year. In response to the high cost of producing theatrical films, Warner Bros. has entered into certain film co-financing arrangements with other companies, decreasing its financial risk while in most cases retaining substantially all worldwide distribution rights. During 2007, Warner Bros. and WIP released a total of 28 original motion pictures for theatrical exhibition, including *300*, *Ocean s Thirteen*, *Harry Potter and the Order of the Phoenix* and *I Am Legend*. Of the total 2007 releases, eight were wholly financed by Warner Bros. and 20 were financed with or by others.

Warner Bros. has co-financing arrangements with Village Roadshow Pictures and Legendary Pictures, LLC. Additionally, Warner Bros. has an exclusive distribution arrangement with Alcon Entertainment for distribution of all of Alcon s motion pictures in domestic and certain international territories. In 2006, Warner Bros. also entered into an exclusive multi-year distribution agreement with Dark Castle Holdings, LLC, under which Warner Bros. will distribute 15 Dark Castle feature films in the U.S. and, generally, in all international territories. Each of these feature films will be 100% financed by Dark Castle.

WIP produces or acquires smaller budget and alternative films for domestic and/or worldwide release. WIP released five films during 2007, including *In the Valley of Elah*.

Warner Bros. distributes feature films for theatrical exhibition to more than 125 international territories. In 2007, Warner Bros. released internationally 19 English-language motion pictures and 28 local-language films that it either produced or acquired.

After their theatrical exhibition, Warner Bros. licenses its newly produced films, as well as films from its library, for distribution on broadcast, cable, satellite and pay television channels both domestically and internationally, and, as further discussed below, it also distributes its films on DVD and in various digital formats.

New Line Cinema

Theatrical films are also produced and distributed by New Line, a leading independent producer and distributor of theatrical motion pictures. Included in its 13 films released during 2007 were *Hairspray, Rush Hour 3* and *The Golden Compass*. Like Warner Bros., New Line releases a diverse slate of films with an emphasis on building and leveraging franchises. As part of its strategy for reducing financial risk and dealing with the rising cost of film production, New Line typically pre-sells the international rights to its releases on a territory-by-territory basis, while still retaining a share of each film s potential profitability in those foreign territories. New Line also has entered into a two-year co-financing transaction arranged by The Royal Bank of Scotland that began in February 2007.

Picturehouse, a theatrical distribution company formed in 2005 and jointly owned by New Line and Home Box Office, Inc., is also a producer and distributor of independent films. This venture released eight films in 2007,

including *La Vie En Rose* and *The Orphanage*.

Home Entertainment

Warner Home Video (WHV), a division of Warner Bros. Home Entertainment Inc. (WBHE), distributes for home video use DVDs containing filmed entertainment product produced or otherwise acquired by the Company s various content-producing subsidiaries and divisions, including Warner Bros. Pictures, Warner Bros. Television, New Line, Home Box Office and Turner Broadcasting System. Significant WHV releases during 2007

included *300*, *Ocean s Thirteen* and *Harry Potter and the Order of the Phoenix.* WHV produces and distributes DVDs from new content generated by the Company as well as from the Company s extensive filmed entertainment library of thousands of feature films, television titles and animated titles. WHV also distributes other companies product, including DVDs for BBC, National Geographic and national sports leagues in the U.S., and has similar distribution relationships with producers outside the U.S.

WHV sells and licenses its product for resale in the U.S. and in major international territories to retailers and wholesalers through its own sales force, with warehousing and fulfillment handled by third parties. DVD product is replicated by third parties, with replication for the U.S., Canada, Europe and Mexico provided for under a long-term contract. In some countries, WHV s product is distributed through licensees. WHV distributes packaged media product in the standard-definition DVD format and, in 2007, it distributed product in both of the HD DVD and Blu-ray high-definition formats. In January 2008, WHV announced that, commencing in the second quarter of 2008, it would distribute its high-definition products exclusively in the Blu-ray high-definition format.

Warner Premiere, a division of Warner Specialty Films Inc. established in 2006, develops and produces filmed entertainment that is distributed initially though DVD sales (direct-to-video) and short-form content that is distributed through online and wireless platforms. Warner Premiere released three direct-to-video titles in 2007.

Warner Bros. Interactive Entertainment (WBIE), a division of WBHE, licenses and produces interactive videogames for a variety of platforms based on Warner Bros. and DC Comics properties, as well as original game properties produced by it and its subsidiary, Monolith Productions Inc. In 2007, WBIE expanded its business to include games publishing, utilizing the global supply chain infrastructure of WHV, and entered into games distribution agreements with Brash Entertainment, LLC, TT Games Limited (TT Games) and The Codemasters Software Company Limited. In 2007, WBIE distributed 23 game titles in North America, including *Looney Tunes ACME Arsenal* and its companion game *Duck Amuck*, *Alvin and The Chipmunks* and *Dirt*. In 2008, WBIE plans to release a number of new games and expand its game publishing operations into international territories.

In December 2007, WBHE acquired TT Games, which includes Traveller s Tales, one of the world s largest independent game developers, and TT Games Publishing, the U.K.-based game publisher of the *Lego Star Wars* and *BIONICLE Heroes* videogames.

Television

Warner Bros. Television Group (WBTVG) is one of the world s leading suppliers of television programming, distributing programming in the U.S. as well as in more than 200 international territories and in more than 45 languages. WBTVG both develops and produces new television series, made-for-television movies, reality-based entertainment shows and animation programs and also licenses programming from the Warner Bros. library for exhibition on media all over the world.

WBTVG programming is primarily produced by Warner Bros. Television (WBTV), a division of WB Studio Enterprises Inc. that produces primetime dramatic and comedy programming for the major broadcast networks and for cable networks; Warner Horizon Television Inc. (Warner Horizon), which specializes in unscripted programming for broadcast networks as well as scripted and unscripted programming for cable networks; and Telepictures Productions Inc. (Telepictures), which specializes in reality-based and talk/variety series for the syndication and daytime markets. For the 2007-08 season, WBTV is producing, among others, *Smallville* and *Gossip Girl* for The CW Television Network (The CW) and *Two and a Half Men, Without a Trace, Cold Case*, *The Big Bang Theory*, *Pushing Daisies* and *ER* for other broadcast networks. WBTV also produces original series for cable networks, including *The Closer* and *Nip/Tuck*. Warner Horizon produces the primetime reality series *The Bachelor.* Telepictures produces first-run syndication staples such as *Extra* and the talk shows *The Ellen DeGeneres Show* and *Tyra*, as well as *TMZ*, a series

based on the top entertainment website *TMZ.com*.

Warner Bros. Animation Inc. (WBAI) is responsible for the creation, development and production of contemporary animated television programming and original made-for-DVD releases, including the popular *Scooby Doo* and *Tom and Jerry* series. WBAI also oversees the creative use of, and production of animated programming based on, classic animated characters from Warner Bros., including *Looney Tunes*, and from the Hanna-Barbera and DC Comics libraries.

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Digital Media

WBTVG s online destination, *TMZ.com*, a joint venture with AOL, is the number-one entertainment news website in the U.S., according to comScore Media Metrix. In November 2007, WBTVG launched a second online destination, *MomLogic.com*, which also serves as the portal of an online advertising network targeting mothers. WBTVG plans to launch a third destination site featuring animated properties from the *Looney Tunes*, Hanna-Barbera and DC Comics libraries in the second quarter of 2008. In 2007, WBTVG s digital production venture, Studio 2.0, which works with creative talent and advertisers to create original live action and animated short form programming for broadband and wireless devices, developed and/or produced more than two dozen new live action, short form programs for distribution in 2008.

Many of WBTVG s current on-air television series are available on demand via broadband and wireless streaming and downloading and cable VOD platforms under agreements entered into with the broadcast and cable networks exhibiting the series. Pursuant to those agreements, the networks have the right to offer each series episode on demand for a limited period of time after the episode airs and WBTVG retains the right to offer permanent downloads of current episodes during the same timeframe and, increasingly, WBTVG has the right to offer online streaming of current series episodes at the end of a broadcast year. Internationally, in 2007, WBTVG launched five Warner Bros. branded on-demand program channels: three in the U.K., one in France and one in Japan.

Warner Bros. Digital Distribution (WBDD), a division of WBHE, enters into domestic and international licensing arrangements for distribution of Warner Bros. film and television programming through VOD and/or permanent download or electronic sell-through (EST) via online, cable and wireless services. WBDD has VOD and EST licenses with Apple Inc. for iTunes, Amazon.com, Inc. for Unbox, Microsoft Corporation for Xbox 360 and with Netflix, Inc. for movies via its subscription VOD service, as well as licenses with local online retailers in various international territories including Europe, Asia and Latin America. In 2007, WBDD commenced testing with Comcast and TWC in limited markets the release of films in VOD on the same date as their release on DVD. WBDD plans to expand this day and date release strategy for VOD in 2008 both domestically and internationally. WBDD has also worked with WHV to develop programs that make electronic copies of new release movies available to consumers who purchase DVDs, either by entering a code contained in the DVD packaging that allows consumers to download a file containing the film or by including an electronic copy of the film directly on the DVD that the consumer can upload. In 2007, electronic copies of movies were made available to purchasers of DVDs on four home video titles, and WBDD plans to expand this program in 2008.

Other Entertainment Assets

Warner Bros. Consumer Products Inc. licenses rights in both domestic and international markets to the names, likenesses, images, logos and other representations of characters and copyrighted material from the films and television series produced or distributed by Warner Bros., including the superhero characters of DC Comics, Hanna-Barbera characters, classic films and *Looney Tunes.*

Warner Bros. and CBS Corporation (CBS) each have a 50% interest in The CW, a broadcast network launched at the beginning of the Fall 2006 broadcast season. For additional information, see Networks, below.

Warner Bros. International Cinemas Inc. holds interests, either wholly owned or through joint ventures, in 88 multi-screen cinema complexes, with over 700 screens in Japan, Italy and the U.S.

DC Comics, wholly owned by the Company, publishes a wide array of graphic novels and an average of over 80 comic book titles per month, featuring such popular characters as *Superman, Batman, Wonder Woman* and *The Sandman.* DC Comics also derives revenues from motion pictures, television, videogames and merchandise. The

Company also owns E.C. Publications, Inc., the publisher of *MAD* magazine.

In September 2007, Warner Bros. entered into a long-term, multi-faceted strategic alliance with ALDAR Properties PJSC, an Abu Dhabi real estate development company, and Abu Dhabi Media Company, a newly established media company owned by the Abu Dhabi government, to develop certain entertainment related projects in Abu Dhabi. Some of the initial projects under the strategic alliance will include the creation of a theme park and resort hotel branded with Warner Bros. intellectual property, the development of jointly owned multiplex theatres,

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an agreement for the co-financing and distribution of interactive video games and a film co-financing and distribution arrangement.

Competition

The production and distribution of theatrical motion pictures, television and animation product and DVDs are highly competitive businesses, as each vies with the other, as well as with other forms of entertainment and leisure time activities, including Internet streaming and downloading, websites providing social networking and user-generated content, interactive games and other online activities, for consumers attention. Furthermore, there is increased competition in the television industry evidenced by the increasing number and variety of broadcast networks and basic cable and pay television services now available. Despite this increasing variety of networks and services, access to primetime and syndicated television slots has actually tightened as networks and owned and operated stations increasingly source programming from content producers aligned with or owned by their parent companies. There is active competition among all production companies in these industries for the services of producers, directors, writers, actors and others and for the acquisition of literary properties. With respect to the distribution of television product, there is significant competition from independent distributors as well as major studios. Revenues for filmed entertainment product depend in part upon general economic conditions, but the competitive position of a producer or distributor is still greatly affected by the quality of, and public response to, the entertainment product it makes available to the marketplace.

Warner Bros. also competes in its character merchandising and other licensing activities with other licensors of character, brand and celebrity names.

NETWORKS

The Company s Networks business consists principally of domestic and international networks and pay television programming services. The networks owned by Turner Broadcasting System, Inc. (Turner) are collectively referred to herein as the Turner Networks. Pay television programming consists of the multi-channel HBO and Cinemax pay television programming services (collectively, the Home Box Office Services) operated by Home Box Office, Inc. (Home Box Office).

The programming of the Turner Networks and the Home Box Office Services (collectively, the Networks) is distributed via cable, satellite and other distribution technologies.

The Turner Networks generate revenues principally from the sale of advertising (other than Turner Classic Movies and Boomerang, which sell advertising only in certain European markets) and from the receipt of monthly subscriber fees paid by cable system operators, satellite distribution services, telephone companies, hotels and other customers (known as affiliates) that have contracted to receive and distribute such networks. The Home Box Office Services generate revenues principally from fees paid by affiliates for the delivery of the Home Box Office Services to subscribers, who are generally free to cancel their subscriptions at any time. Home Box Office s agreements with its affiliates are typically long-term arrangements that provide for annual service fee increases and retail promotion activities and have fee arrangements that are generally related to the number of subscribers served by the affiliate. The Home Box Office Services and their affiliates engage in ongoing marketing and promotional activities to retain existing subscribers and acquire new subscribers. Home Box Office also derives revenues from its original films and series through the sale of DVDs, as well as from its licensing of original programming in syndication and to basic cable channels.

Advertising revenues consist of consumer advertising, which is sold primarily on a national basis in the U.S. and on a pan-regional or local-language feed basis outside of the U.S. Advertising contracts generally have terms of one year or

less. Outside of the U.S., advertising is generally sold on a per-spot basis. Advertising revenues are generated from a wide variety of categories, including food and beverage, financial and business services, entertainment, tourism, pharmaceuticals and medical, and automotive. In the U.S., advertising revenues are a function of the size and demographics of the audience delivered, the CPM, which is the cost per thousand viewers delivered, and the number of units of time sold. Units sold and CPMs are influenced by the quantitative and qualitative characteristics of the audience of each network, as well as overall advertiser demand in the marketplace.

Turner Networks

Domestic Networks

Turner s entertainment networks include two general entertainment networks, TBS, which reached approximately 97.2 million U.S. television households as reported by Nielsen Media Research (U.S. television households) as of December 2007; and TNT, which reached approximately 96.3 million U.S. television households as of December 2007; as well as Cartoon Network (including *Adult Swim*, its overnight block of contemporary animation aimed at adults), which reached approximately 95.5 million U.S. television households as of December 2007; truTV (formerly Court TV), which reached approximately 90.7 million U.S. television households as of December 2007; Turner Classic Movies, a commercial-free network presenting classic films; and Boomerang, an animation network featuring classic cartoons. High definition feeds of both TBS and TNT are available. Programming for these entertainment networks is derived, in part, from the Company s film, made-for-television and animation libraries to which Turner or other divisions of the Company own the copyrights, sports programming and licensed programming, including network movie premieres and original and syndicated series. Effective January 1, 2008, Court TV was renamed truTV as part of a rebranding initiative that also included expansion of the network s programming to emphasize real-life stories.

For its sports programming, Turner has a programming rights agreement with the National Basketball Association (NBA) to produce and telecast a certain number of regular season and playoff games on TNT through the 2015-16 season. In January 2008, Turner entered into a separate agreement with the NBA, effective for the 2008-09 season through the 2015-16 season, under which Turner and the NBA will jointly manage a portfolio of the NBA s digital businesses. Turner also has a programming rights agreement with Major League Baseball to produce and telecast a certain number of regular season and playoff games on TBS that began with the 2007 season playoffs and continues through the 2013 season. In addition, Turner has secured rights to produce and telecast certain NASCAR Sprint Cup Series races from 2007 through 2014.

In May 2007, the Company transferred the Atlanta Braves baseball franchise (the Braves), formerly owned by Turner, to Liberty Media Corporation (Liberty) in a transaction involving the exchange of shares of Time Warner common stock by Liberty for a subsidiary of the Company that owned assets including the Braves and cash. For further information regarding this transaction, see Management s Discussion and Analysis of Results of Operations and Financial Condition Recent Developments.

Turner s CNN and CNN Headline News networks, 24-hour per day cable television news services, reached approximately 96.4 million U.S. television households and 95.9 million U.S. television households, respectively, as of December 2007. A high definition feed of CNN also is available. As of December 31, 2007, CNN managed 39 news bureaus and editorial operations, of which 10 are located in the U.S. and 29 are located around the world.

International Networks

Turner s entertainment and news networks are distributed to multiple distribution platforms such as cable and IPTV systems, satellite platforms, mobile operators and broadcasters for delivery to households, hotels and other viewers around the world.

The entertainment networks distribute approximately 50 region-specific versions and local-language feeds of Cartoon Network, Boomerang, Turner Classic Movies and TNT in over 175 countries around the world. In collaboration with IPC Media s *Nuts* magazine, in the U.K., Turner distributes Nuts TV, a live programming block for men complemented by a related website. In the U.K. and Ireland, Turner distributes Cartoonito, an all-action animation network, and in India and certain other South Asian territories, it distributes Pogo, an entertainment network for

children.

In October 2007, Turner completed the acquisition of seven pay television networks and the sales representation rights for eight third-party-owned networks operating principally in Latin America from Claxson Interactive Group, Inc. The seven pay television networks are entertainment networks that vary in content, including movies, series, fashion and music.

CNN International, an English language news network, reached more than 200 countries and territories as of the end of 2007. CNN International is comprised of network feeds in five separate regions: Europe/Middle East/Africa, Asia Pacific, South Asia, Latin America and North America. CNN Headline News is distributed in Canada, the Caribbean and parts of Latin America; CNN en Español is a separate Spanish language news network distributed primarily in Latin America.

In a number of regions, Turner has launched local-language versions of its channels through joint ventures with local partners. These include CNN+, a Spanish language 24-hour news network distributed in Spain; CNN Turk, a Turkish language 24-hour news network available in Turkey and the Netherlands; CNNj, an English-with-Japanese-translation news service in Japan; Cartoon Network Korea, a local-language 24-hour channel for kids; and BOING, an Italian language 24-hour kids animation network. CNN content is distributed through CNN-IBN, a co-branded, 24-hour, English language general news and current affairs channel in India. Turner also has interests in a Mandarin language general entertainment service in China (CETV). In January 2008, Turner, along with a local partner, launched Cartoon Network Turkey, and in March 2008 plans to launch TNT Turkey, both Turkish language channels distributed in Turkey.

Websites

In addition to its networks, Turner manages various websites that generate revenues from commercial advertising and, in some cases, consumer subscription fees. CNN has multiple websites, including *CNN.com* and several localized editions that operate in Turner s international markets. CNN also operates *CNNMoney.com* in collaboration with Time Inc. s *Money, Fortune* and *FSB*: *Fortune Small Business* magazines. Turner operates the NASCAR websites *NASCAR.com* and *NASCAR.com en Español*, a Spanish language website launched in 2007, under an agreement with NASCAR through 2014, and the PGA s and PGA Tour s websites, *PGA.com* and *PGATour.com*, respectively, under agreements with the PGA and the PGA Tour through 2011. Turner also operates *CartoonNetwork.com*, a popular advertiser-supported site in the U.S., as well as 36 international sites affiliated with the regional children s services feeds. In addition, Turner operates GameTap, a direct-to-consumer broadband gaming service offering access to over 900 classic and contemporary video games, Play On!, a broadband subscription service providing Atlantic Coast Conference basketball games and other sports, *VeryFunnyAds.com*, a website featuring comic television commercials from around the world, and *SuperDeluxe.com*, a website featuring original comedic content.

Home Box Office

HBO, operated by Home Box Office, is the nation s most widely distributed premium pay television service. Including HBO s sister service, Cinemax, the Home Box Office Services had approximately 40.6 million subscriptions as of December 31, 2007. Both HBO and Cinemax are made available on a number of multiplex channels and in high definition. Home Box Office also offers HBO On Demand and Cinemax On Demand, subscription products that enable digital cable subscribers who subscribe to the HBO and Cinemax services to view programs at a time of their choice.

A major portion of the programming on HBO and Cinemax consists of recently released, uncut and uncensored theatrical motion pictures. Home Box Office s practice has been to negotiate licensing agreements of varying duration with major motion picture studios and independent producers and distributors in order to ensure continued access to such films. These agreements typically grant pay television exhibition rights to recently released and certain older films owned by the particular studio, producer or distributor in exchange for negotiated fees, which may be a function of, among other things, the box office performances of the films.

HBO is also defined by its award-winning original dramatic and comedy series, movies and mini-series such as *The Sopranos, Entourage, Rome* and *Curb Your Enthusiasm*, and boxing matches and sports news programs, as well as

comedy specials, family programming and documentaries. In 2007, among other awards, HBO won 21 Primetime Emmys® the most of any network as well as three Sports Emmys®.

HBO also generates revenues from the exploitation of its original programming through multiple distribution outlets. HBO Video markets a variety of HBO s original programming on DVD. HBO licenses its original series,

such as *The Sopranos* and *Sex and the City,* to basic cable channels and has also licensed *Sex and the City* in syndication. The Home Box Office-produced show *Everybody Loves Raymond*, which aired for nine seasons on broadcast television, is currently in syndication as well. Home Box Office content is also distributed by AT&T Mobility LLC (as successor to Cingular Wireless LLC) and Vodafone Group Services Limited on their respective domestic and international mobile services. In addition, through various pay television joint ventures, HBO-branded services are distributed in more than 50 countries in Latin America, Asia and Central Europe.

The CW

Launched at the beginning of the Fall 2006 broadcast season, The CW broadcast network is a 50-50 joint venture between Warner Bros. and CBS. The CW s schedule includes, among other things, a six night-13 hour primetime lineup with programming such as *America s Next Top Model, Gossip Girl, Everybody Hates Chris, Smallville* and *Supernatural*, as well as a five-hour block of animated children s programming on Saturday mornings. As of December 31, 2007, The CW was carried nationally by affiliated television stations covering 94% of U.S. television households. Among the affiliates of The CW are 14 stations owned by Tribune Broadcasting and 9 CBS-owned stations.

Competition

Each of the Networks competes with other television programming services for marketing and distribution by cable, satellite and other distribution systems. Each of the Networks also competes for viewers attention and audience share with all other forms of programming provided to viewers, including broadcast networks, local over-the-air television stations, other pay and basic cable television services, motion pictures, home video, pay-per-view and video-on-demand services, online activities, including Internet streaming and downloading, and other forms of news, information and entertainment. In addition, the Networks face competition for programming from those same commercial television networks, independent stations, and pay and basic cable television services, some of which have exclusive contracts with motion picture studios and independent motion picture distributors. Each of the Turner Networks and Turner s websites compete for advertising with numerous direct competitors and other media.

The Networks production divisions compete with other producers and distributors of programming for air time on broadcast, cable and DBS networks, independent commercial television stations and pay and basic cable television services. The Networks production divisions also compete with other production companies for the services of producers, directors, writers, actors and others and for the acquisition of literary properties.

PUBLISHING

The Company s publishing business is conducted primarily by Time Inc., a wholly owned subsidiary of the Company, either directly or through its subsidiaries. Time Inc. is the largest magazine publisher in the U.S. based on advertising revenues, as measured by Publishers Information Bureau (PIB). In addition to publishing magazines, Time Inc. also operates a number of websites, as well as certain direct-marketing and direct-selling businesses.

Magazines and Websites

As of December 31, 2007, Time Inc. published over 120 magazines worldwide, with over 20 in the U.S. and over 100 in the U.K., Mexico and other countries. These magazines generally appeal to the broad consumer market and include *People, Sports Illustrated, InStyle, Southern Living, Real Simple, Time, Cooking Light, Entertainment Weekly* and *What s On TV.* In addition, Time Inc. operates over 40 websites worldwide, such as *CNNMoney.com*, *SI.com* and *People.com*, that collectively had average monthly unique visitors of over 23 million worldwide in 2007, according to Nielsen Media Research in the U.S. and comScore Media Metrix in the U.K. In March 2007, Time Inc. sold its

Parenting Group and most of its Time4 Media magazine titles, consisting of 18 of Time Inc. s smaller niche magazines, to a subsidiary of Bonnier AB, a Swedish media company.

In recent years, Time Inc. has expanded its publishing business most significantly through developing and acquiring websites. Time Inc. s largest websites publish original content as well as content from Time Inc. s

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magazines. In addition, Time Inc. continues to expand through the development of new magazines, licensed international editions and product extensions, including books and television.

Publishing

Generally, each magazine and website published by Time Inc. in the U.S. has an editorial staff under the supervision of a managing editor and a business staff under the management of a president or publisher. Magazine production and distribution activities and Internet technology activities are generally centralized. Fulfillment activities for Time Inc. s U.S. magazines are generally administered from a centralized facility in Tampa, Florida.

Time Inc. s major magazines and websites are described below:

People is a weekly magazine that reports on celebrities and other newsworthy individuals. *People* magazine generated 16% of Time Inc. s revenues in 2007. *People* has expanded its franchise to include: *People en Español,* a monthly Spanish-language magazine aimed primarily at U.S. Hispanic readers; *People Style Watch,* a monthly magazine aimed at U.S. style-conscious younger readers; *People.com*, a leading website for celebrity news, photos and entertainment coverage; and *PeopleEnEspañol.com*, a bilingual website aimed primarily at the U.S. Hispanic audience.

Sports Illustrated is a weekly magazine that covers sports. *Sports Illustrated for Kids* is a monthly sports magazine intended primarily for pre-teenagers. *Golf*, a leading monthly golf title, is managed by the Sports Illustrated group. *SI.com* is a leading sports news website that provides up-to-the-minute scores and sports news 24/7, as well as statistics and analysis of domestic and international professional sports, as well as college and high school sports. *SI.com* operates *FanNation.com*, a social-media, community site for sports fans and fantasy sports enthusiasts that was acquired by Time Inc. in 2007.

InStyle, a monthly magazine, and *InStyle.com*, a related website, focus on celebrity, lifestyle, beauty and fashion. Time Inc. also publishes *InStyle* in the U.K. and Mexico through wholly owned subsidiaries.

Real Simple, a monthly magazine, and *RealSimple.com*, a related website, focus on life, home, body and soul and provide practical solutions to make women s lives easier. In addition, *Real Simple s* weekly television series aired its second season on PBS in 2007.

Time is a weekly newsmagazine that summarizes the news and interprets the week s events, both national and international. *Time* also has four weekly English-language editions that circulate outside the U.S. *Time for Kids* is a weekly current events newsmagazine for children, ages 5 to 13. *TIME.com* provides breaking news and analysis, giving its readers access to its 24-hour global news gathering operation and its vast archive.

Entertainment Weekly, a weekly magazine, and *EW.com*, a related entertainment news website, feature reviews and reports on movies, DVDs, video, television, music and books.

Fortune is a bi-weekly magazine that reports on worldwide economic and business developments and compiles the annual Fortune 500 list of the largest U.S. corporations. Other business and financial magazines are *Money,* a monthly magazine that reports primarily on personal finance, and *FSB: Fortune Small Business*, a monthly magazine that covers small business and is published under an agreement with American Express Publishing Corporation. All of these magazines combine their resources on the *CNNMoney.com* website, a leading financial news and personal finance website that is a joint venture with CNN.

IPC Media (IPC), a leading U.K. consumer magazine publisher, publishes over 75 magazines as well as numerous special issues and guides. IPC s magazines include *What s On TV* and *TV Times* in the television listings sector, *Chat,*

Woman and *Woman s Own* in the women s lifestyle sector, *Now* in the celebrity sector, *Woman & Home* and *Ideal Home* in the home and garden sector, *Country Life* and *Horse & Hound* in the leisure sector, *NME* in the music sector and *Nuts* and *Loaded* in the men s lifestyle sector. In addition, IPC publishes four magazines through three unconsolidated joint ventures with Groupe Marie Claire. In 2007, IPC launched *HouseToHome.co.uk*, a shelter website, and *GoodToKnowYou.co.uk*, a mass market women s website, and acquired *TrustedReviews.com*, a leading U.K. consumer product review site.

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Southern Progress Corporation (SPC) publishes seven monthly magazines, including the regional lifestyle magazines *Southern Living* and *Sunset,* the epicurean magazine *Cooking Light*, the shelter magazine *Coastal Living,* and the women s fitness magazine *Health*. In 2007, SPC launched the *MyRecipes.com* and *MyHomeIdeas.com*websites, which feature recipe content and shelter content, respectively, from SPC and other Time Inc. brands.

This Old House publishes *This Old House* magazine and *ThisOldHouse.com*, a related website, and produces two television series, *This Old House* and *Ask This Old House.*

Essence Communications Inc. publishes *Essence* magazine and produces the annual Essence Music Festival.

Grupo Editorial Expansión (GEE) publishes over 15 consumer and business magazines in Mexico including *Expansión*, a business magazine; *Quién,* a celebrity and personality magazine; *Obras,* an architecture, construction and engineering magazine; *Life and Style*, a men s lifestyle magazine; and *Balance*, a fitness, health and nutrition magazine for women. In addition, GEE publishes two magazines through an unconsolidated joint venture with Hachette Filipacchi Presse S.A. GEE also operates *CNNExpansíon.com*, a leading business site in Mexico, and, in 2007, acquired *MetrosCúbicos.com*, a leading website for classified real estate listings in Mexico.

In addition, Time Inc. licenses over 40 editions of its magazines for publication outside the U.S. to publishers in over 15 countries.

Time Inc. also has responsibility under a management contract for the American Express Publishing Corporation s publishing operations, including its lifestyle magazines *Travel & Leisure, Food & Wine* and *Departures.*

Advertising

Time Inc. derives more than half of its revenues from the sale of advertising, primarily from its magazines and with a small but increasing amount of advertising revenues from its websites. Advertising carried in Time Inc. s magazines and websites is predominantly consumer advertising, including toiletries and cosmetics, food, domestic and foreign automobiles, financial services and insurance, pharmaceuticals, retail and department stores, media and movies, apparel, computers and telecommunications and over-the-counter drugs and remedies.

In 2007, Time Inc. s U.S. magazines accounted for 18.6% (compared to 19.7% in 2006) of the total U.S. advertising revenues in consumer magazines, excluding newspaper supplements, as measured by PIB. *People*, *Sports Illustrated* and *Time* were ranked 1, 3 and 4, respectively, in terms of PIB-measured advertising revenues in 2007, and Time Inc. had seven of the top 25 leading magazines based on the same measure.

Circulation

Through the sale of magazines to consumers, circulation generates significant revenues for Time Inc. In addition, circulation is an important component in determining Time Inc. s print advertising revenues because advertising page rates are based on circulation and audience. Most of Time Inc. s U.S. magazines are sold primarily by subscription and delivered to subscribers through the mail. Subscriptions are sold primarily through direct mail and online solicitation, subscription sales agents, marketing agreements with other companies and insert cards in Time Inc. magazines and other publications. Most of Time Inc. s international magazines are sold primarily at newsstands.

Time Inc. s Synapse Group, Inc. (Synapse) is a leading seller of domestic magazine subscriptions to Time Inc. magazines and magazines of other U.S. publishers. Synapse sells magazine subscriptions principally through marketing relationships with credit card issuers, consumer catalog companies, commercial airlines with frequent flier programs, retailers and Internet businesses.

Newsstand sales of magazines, which are reported as a component of Subscription revenues, are sold through traditional newsstands as well as other retail outlets such as Wal-Mart, supermarkets and convenience and drug stores, and may or may not result in repeat purchases. Time/Warner Retail Sales & Marketing Inc. distributes and markets copies of Time Inc. magazines and books and certain other publishers magazines and books through third-party wholesalers primarily in the U.S. and Canada. Wholesalers, in turn, sell Time Inc. magazines to retailers.

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IPC s Marketforce (UK) Ltd distributes and markets copies of all IPC magazines, some international Time Inc. editions and certain other publishers magazines outside of the U.S. and Canada through third-party wholesalers to retail outlets.

Paper and Printing

Paper constitutes a significant component of physical costs in the production of magazines. During 2007, Time Inc. purchased over 400,000 tons of paper principally from four independent manufacturers.

Printing and binding for Time Inc. magazines are performed primarily by major domestic and international independent printing concerns in multiple locations in the U.S. and in other countries. Magazine printing contracts are typically fixed-term at fixed prices with, in some cases, adjustments based on inflation.

Direct-Marketing, Direct-Selling and Books

Through subsidiaries, Time Inc. conducts direct-marketing and direct-selling businesses as well as certain niche book publishing. In addition to selling magazine subscriptions, Synapse is a direct marketer of consumer products, including jewelry and other merchandise.

Southern Living At Home, the direct selling division of SPC, specializes in home décor products that are sold in the U.S. through over 33,000 independent consultants at parties hosted in people s homes.

Time Inc. s book publishing business consists of Oxmoor House and Sunset Books, which are operated by SPC, and Time Inc. Home Entertainment, which is operated by Time Inc., that publish how-to, lifestyle and special commemorative books, among other topics.

In April 2007, Time Inc. sold its 50% interest in the Bookspan joint venture, an owner and operator of U.S. book clubs via direct mail and e-commerce, to a subsidiary of Bertelsmann AG.

Postal Rates

Postal costs represent a significant operating expense for the Company s magazine publishing and direct-marketing activities. In 2007, Time Inc. spent over $375 million for services provided by the U.S. Postal Service. The U.S. Postal Service implemented a postal rate increase effective May 14, 2007 for all classes of mail except periodicals and effective July 15, 2007 for periodicals, which resulted in an annual postage cost increase of approximately 10% for Time Inc. These increased costs are not directly passed on to magazine subscribers. Time Inc. strives to minimize postal expense through the use of certain cost-saving activities with respect to address quality, mail preparation and delivery of products to postal facilities.

Competition

Time Inc. faces significant competition from several direct competitors and other media, including the Internet. Time Inc. s magazine and website operations compete with numerous other magazine and website publishers and other media for circulation and audience and for advertising directed at the general public and at more focused demographic groups. The publishing business presents few barriers to entry and many new magazines and websites are launched annually. In recent years, competitors have launched and/or repositioned many magazines and websites, primarily in the celebrity, women s service and business sectors, that compete directly with *People, InStyle, Real Simple, Fortune* and other Time Inc. magazines, as well as Time Inc. s websites. This has resulted in increased competition, especially at newsstands and mass retailers and particularly for celebrity and entertainment magazines. Time Inc. anticipates that

it will face continuing competition from these newer competitors, and it is possible that additional competitors may enter the magazine and website publishing businesses and further intensify competition. In addition, websites that charge users for access may shift to a free-to-user advertising model, which could have a negative impact on the competitive position of Time Inc.   s websites.

Competition for magazine and website advertising revenues is primarily based on advertising rates, the nature and size of audience (including the circulation and readership of magazines and the number of unique visitors to and page views on websites), audience response to advertisers products and services and the effectiveness of sales teams. Other competitive factors in publishing include product positioning, editorial quality, price and customer service, which impact audience, circulation revenue and advertising revenue. In addition, competition for magazine advertising revenue has intensified in recent years as advertising dollars have increasingly shifted from traditional to online media.

Time Inc. s direct-marketing operations compete with other direct marketers through all media, including the Internet, for the consumer s attention.

INTELLECTUAL PROPERTY

Time Warner is one of the world s leading creators, owners and distributors of intellectual property. The Company s vast intellectual property assets include copyrights in motion pictures, television programs, magazines, software and books; trademarks in names, logos and characters; patents or patent applications for inventions related to its products and services; and licenses of intellectual property rights of various kinds. These intellectual property assets, both in the U.S. and in other countries around the world, are among the Company s most valuable assets. The Company derives value from these assets through a range of business models, including the theatrical release of films, the licensing of its films and television programming to multiple domestic and international television and cable networks and pay television services, and the sale of products such as DVDs and magazines. It also derives revenues related to its intellectual property through advertising in its magazines, networks, cable systems and online services and from various types of licensing activities, including licensing of its trademarks and characters. To protect these assets, the Company relies on a combination of copyright, trademark, unfair competition, patent and trade secret laws and contract provisions. The duration of the protection afforded to the Company s intellectual property depends on the type of property in question and the laws and regulations of the relevant jurisdiction; in the case of licenses, it also depends on contractual and/or statutory provisions.

The Company vigorously pursues all appropriate avenues of protection for its intellectual property. However, there can be no assurance of the degree to which these measures will be successful in any given case. Policing unauthorized use of the Company s intellectual property is often difficult and the steps taken may not in every case prevent misappropriation. Piracy, particularly in the digital environment, continues to present a threat to revenues from products and services based on intellectual property. The Company seeks to limit that threat through a combination of approaches, including offering legitimate market alternatives, applying technical protection measures, pursuing legal sanctions for infringement, promoting appropriate legislative initiatives, and enhancing public awareness of the meaning and value of intellectual property. The Company works with various cross-industry groups and trade associations, as well as with strategic partners to develop and implement technological solutions to control digital piracy.

Third parties may bring intellectual property infringement claims or challenge the validity or scope of the Company s intellectual property from time to time, and such challenges could result in the limitation or loss of intellectual property rights. In addition, domestic and international laws, statutes and regulations are constantly changing, and the Company s assets may be either adversely or beneficially affected by such changes. Moreover, intellectual property protections may be insufficient or insufficiently enforced in certain foreign territories. The Company therefore generally engages in efforts to strengthen and update intellectual property protection around the world, including efforts to ensure effective and appropriately tailored remedies for infringement.

REGULATORY MATTERS

The Company s cable system, cable network, original programming and Internet businesses are subject, in part, to regulation by the FCC, and the cable system business is also subject to regulation by most local and some state governments where the Company has cable systems. In addition, the Company s cable business is subject to compliance with the terms of the Memorandum Opinion and Order issued by the FCC in July 2006 in connection

with the regulatory clearance of the Adelphia/Comcast Transactions (the Adelphia/Comcast Transactions Order). The Company s magazine and other direct marketing activities are also subject to regulation.

The following is a summary of the terms of these orders as well as current significant federal, state and local laws and regulations affecting the growth and operation of these businesses. In addition, various legislative and regulatory proposals under consideration from time to time by Congress and various federal agencies have in the past materially affected, and may in the future materially affect, the Company.

Cable System Regulation

Communications Act and FCC Regulation

The Communications Act of 1934, as amended (the Communications Act) and the regulations and policies of the FCC affect significant aspects of TWC s cable system operations, including video subscriber rates; carriage of broadcast television stations, as well as the way TWC sells its program packages to subscribers; the use of cable systems by franchising authorities and other third parties; cable system ownership; offering of voice and high-speed data services; and the use of utility poles and conduits.

Net Neutrality Legislative and Regulatory Proposals. In the 2005-2006 Congressional term, several net neutrality -type provisions were introduced as part of broader Communications Act reform legislation. These provisions would have limited to a greater or lesser extent the ability of broadband providers to adopt pricing models and network management policies that would differentiate based on different uses of the Internet. None of these provisions were adopted. Similar legislation has been introduced in the 2007-2008 Congressional term.

In September 2005, the FCC issued a non-binding policy statement regarding net neutrality setting forth the FCC s view that consumers are entitled to access and use the lawful Internet content and applications of their choice, to connect lawful devices of their choosing that do not harm the broadband provider s network and to competition among network, application, service and content providers. Although the FCC has made these principles binding as to certain telecommunications companies in orders adopted in connection with mergers undertaken by those companies, to date, the FCC has declined to adopt any such regulations that would be applicable to TWC.

Several parties are seeking to persuade the FCC to adopt net neutrality in a number of proceedings that are currently pending before the agency. These include pending FCC rulemakings regarding IP-enabled services and broadband Internet access services, as well as a petition for declaratory ruling and a petition for rulemaking, both of which ask the FCC to define reasonable network management practice. In addition, in March 2007, the FCC opened a Notice of Inquiry regarding the implementation of net neutrality regulations and, in January 2008, the FCC released Public Notices seeking comment by February 13, 2008 on the petitions.

Subscriber Rates. The Communications Act and the FCC s rules regulate rates for basic cable service and equipment in communities that are not subject to effective competition, as defined by federal law. Where there is no effective competition, federal law authorizes franchising authorities to regulate the monthly rates charged by the operator for the minimum level of video programming service, referred to as basic service, which generally includes local broadcast channels and public access or educational and government channels required by the franchise. This kind of regulation also applies to the installation, sale and lease of equipment used by subscribers to receive basic service, such as set-top boxes and remote control units. In many localities, TWC is no longer subject to this rate regulation, either because the local franchising authority has not become certified by the FCC to regulate these rates or because the FCC has found that there is effective competition.

Carriage of Broadcast Television Stations and Other Programming Regulation. The Communications Act and the FCC s regulations contain broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry their stations, subject to some exceptions, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. The most recent election by broadcasters became effective on January 1, 2006.

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Apart from those local commercial broadcast stations that elect retransmission consent, the Communications Act and the FCC s regulations require a cable operator to devote up to one-third of its activated channel capacity for the mandatory carriage of local commercial television stations and certain low-power stations. The Communications Act and the FCC s regulations give local non-commercial television stations mandatory carriage rights, but non-commercial stations do not have the option to negotiate retransmission consent for the carriage of their signals by cable systems. Additionally, cable systems must obtain retransmission consent for all distant commercial television stations (i.e., those television stations outside the designated market area to which a community is assigned) except for commercial satellite-delivered independent superstations and some low-power television stations.

FCC regulations require TWC to carry the signals of both commercial and non-commercial local digital-only broadcast stations and the digital signals of local broadcast stations that return their analog spectrum to the government and convert to a digital broadcast format. The FCC s rules give digital-only broadcast stations discretion to elect whether the operator will carry the station s primary signal in a digital or converted analog format, and the rules also permit broadcasters with both analog and digital signals to tie the carriage of their digital signals to the carriage of their analog signals as a retransmission consent condition.

In 2005, the FCC reaffirmed its earlier decision rejecting multi-casting (i.e., carriage of more than one program stream per broadcaster) requirements with respect to carriage of broadcast signals pursuant to must-carry rules. Certain parties filed petitions for reconsideration. To date, no action has been taken on these reconsideration petitions, and the Company is unable to predict what requirements, if any, the FCC might adopt.

In September 2007, the FCC adopted an order that requires cable operators that offer at least some analog service (i.e., that are not operating all-digital systems) to provide to subscribers both analog and digital feeds of must-carry broadcast stations beginning February 18, 2009, regardless of whether both feeds are provided to the cable operator. Currently, this obligation is scheduled to terminate in February 2012, subject to FCC review. Certain technical specifics of how post-transition carriage will be accomplished, such as signal format and resolution, remain unresolved by the FCC. The Company is unable to predict what requirements, if any, the FCC might adopt or the timing of such action.

The Communications Act also permits franchising authorities to negotiate with cable operators for channels for public, educational and governmental access programming. It also requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties, which limits the amount of capacity TWC has available for other programming. The FCC regulates various aspects of such third-party commercial use of channel capacity on TWC s cable systems, including the rates and some terms and conditions of the commercial use. In November 2007, the FCC adopted an order revising its leased access rules by lowering the permitted rate charged to most leased access programmers, as well as adopting new procedural and complaint provisions. The FCC is seeking further comment on whether to extend the new rate methodology to program-length commercial and sales programming. In addition, the FCC has also launched a proceeding to examine its substantive and procedural rules for program carriage.

In connection with certain changes in TWC s programming line-up, the Communications Act and FCC regulations also require TWC to give various kinds of advance notice. DBS operators and other non-cable programming distributors are not subject to analogous duties.

In November 2007, the FCC also adopted a requirement that cable operators submit to the agency information concerning the number of homes that their systems pass and information concerning their subscribers. The agency intends to use this information to determine whether the so-called 70/70 test has been met, which may give the FCC authority to promulgate certain additional regulations covering cable operators if it is shown that cable systems with 36 or more activated channels are available to 70% of households within the United States and that 70% of those

households subscribe to such systems.

High-Speed Internet Access. From time to time, industry groups, telephone companies and Internet service providers (ISPs) have sought local, state and federal regulations that would require cable operators to sell capacity on their systems to ISPs under a common carrier regulatory scheme. Cable operators have successfully challenged

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regulations requiring this forced access, although courts that have considered these cases have employed varying legal rationales in rejecting these regulations.

In 2002, the FCC released an order in which it determined that cable-modem service constitutes an information service rather than a cable service or a telecommunications service, as those terms are used in the Communications Act, and that determination was sustained by the U.S. Supreme Court. According to the FCC, an information service classification may permit but does not require it to impose multiple ISP requirements. In 2002, the FCC initiated a rulemaking proceeding to consider whether it may and should do so and whether local franchising authorities should be permitted to do so. As of February 1, 2008, this rulemaking proceeding was still pending. In 2005, the FCC adopted a policy statement intended to offer guidance on its approach to the Internet and broadband access. Among other things, the policy statement stated that consumers are entitled to competition among network, service and content providers, and to access the lawful content and services of their choice, subject to the needs of law enforcement. The FCC may in the future adopt specific regulations to implement this policy statement.

Ownership Limitations. There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities. Local telephone companies generally may not acquire more than a small equity interest in an existing cable system in the telephone company s service area, and cable operators generally may not acquire more than a small equity interest in a local telephone company providing service within the cable operator s franchise area. In addition, cable operators may not have more than a small interest in multipoint microwave distribution service facilities or SMATV systems in their service areas. Finally, the FCC has been exploring whether it should prohibit cable operators from holding ownership interests in satellite operators.

The Communications Act also required the FCC to adopt reasonable limits on the number of subscribers a cable operator may reach through systems in which it holds an ownership interest. In September 1993, the FCC adopted a rule that was later amended to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide. The Communications Act also required the FCC to adopt reasonable limits on the number of channels that cable operators may fill with programming services in which they hold an ownership interest. In September 1993, the FCC imposed a limit of 40% of a cable operator s first 75 activated channels. In March 2001, a federal appeals court struck down both limits and remanded the issue to the FCC for further review. The FCC initiated a rulemaking in 2001 to consider adopting a new horizontal ownership limit and announced a follow-on proceeding to consider the issue anew. In December 2007, the FCC adopted a rule to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide and launched a further Notice of Proposed Rulemaking seeking comment on vertical ownership limits and cable attribution rules.

Pole Attachment Regulation. The Communications Act requires that utilities provide cable systems and telecommunications carriers with non-discriminatory access to any pole, conduit or right-of-way controlled by investor-owned utilities. The Communications Act also requires the FCC to regulate the rates, terms and conditions imposed by these utilities for cable systems use of utility pole and conduit space unless state authorities demonstrate to the FCC that they adequately regulate pole attachment rates, as is the case in some states in which TWC operates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. The FCC s original rate formula governs the maximum rate utilities may charge for attachments to their poles and conduit by cable operators providing cable services. The FCC also adopted a second rate formula that became effective in February 2001 and governs the maximum rate investor-owned utilities may charge for attachments to their poles and conduit by companies providing telecommunications services. The U.S. Supreme Court has upheld the FCC s jurisdiction to regulate the rates, terms and conditions of cable operators pole attachments that are being used to provide both cable service and high-speed data service. The applicability of this determination to TWC s voice services is still an open issue. In November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a single pole attachment rate for all companies providing broadband internet access service.

Set-Top Box Regulation. Certain regulatory requirements are also applicable to set-top boxes. Currently, many cable subscribers rent from their cable operator a set-top box that performs both signal-reception functions and conditional-access security functions. The lease rates cable operators charge for this equipment are subject to rate regulation to the same extent as basic cable service. In 1996, Congress enacted a statute seeking to allow

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subscribers to use set-top boxes obtained from third-party retailers. The most important of the FCC s implementing regulations became effective on July 1, 2007 and requires cable operators to cease placing into service new set-top boxes that have integrated security so that subscribers can purchase set boxes or other navigational devices from other sources. Direct broadcast operators are not subject to this requirement and certain incumbent telephone operators that provide cable service have received a limited waiver from the FCC.

In December 2002, cable operators and consumer-electronics companies entered into a standard-setting agreement relating to reception equipment that uses a conditional-access security card a CableCARD provided by the cable operator to receive one-way cable services. To implement the agreement, the FCC adopted regulations that (i) establish a voluntary labeling system for such one way devices, (ii) require most cable systems to support these devices, and (iii) adopt various content-encoding rules, including a ban on the use of selectable output controls. The FCC has initiated a notice of proposed rulemaking that may lead to regulations covering equipment sold at retail that is designed to receive two-way products and services.

Exclusive Arrangements with Multiple Dwelling Units. In November 2007, the FCC adopted an order declaring null and void all exclusive access arrangements between cable operators and multiple dwelling units and other centrally-managed real estate developments (MDUs). In connection with the order, the FCC also issued a Further Notice of Proposed Rulemaking regarding whether to expand the ban on exclusivity to other types of multi-channel video programming distributors (MVPDs) in addition to cable operators, including DBS providers, and whether additional types of exclusivity arrangements between MVPDs and MDUs not addressed in the order should be prohibited. The FCC indicated it would issue an order resolving these issues within six months from release of the final order adopting the new regulation. In December 2007, the National Cable and Telecommunications Association (the NCTA) filed a stay request at the FCC and an appeal in the U.S. Court of Appeals for the District of Columbia Circuit on the issue of whether the FCC has the authority to prohibit the enforcement of existing contracts between MDUs and cable operators.

Other Regulatory Requirements of the Communications Act and the FCC. The Communications Act also includes provisions regulating customer service, inside wiring in residences and other buildings, subscriber privacy, marketing practices, equal employment opportunity, technical standards and equipment compatibility, antenna structure notification, marking, lighting, emergency alert system requirements and the collection from cable operators of annual regulatory fees, which are calculated based on the number of subscribers served and the types of FCC licenses held.

Compulsory Copyright Licenses for Carriage of Broadcast Stations and Music Performance Licenses. TWC s cable systems provide subscribers with, among other things, local and distant television broadcast stations. TWC generally does not obtain a license to use the copyrighted performances contained in these stations programming directly from program owners. Instead, TWC secures those rights pursuant to a compulsory license provided by federal law, which requires TWC to make payments to a copyright pool. The elimination or substantial modification of the cable compulsory license could adversely affect TWC s ability to obtain suitable programming and could substantially increase the cost of programming that is available for distribution to TWC subscribers.

Adelphia/Comcast Transactions Order. In the Adelphia/Comcast Transactions Order, the FCC imposed conditions on TWC, which will expire in July 2012, related to regional sports networks (RSNs), as defined in the Adelphia/Comcast Transactions Order, and the resolution of disputes pursuant to the FCC s leased access regulations. In particular, the Adelphia/Comcast Transactions Order provides that (i) neither TWC nor its affiliates may offer an affiliated RSN on an exclusive basis to any MVPD; (ii) TWC may not unduly or improperly influence the decision of any affiliated RSN to sell programming to an unaffiliated MVPD or the prices, terms and conditions of sale of programming by an affiliated RSN to an unaffiliated MVPD; (iii) if an MVPD and an affiliated RSN cannot reach an agreement on the terms and conditions of carriage, the MVPD may elect commercial arbitration to resolve the dispute; (iv) if an unaffiliated RSN is denied carriage by TWC, it may elect commercial arbitration to resolve the dispute in accordance

with federal and FCC rules; and (v) with respect to leased access, if an unaffiliated programmer is unable to reach an agreement with TWC, that programmer may elect commercial arbitration to resolve the dispute, with the arbitrator being required to resolve the dispute using the FCC s existing rate formula relating to pricing terms. The FCC has suspended this baseball style arbitration procedure as it relates to TWC s carriage of unaffiliated RSNs, although it will allow the arbitration of a claim brought by the Mid-Atlantic Sports

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Network because the claim was brought prior to the suspension. Any arbitrator s award is subject to de novo review at the FCC as well as judicial review.

State and Local Regulation

Cable operators operate their systems under non-exclusive franchises. Franchises are awarded, and cable operators are regulated, by state franchising authorities, local franchising authorities, or both.

Franchise agreements typically require payment of franchise fees and contain regulatory provisions addressing, among other things, upgrades, service quality, cable service to schools and other public institutions, insurance and indemnity bonds. The terms and conditions of cable franchises vary from jurisdiction to jurisdiction. The Communications Act provides protections against many unreasonable terms. In particular, the Communications Act imposes a ceiling on franchise fees of five percent of revenues derived from cable service. TWC generally passes the franchise fee on to its subscribers, listing it as a separate item on the bill.

Franchise agreements usually have a term of ten to 15 years from the date of grant, although some renewals may be for shorter terms. Franchises usually are terminable only if the cable operator fails to comply with material provisions. TWC has not had a franchise terminated due to breach. After a franchise agreement expires, a local franchising authority may seek to impose new and more onerous requirements, including requirements to upgrade facilities, to increase channel capacity and to provide various new services. Federal law, however, provides significant substantive and procedural protections for cable operators seeking renewal of their franchises. In addition, although TWC occasionally reaches the expiration date of a franchise agreement without having a written renewal or extension, it generally has the right to continue to operate, either by agreement with the local franchising authority or by law, while continuing to negotiate a renewal. In the past, substantially all of the material franchises relating to TWC s systems have been renewed by the relevant local franchising authority, though sometimes only after significant time and effort. In December 2006, the FCC adopted new regulations intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises (by, for example, imposing deadlines on franchise negotiations). Various localities as well as the NCTA have appealed the new regulations. The FCC has applied most of these rules to incumbent cable operators which, although immediately effective, in some cases may not alter existing franchises prior to renewal. Despite TWC s efforts and the protections of federal law, it is possible that some of TWC s franchises may not be renewed, and TWC may be required to make significant additional investments in its cable systems in response to requirements imposed in the course of the franchise renewal process.

Regulation of Telephony

It is unclear whether and to what extent regulators will subject services like TWC s Digital Phone service (Non-traditional Voice Services) to the regulations that apply to traditional circuit-switched telephone service provided by incumbent telephone companies. In February 2004, the FCC opened a broad-based rulemaking proceeding to consider these and other issues. That rulemaking remains pending. The FCC has, however, issued a series of orders resolving discrete issues on a piecemeal basis. For example, over the past several years, the FCC has required Non-traditional Voice Service providers to supply E911 capabilities as a standard feature to their subscribers, to assist law enforcement investigations with wiretaps and information, to contribute to the federal universal service fund, to pay regulatory fees, to comply with customer privacy rules, to provide access to their services to persons with disabilities, and to provide subscribers with local number portability when changing telephone providers. Certain other issues remain unclear. In November 2004, the FCC issued an order stating that certain kinds of Non-traditional Voice Services are not subject to state certification and tariffing requirements. The full extent of this preemption is not clear. One state public utility commission, for example, has determined that TWC s Digital Phone service is subject to traditional, circuit-switched telephone regulations. It is also unclear whether utility pole owners may charge cable operators offering Non-traditional Voice Services higher rates for pole rental than for traditional cable service and

cable modem service.

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Network Regulation

Under the Communications Act and its implementing regulations, vertically integrated cable programmers like the Turner Networks and the Home Box Office Services are generally prohibited from offering different prices, terms, or conditions to competing unaffiliated MVPDs unless the differential is justified by certain permissible factors set forth in the FCC s program access regulations. The rules also place restrictions on the ability of vertically integrated programmers to enter into exclusive distribution arrangements with cable operators.

In October 2007, the FCC initiated a rulemaking to examine questions regarding the use of bundling practices in carriage agreements for both broadcast and satellite cable programming. It is unclear what, if any, action the FCC will take in this matter.

In January 2007, online video provider VDC Corporation (VDC) filed a program access complaint with the FCC against Turner, also naming TWC and Time Warner in the proceeding. VDC seeks both a licensing agreement for the carriage of various Turner networks, as well as damages not to exceed $25 million. This complaint raises issues of first impression at the FCC, including whether online providers such as VDC are entitled to take advantage of the program access rules. Turner believes VDC s arguments are without merit, and has requested dismissal of the complaint. As of February 1, 2008, this matter was still pending before the FCC.

Certain other federal laws also contain provisions relating to violent and sexually explicit programming, including provisions relating to the voluntary promulgation of ratings by the industry and requiring manufacturers to build television sets with the capability of blocking certain coded programming (the so-called V-chip). Cable networks with programming produced and broadcast primarily for an audience of children 12 and younger must also comply with commercial time limits during such programming.

Marketing Regulation

Time Inc. s magazine subscription and direct marketing activities, as well as marketing and billing activities by AOL and other divisions of the Company, are subject to regulation by the Federal Trade Commission (FTC) and each of the states under general consumer protection statutes prohibiting unfair or deceptive acts or practices. Certain areas of marketing activity are also subject to specific federal statutes and rules, such as the Telephone Consumer Protection Act, the Children s Online Privacy Protection Act, the Gramm-Leach-Bliley Act (relating to financial privacy), the FTC Mail or Telephone Order Merchandise Rule and the FTC Telemarketing Sales Rule. Other statutes and rules also regulate conduct in areas such as privacy, data security and telemarketing. Time Inc. regularly receives and resolves routine inquiries from state Attorneys General and is subject to agreements with state Attorneys General addressing some of Time Inc. s marketing activities. Also, Time Inc. has pending with the FTC a response to a Civil Investigative Demand relating to Time Inc. s retail subscription sales partnership with Best Buy.

AOL is subject to certain consent orders and assurances of voluntary compliance or discontinuance reached with federal and state regulators. In 2004, AOL entered into a Consent Decree with the FTC related to the company s retention and rebate practices. AOL has also entered into a series of settlements with state Attorneys General. In 2007, AOL entered into an Assurance of Voluntary Compliance (AVC) with the State of Florida under which it undertook an obligation to maintain various safeguards that it had previously implemented (and to develop and implement several new disclosure, confirmation and call recordation processes) around certain registration, marketing and retention processes. In 2005, AOL entered into an Assurance of Discontinuance with the State of New York under which it agreed to implement two safeguards around its retention process (third-party verification, which AOL had been testing prior to the investigation, and a change to retention compensation practices). AOL from time to time also is subject to investigations by various state regulators regarding consumer protection issues related to marketing and billing matters.

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DESCRIPTION OF CERTAIN PROVISIONS OF AGREEMENTS RELATED TO TIME WARNER CABLE INC.

Background

TWC was created in connection with the March 31, 2003 restructuring (the TWE Restructuring) of TWE, a limited partnership which formerly held a substantial portion of Time Warner s filmed entertainment, networks and cable system assets.

Among other things, as a result of the TWE Restructuring, all of Time Warner s cable system assets, including those that were wholly owned by Time Warner and those that were held through TWE, became controlled by TWC. As part of the TWE Restructuring, Time Warner received a 79% economic interest in the cable systems of TWC and TWE, the non-cable system assets of TWE were distributed to Time Warner, and TWE, which continued to own cable systems, became a subsidiary of TWC. Comcast, which prior to the TWE Restructuring had a 27.64% stake in TWE, following the TWE Restructuring held 17.9% of TWC s common stock and a 4.7% limited partnership interest in TWE.

In connection with the closing on July 31, 2006 of the Adelphia Acquisition, TW NY paid for the Adelphia assets acquired by it with both cash and shares of TWC s Class A Common Stock representing approximately 16% of TWC s outstanding common stock. Immediately prior to the Adelphia Acquisition, through a series of other transactions, TWC and TWE redeemed Comcast s interests in TWC and TWE, respectively. On February 13, 2007, Adelphia s Chapter 11 reorganization plan became effective and, under applicable securities law regulations and provisions of the U.S. bankruptcy code, TWC became a public company subject to the requirements of the Exchange Act. Under the terms of the reorganization plan, during 2007, substantially all of the shares of TWC Class A Common Stock that Adelphia received in the Adelphia Acquisition were distributed to Adelphia s creditors. On March 1, 2007, TWC s Class A Common Stock began trading on the NYSE.

Time Warner owns approximately 84% of TWC s common stock (including approximately 83% of the outstanding TWC Class A Common Stock and all outstanding shares of TWC Class B Common Stock), and also owns an indirect 12.43% non-voting equity interest in TW NY.

Management and Operation of TWC

The following description summarizes certain provisions of agreements related to, and constituent documents of, TWC that affect and govern the ongoing operations of TWC. Such description does not purport to be complete and is qualified in its entirety by reference to the provisions of such agreements and constituent documents.

Stockholders of TWC. A subsidiary of Time Warner owns 746,000,000 shares of TWC Class A Common Stock, which has one vote per share, and 75,000,000 shares of TWC Class B Common Stock, which has ten votes per share, which together represent 90.6% of the voting power of TWC stock and approximately 84% of the equity of TWC. The TWC Certificate of Incorporation (as defined below) does not provide a mechanism for the conversion of TWC Class B Common Stock into TWC Class A Common Stock. The TWC Class A Common Stock and the TWC Class B Common Stock vote together as a single class on all matters, except with respect to the election of directors and certain matters described below.

Board of Directors of TWC. The TWC Class A Common Stock votes as a separate class with respect to the election of the Class A directors of TWC (the Class A Directors), and the TWC Class B Common Stock votes as a separate class with respect to the election of the Class B directors of TWC (the Class B Directors). Pursuant to the amended and restated certificate of incorporation of TWC (the TWC Certificate of Incorporation), which was adopted upon the

closing of the Adelphia Acquisition, the Class A Directors must represent not less than one-sixth and not more than one-fifth of the directors of TWC, and the Class B Directors must represent not less than four-fifths of the directors of TWC. As a result of its holdings, Time Warner has the ability to cause the election of all Class A Directors and Class B Directors, subject to certain restrictions on the identity of these directors discussed below.

Under the terms of the TWC Certificate of Incorporation, until August 1, 2009 (three years following July 31, 2006, the date upon which shares of TWC common stock were issued in connection with the Adelphia Acquisition),

at least 50% of the board of directors of TWC must be independent directors as defined under the NYSE listed company rules.

Protections of Minority Class A Common Stockholders. The approval of the holders of a majority of the voting power of the outstanding shares of TWC Class A Common Stock held by persons other than Time Warner is necessary for any merger, consolidation or business combination of TWC in which the holders of TWC Class A Common Stock do not receive per share consideration identical to that received by the holders of the TWC Class B Common Stock (other than with respect to voting power) or that would otherwise adversely affect the specific rights and privileges of the holders of the TWC Class A Common Stock relative to the specific rights and privileges of the holders of the TWC Class B Common Stock. In addition, the approval of (i) the holders of a majority of the voting power of the outstanding shares of TWC Class A Common Stock held by persons other than Time Warner and (ii) the majority of the independent directors on TWC s board of directors is required to:

- change or adopt a provision inconsistent with the TWC Certificate of Incorporation if such change would have a material adverse effect on the rights of the holders of the TWC Class A Common Stock in a manner different from the effect on the rights of the holders of the TWC Class B Common Stock;
- through July 31, 2011, (a) change any of the provisions of TWC s amended and restated by-laws (the TWC By-Laws) concerning restrictions on transactions between TWC and Time Warner and its affiliates or (b) adopt any provision of the TWC Certificate of Incorporation or the TWC By-Laws inconsistent with such restrictions; and
- change or adopt a provision inconsistent with the provisions of the TWC Certificate of Incorporation that set forth:
  - the approvals required in connection with any merger, consolidation or business combination of TWC;
  - the number of independent directors required on the TWC board of directors;
  - the approvals required to change the TWC By-laws; and
  - the approvals required to change the TWC Certificate of Incorporation.

Matters Affecting the Relationship between Time Warner and TWC

Indebtedness Approval Right. Pursuant to a shareholder agreement between TWC and Time Warner (the Shareholder Agreement), until such time as the indebtedness of TWC is no longer attributable to Time Warner, in Time Warner s reasonable judgment, TWC, its subsidiaries and entities that it manages may not, without the consent of Time Warner, create, incur or guarantee any indebtedness (except for ordinary course issuances of commercial paper or borrowings under TWC s current revolving credit facility up to the limit of that credit facility, to which Time Warner has consented), including preferred equity, or rental obligations if its ratio of indebtedness plus six times its annual rental expense to EBITDA (as EBITDA is defined in the Shareholder Agreement) plus rental expense, or EBITDAR, then exceeds or would exceed 3:1.

Other Time Warner Rights. Pursuant to the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC s board of directors, TWC must obtain Time Warner s consent before entering into any agreement that binds or purports to bind Time Warner or its affiliates or that would subject TWC or its subsidiaries to significant penalties or restrictions as a result of any action or omission of Time Warner or its affiliates; or adopting a stockholder rights plan, becoming subject to section 203 of the Delaware General Corporation Law, adopting a fair price provision

in its certificate of incorporation or taking any similar action.

Furthermore, pursuant to the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC s board of directors, Time Warner may purchase debt securities issued by TWE only after giving notice to TWC of the approximate amount of debt securities it intends to purchase and the general time period for the purchase, which period may not be greater than 90 days, subject to TWC s right to give notice to Time Warner that it intends to purchase such amount of TWE debt securities itself.

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Time Warner Standstill. Under the Shareholder Agreement, so long as Time Warner has the power to elect a majority of TWC s board of directors, Time Warner has agreed that prior to August 1, 2009 (three years following the closing of the Adelphia Acquisition), Time Warner will not make or announce a tender offer or exchange offer for TWC Class A Common Stock without the approval of a majority of the independent directors of TWC; and prior to August 1, 2016 (10 years following the closing of the Adelphia Acquisition), Time Warner will not enter into any business combination with TWC, including a short-form merger, without the approval of a majority of the independent directors of TWC. Under the Adelphia Acquisition agreement, TWC has agreed that for a period of two years following the closing of the Adelphia Acquisition it will not enter into any short-form merger.

Transactions between Time Warner and TWC. The TWC By-Laws provide that Time Warner may only enter into transactions with TWC and its subsidiaries, including TWE, that are on terms that, at the time of entering into such transaction, are substantially as favorable to TWC or its subsidiaries as they would be able to receive in a comparable arm s-length transaction with a third party. Any such transaction involving reasonably anticipated payments or other consideration of $50 million or greater also requires the prior approval of a majority of the independent directors of TWC. The TWC By-Laws also prohibit TWC from entering into any transaction having the intended effect of benefiting Time Warner and any of its affiliates (other than TWC and its subsidiaries) at the expense of TWC or any of its subsidiaries in a manner that would deprive TWC or any of its subsidiaries of the benefit it would have otherwise obtained if the transaction were to have been effected on arm s-length terms. Each of these By-law provisions terminates in the event that Time Warner and TWC cease to be affiliates.

Time Warner Registration Rights Agreement between TWC and Time Warner. At the closing of the TWE Restructuring, Time Warner and TWC entered into a registration rights agreement (the Registration Rights Agreement) relating to Time Warner s shares of TWC common stock. Subject to several exceptions, including TWC s right to defer a demand registration under some circumstances, Time Warner may, under that agreement, require that TWC take commercially reasonable steps to register for public resale under the Securities Act all shares of common stock that Time Warner requests to be registered. Time Warner may demand an unlimited number of registrations. In addition, Time Warner has been granted piggyback registration rights subject to customary restrictions and TWC is permitted to piggyback on Time Warner s registrations. TWC has also agreed that, in connection with a registration and sale by Time Warner under the Registration Rights Agreement, it will indemnify Time Warner and bear all fees, costs and expenses, except underwriting discounts and selling commissions.

FOREIGN CURRENCY EXCHANGE RATES

Time Warner is subject to various risks, including the risk of fluctuation in currency exchange rates and to exchange controls. Time Warner cannot predict the extent to which such controls and fluctuations in currency exchange rates may affect its operations in the future or its ability to remit dollars from abroad. See Management s Discussion and Analysis of Results of Operations and Financial Condition Market Risk Management Foreign Currency Risk, Note 13 to the Company s consolidated financial statements, Derivative Instruments, and Risk Factors below, for additional information.

FINANCIAL INFORMATION ABOUT SEGMENTS, GEOGRAPHIC AREAS AND BACKLOG

Financial and other information by segment and revenues by geographic area for each year in the three-year period ended December 31, 2007 is set forth in Note 14 to the Company s consolidated financial statements, Segment Information. Information with respect to the Company s backlog, representing future revenue not yet recorded from cash contracts for the licensing of theatrical and television programming, at December 31, 2007 and December 31, 2006, is set forth in Note 15 to the Company s consolidated financial statements, Commitments and Contingencies Commitments Programming Licensing Backlog.

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Item 1A. *Risk Factors.*

RISKS RELATING TO TIME WARNER GENERALLY

Several of the Company s businesses operate in industries that are subject to rapid technological change, and if Time Warner does not respond appropriately to technological changes, its competitive position may be harmed. Time Warner s businesses operate in the highly competitive, consumer-driven and rapidly changing media, entertainment, interactive services and cable industries. Several of its businesses are dependent to a large extent on their ability to acquire, develop, adopt, and exploit new and existing technologies to distinguish their products and services from those of their competitors. Technological development, application and exploitation can take long periods of time and require significant capital investments. In addition, the Company may be required to anticipate far in advance which of the potential new technologies and equipment it should adopt for new products and services or for future enhancements of or upgrades to its existing products and services. If it chooses technologies or equipment that do not become the prevailing standard or that are less effective, cost-efficient or attractive to its customers than those chosen by its competitors, or if it offers products or services that fail to appeal to consumers, are not available at competitive prices or do not function as expected, the Company s competitive position could deteriorate, and its operations, business or financial results could be adversely affected.

The Company s competitive position also may be adversely affected by various timing factors, such as delays in its new product or service offerings or the ability of its competitors to acquire or develop and introduce new technologies, products and services more quickly than the Company. Furthermore, advances in technology or changes in competitors product and service offerings may require the Company in the future to make additional research and development expenditures or to offer at no additional charge or at a lower price certain products and services the Company currently offers to customers separately or at a premium. Also, if the costs of existing technologies decrease in the future, the Company may not be able to maintain current price levels for its products or services. In addition, the inability to obtain intellectual property rights from third parties at a reasonable price or at all could impair the ability of the Company to respond to technological advances in a timely or cost-effective manner.

The combination of increased competition, more technologically-advanced platforms, products and services, the increasing number of choices available to consumers and the overall rate of change in the media, entertainment, interactive services and cable industries requires companies such as Time Warner to become more responsive to consumer needs and to adapt more quickly to market conditions than in the past. The Company could have difficulty managing these changes while at the same time maintaining its rates of growth and profitability.

Piracy of the Company s feature films, television programming and other content may decrease the revenues received from the exploitation of the Company s entertainment content and adversely affect its business and profitability. Piracy of motion pictures, television programming, video content and DVDs poses significant challenges to several of the Company s businesses. Technological advances allowing the unauthorized dissemination of motion pictures, television programming and other content in unprotected digital formats, including via the Internet, increase the threat of piracy. Such technological advances make it easier to create, transmit and distribute high quality unauthorized copies of such content. The proliferation of unauthorized copies and piracy of the Company s products or the products it licenses from third parties can have an adverse effect on its businesses and profitability because these products reduce the revenue that Time Warner potentially could receive from the legitimate sale and distribution of its content. In addition, if piracy continues to increase, it could have an adverse effect on the Company s business and profitability. Although piracy adversely affects the Company s U.S. revenues, the impact on revenues from outside the United States is more significant, particularly in countries where laws protective of intellectual property rights are insufficient or are not strictly enforced. Time Warner has taken, and will continue to take, a variety of actions to combat piracy, both individually and together with cross-industry groups, trade

associations and strategic partners, including the launch of new services for consumers at competitive price points, aggressive online and customs enforcement, compressed release windows and educational campaigns. Policing the unauthorized use of the Company s intellectual property is difficult, however, and the steps taken by the Company will not prevent the infringement by and/or piracy of unauthorized third parties in every case. There can

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be no assurance that the Company s efforts to enforce its rights and protect its intellectual property will be successful in reducing content piracy.

Time Warner s businesses may suffer if it cannot continue to license or enforce the intellectual property rights on which its businesses depend. The Company relies on patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and licenses and other agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products and services used in its various operations. However, the Company s intellectual property rights could be challenged or invalidated, or such intellectual property rights may not be sufficient to permit it to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product and service offerings or other competitive harm. Further, the laws of certain countries do not protect Time Warner s proprietary rights, or such laws may not be strictly enforced. Therefore, in certain jurisdictions the Company may be unable to protect its intellectual property adequately against unauthorized copying or use, which could adversely affect its competitive position. Also, because of the rapid pace of technological change in the industries in which the Company operates, much of the business of its various segments relies on technologies developed or licensed by third parties, and Time Warner may not be able to obtain or to continue to obtain licenses from these third parties on reasonable terms, if at all. It is also possible that, in connection with a merger, sale or acquisition transaction, the Company may license its trademarks or service marks and associated goodwill to third parties, or the business of various segments could be subject to certain restrictions in connection with such trademarks or service marks and associated goodwill that were not in place prior to such a transaction.

The Company has been, and may be in the future, subject to claims of intellectual property infringement, which could have an adverse impact on the Company s businesses or operating results due to a disruption in its business operations, the incurrence of significant costs and other factors. From time to time, the Company receives notices from others claiming that it infringes their intellectual property rights. Recently, the number of patent infringement claims resulting in lawsuits, in particular against the technology-related businesses at AOL and TWC, has increased. The number of other intellectual property infringement claims also could increase in the future. Increased infringement claims and lawsuits could require Time Warner to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. This could require Time Warner to change its business practices and limit its ability to compete effectively. Even if Time Warner believes that the claims are without merit, the claims can be time-consuming and costly to defend and divert management s attention and resources away from its businesses. In addition, agreements entered into by the Company may require it to indemnify the other party for certain third-party intellectual property infringement claims, which could require the Company to expend sums to defend against or settle such claims or, potentially, to pay damages. If Time Warner is required to take any of these actions, it could have an adverse impact on the Company s businesses or operating results. The use of new technologies to distribute content on the Internet, including through Internet sites providing social networking and user-generated content, could put some of the Company s businesses at an increased risk of allegations of copyright or trademark infringement or legal liability, as well as cause them to incur significant technical, legal or other costs and limit their ability to provide competitive content, features or tools.

Time Warner faces risks relating to doing business internationally that could adversely affect its business and operating results. Time Warner s businesses operate and serve customers worldwide. There are certain risks inherent in doing business internationally, including:

- local laws and customs relating to the publication and distribution of content and the display and sale of advertising;
- import or export restrictions and changes in trade regulations;

difficulties in developing, staffing and simultaneously managing a large number of foreign operations as a result of distance and language and cultural differences;

issues related to occupational safety and adherence to stringent local labor laws and regulations;

longer payment cycles;

political or social unrest;

economic volatility;

seasonal volatility in business activity;

risks related to government regulation;

currency exchange rate fluctuations;

potentially adverse tax consequences;

statutory shareholder minority rights and restrictions on foreign direct ownership; and

cost of entry.

One or more of these factors could harm the Company s international operations and its business and operating results.

Time Warner s businesses face additional risks internationally. Across the media industry, opportunities for revenue growth are beginning to shift toward developing nations, such as India, Mexico, Brazil, Central and Eastern Europe, Russia and China. In addition, revenues generated by certain media sectors, including television networks, local content production, online advertising and video games, are expected to experience robust growth in both developed and developing nations outside the U.S. The Company s businesses currently do not have a strong presence in some of these fast-growing sectors. Accordingly, the Company could be at a competitive disadvantage in the long term if its businesses are not able to strengthen their positions and capitalize on international opportunities in high-growth economies and media sectors. International expansion involves significant investments as well as risks associated with doing business abroad, as described above. Furthermore, investments in some regions can take a long period to generate an adequate return and in some cases there may not be a developed or efficient legal system to protect foreign investment or intellectual property rights. In addition, if the Company expands into new international regions, some of its businesses will have only limited experience in operating and marketing their products and services in certain regions and could be at a disadvantage compared to competitors with more experience, particularly diversified media companies that are well established in some developing nations. Although the Company is seeking to expand its businesses in certain strategic international regions and is formulating strategies for the growth of diversified media businesses in developing nations, there can be no assurance that such strategies will succeed.

Weakening economic conditions or other factors could reduce the Company s advertising or other revenues or hinder its ability to increase such revenues. Because several of the Company s segments derive a substantial portion of their revenues from the sale of advertising, a decline or delay in advertising expenditures could reduce the Company s revenues or hinder its ability to increase these revenues. Expenditures by advertisers tend to be cyclical, reflecting general economic conditions, such as recessions, as well as budgeting and buying patterns. In addition, advertising expenditures could be negatively affected by shifting societal norms, pressure from public interest groups, changes in laws and regulations and other social, political and regulatory developments. Disasters, acts of terrorism, political uncertainty or hostilities also could lead to a reduction in advertising expenditures as a result of uninterrupted news coverage and economic uncertainty. Advertising expenditures by companies in certain sectors of the economy, including the automotive, financial services and pharmaceutical industries, represent a significant portion of the Company s advertising revenues, and any political, economic, social or technological change resulting in a significant reduction in the advertising spending of these sectors could adversely affect the Company s advertising revenues or its ability to increase such revenues. Also, a continued downturn in the U.S. housing market could negatively impact TWC s ability to attract new basic video subscribers and generate increased subscription revenues. In addition, because

many of the products and services offered by the Company are largely discretionary items, weakening economic conditions or outlook could reduce the consumption of such products and services and reduce the Company s revenues.

The introduction and increased popularity of alternative technologies for the distribution of news, entertainment and other information and the resulting shift in consumer habits and/or advertising expenditures from traditional to online media could adversely affect the revenues of the Company s Publishing, Networks and

Filmed Entertainment segments. The Company s Publishing and Networks segments derive a substantial portion of their revenue from advertising in magazines and on television. Distribution of news, entertainment and other information via the Internet has become increasingly popular over the past several years, and viewing news, entertainment and other content on a personal computer, cellular phone or other electronic or portable electronic device has become increasingly popular as well. Accordingly, advertising dollars have started to shift from traditional media to online media. The shift in major advertisers expenditures from traditional to online media has had an adverse effect on the revenue growth of the Publishing and Networks segments, which may continue in the future. This shift could also further intensify competition for advertising in traditional media, which could exert greater pressure on these segments to increase revenues from online advertising. In addition, if consumers increasingly elect to obtain news and entertainment online instead of by purchasing the Publishing segment s magazines, this trend could negatively impact the segment s circulation revenue and also adversely affect its advertising revenue. The Publishing and Networks segments have taken various steps to diversify the means by which they distribute content and generate advertising revenue, including increasing investments in Internet properties. However, the segments strategies for achieving sustained revenue growth may not be sufficient to offset revenue losses resulting from a continued shift in advertising dollars over the long term from traditional to online media. In addition, this trend also could have an indirect negative impact on the licensing revenue generated by the Filmed Entertainment segment and the revenue generated by Home Box Office from the licensing of its original programming in syndication and to basic cable networks.

The Company faces risks relating to competition for the leisure and entertainment time of audiences, which has intensified in part due to advances in technology. In addition to the various competitive factors discussed in the following paragraphs, all of the Company s businesses are subject to risks relating to increasing competition for the leisure and entertainment time of consumers. The Company s businesses compete with each other and all other sources of news, information and entertainment, including broadcast television, movies, live events, radio broadcasts, home video products, console games, sports, print media and the Internet. Technological advancements, such as video on demand, new video formats and Internet streaming and downloading, have increased the number of media and entertainment choices available to consumers and intensified the challenges posed by audience fragmentation. The increasing number of choices available to audiences could negatively impact not only consumer demand for the Company s products and services, but also advertisers willingness to purchase advertising from the Company s businesses. If the Company does not respond appropriately to further increases in the leisure and entertainment choices available to consumers, the Company s competitive position could deteriorate, and its financial results could suffer.

Several of the Company s businesses rely heavily on network and information systems or other technology, and a disruption or failure of such networks, systems or technology as a result of computer viruses, misappropriation of data or other malfeasance, as well as outages, natural disasters, accidental releases of information or similar events, may disrupt the Company s businesses. Because network and information systems and other technologies are critical to many of Time Warner s operating activities, network or information system shutdowns caused by events such as computer hacking, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters, terrorist attacks and similar events, pose increasing risks. Such an event could have an adverse impact on the Company and its customers, including degradation of service, service disruption, excessive call volume to call centers and damage to equipment and data. Such an event also could result in large expenditures necessary to repair or replace such networks or information systems or to protect them from similar events in the future. Significant incidents could result in a disruption of the Company s operations, customer dissatisfaction, or a loss of customers or revenues.

Furthermore, the operating activities of Time Warner s various businesses could be subject to risks caused by misappropriation, misuse, leakage, falsification and accidental release or loss of information maintained in the Company s information technology systems and networks, including customer, personnel and vendor data. The

Company could be exposed to significant costs if such risks were to materialize, and such events could damage the reputation and credibility of Time Warner and its businesses and have a negative impact on its revenues. The Company also could be required to expend significant capital and other resources to remedy any such security breach. As a result of the increasing awareness concerning the importance of safeguarding personal information, the

potential misuse of such information and legislation that has been adopted or is being considered regarding the protection, privacy and security of personal information, information-related risks are increasing, particularly for businesses like Time Warner s that handle a large amount of personal customer data.

The Company s Internet and advertising businesses are subject to regulation in the U.S. and internationally, which could cause these businesses to incur additional costs or liabilities or disrupt their business practices. The Company s businesses that generate revenues from online activities and the sale of advertising inventory and related services are subject to a variety of laws and regulations, including those relating to issues such as consumer protection, content regulation, user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing and real estate. The application of these laws and regulations to these businesses in many instances is unclear or unsettled. Further, the application of laws regulating or requiring licenses for certain businesses of the Company s advertisers, including the distribution of pharmaceuticals, alcohol, adult content, tobacco or firearms, insurance and securities brokerage and legal services, can be unclear and is developing, especially with respect to the sale of these products and services on the Internet. Various laws and regulations are intended to protect the interests of children, such as the Children s Online Protection Act and the Children s Online Privacy Protection Act, which restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. The Company s Internet and advertising businesses could incur substantial costs necessary to comply with these laws and regulations or substantial penalties or other liabilities if they fail to comply with them. Compliance with these laws and regulations also could cause these businesses to change or limit their business practices in a manner that is adverse to the businesses. In addition, if there are changes in laws, such as the Digital Millennium Copyright Act, that provide protections that the Company s Internet or advertising businesses rely on in conducting their businesses or if there are judicial interpretations narrowing the protections of these laws, it would subject these businesses to greater risk of liability and could increase their costs of compliance or limit their ability to operate certain lines of business.

RISKS RELATING TO TIME WARNER S AOL BUSINESS

The continuing shift in AOL s business model from a primarily subscription-based business model to a primarily advertising-supported model involves significant risks. In addition to continuing to implement the shift in its business model, AOL is working to separate the operations of its Access Services business and its Global Web Services business. As AOL has continued to implement the shift in its business model, AOL s subscription revenues have been declining, and, although its advertising revenues have been increasing, they have not increased in an amount sufficient to offset the decline in its subscription revenues. Subscription revenues will remain an important source of operating income before depreciation and amortization (or OIBDA) for AOL in 2008. If subscribers to AOL s Internet access service decline at a rate faster than anticipated, AOL s ability to generate OIBDA in 2008 may be adversely affected.

In addition, as subscription revenues continue to decline, AOL will become more dependent on continued cost reductions and advertising revenues in order to improve its financial performance. Identifying and implementing cost reductions may become increasingly difficult to do in an operationally effective manner and may lead to employee distraction or a decline in morale, as well as difficulty in hiring or retaining necessary employees. Cost reductions could also impair AOL s ability to provide satisfactory customer service. As AOL continues to implement the shift in its business model, it becomes increasingly prone to the risks associated with operating an advertising business. Advertising revenues may be more unpredictable and variable than subscription revenues and are more likely to be adversely affected during economic downturns. In addition, AOL s advertising business has benefited from significant growth in online advertising, and, if online advertising does not continue to grow, whether because of changing economic conditions or otherwise, AOL s advertising revenues could be adversely impacted. See Risks Relating to Time Warner Generally Weakening economic conditions or other factors could reduce the Company s advertising or other revenues or hinder its ability to increase such revenues, as well as the risks relating to AOL s advertising

business described below.

Pricing for advertising may continue to face downward pressure. During 2007, advertisers increasingly purchased lower-priced inventory rather than higher-priced inventory, and increasingly demanded lower pricing, in addition to increasingly purchasing advertising inventory from third party advertising networks as described below.

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In order for advertising revenues to be maintained or increased in 2008 over 2007, AOL believes that it will be important to increase sales of advertising at higher prices. If advertisers continue to demand lower-priced inventory and continue to put downward pressure on pricing, AOL s operating margins and its ability to generate OIBDA could be adversely affected.

Costs to acquire advertising inventory could continue to increase. The Platform-A business group must purchase inventory that can be sold to advertisers. AOL s costs to acquire advertising inventory from third parties increased during 2007. Continuing increases in such costs during 2008, due to competition for inventory or otherwise, could put downward pressure on AOL s operating margins or impair its ability to generate OIBDA.

AOL faces risks associated with the fragmentation of the Internet audience. Consumers are fragmenting across the Internet, away from portals, such as AOL.com and Yahoo!, and migrating towards social networks and niche websites. This shift could require AOL to continue to acquire other companies, products or technologies or pay more for content, applications, features and tools that will attract and engage Internet consumers in order to increase advertising revenues. Furthermore, as Internet consumers continue to fragment, advertisers could increasingly seek to purchase advertising from third-party advertising networks or directly on niche sites, which could benefit the Platform-A business group but would adversely impact the advertising revenue generated on the AOL Network.

Unless AOL increases the number of visitors to the AOL Network and maintains or increases their activity in areas where advertising revenues are generated, AOL may not be able to increase advertising revenues associated with the AOL Network. In general, current and former subscribers are significantly more active on the AOL Network than other visitors to the AOL Network. As the number of AOL s subscribers declines, AOL s ability to maintain or increase advertising revenues may be adversely impacted unless the former subscribers are as active on the AOL Network after terminating their paid Internet access relationship with AOL as they were previously. In addition, AOL needs to increase the number of visitors, whether or not current or former subscribers, to the AOL Network and maintain or increase overall usage in order to continue to increase advertising revenues associated with the AOL Network. Furthermore, different online activities generate different volumes of advertising, sold at differing prices. It will be important that new visitors to the AOL Network be active on those properties that generate generally higher priced and higher volumes of advertising, leading to greater advertising revenues, and that as subscribers migrate to become unpaid accounts, their activity on the AOL Network continues in a manner similar to their activity before such migration.

If AOL does not continue to develop and offer compelling and differentiated content, products and services, AOL s advertising revenues could be adversely affected. In order to attract Internet consumers and generate increased activity on the AOL Network, AOL believes that it must offer compelling and differentiated content, products and services. However, acquiring, developing and offering such content, products and services may require significant costs and time to develop, while consumer tastes may be difficult to predict and are subject to rapid change. If AOL is unable to provide content, products and services that are sufficiently attractive to its current and former subscribers and other Internet consumers, AOL may not be able to generate the increases in activity on the AOL Network necessary to generate increased paid-search and display advertising revenues. In addition, although AOL has access to certain content provided by the Company s other businesses, it may be required to make substantial payments to license such content. Many of AOL s content arrangements with third parties are non-exclusive, so competitors may be able to offer similar or identical content. If AOL is unable to acquire or develop compelling content and do so at reasonable prices, or if other companies offer content that is similar to that provided by AOL, AOL may not be able to attract and increase the engagement of Internet consumers on the AOL Network.

Continued growth in AOL s advertising business also depends on the ability of the Platform-A business group to continue offering a competitive and distinctive range of advertising products and services for advertisers and publishers and its ability to maintain or increase prices for its advertising products and services. Continuing to develop

and improve these products and services may require significant time and costs. If the Platform-A business group cannot continue to develop and improve its advertising products and services or if prices for its advertising products and services decrease, AOL s advertising revenues could be adversely affected.

If AOL cannot secure favorable arrangements to effectively distribute its products and services, it could hinder AOL s ability to attract new Internet consumers or maintain or increase the engagement of Internet

consumers. Distribution of AOL s products and services is subject to significant competition. Furthermore, as the Internet audience continues to fragment and traffic continues to gravitate away from the Internet portals, distribution of AOL s products and services via traditional methods may become less effective, and new distribution strategies may need to be developed. In an effort to reach a more fragmented audience, AOL is creating versions of certain of its products and services for consumer distribution that will generate activity on the AOL Network. Additionally, AOL seeks to develop technologies to allow AOL Network sites to interact with other websites and applications in order to allow and encourage third parties to use AOL s content and services. However, even if AOL is able to secure favorable arrangements to distribute its products and services, this does not assure that AOL will be able to attract new Internet consumers and maintain or increase the engagement of Internet consumers on the AOL Network.

More individuals are using devices other than personal and laptop computers to access and use the Internet, and if AOL cannot make its products and services available and attractive to consumers via these alternative devices, AOL s advertising revenues could be adversely affected. Individuals increasingly are accessing and using the Internet through devices other than a personal or laptop computer, such as personal digital assistants or mobile telephones, which differ from computers with respect to memory, functionality, resolution and screen size. In order for consumers to access and use AOL s products and services via these alternative devices, AOL must ensure that its products and services are technologically compatible with such devices. AOL also needs to secure arrangements with device manufacturers and wireless carriers in order to have desktop placement on the alternative devices and to more effectively reach consumers. If AOL cannot effectively make its products and services available on alternative devices, fewer Internet consumers may access and use AOL s products and services. Also, the Platform-A business group must be able to compose, package, and deliver compelling advertising on alternative devices, and the advertising revenue it generates may be negatively affected if it is not able to effectively do so.

If AOL cannot effectively build a portfolio of alternate brands that are appealing to Internet consumers, AOL may have difficulty in increasing the engagement of Internet consumers on its web products and services. AOL believes that the AOL brand is associated in the minds of consumers with its dial-up Internet access service, and AOL is seeking to build a portfolio of other brands, such as MapQuest and *TMZ.com*, that have a strong and more updated consumer association. If the AOL brand continues to be used to identify the AOL dial-up Internet access service as well as various web products and services, such as AOL.com, AOL Money & Finance and myAOL, this could lead to consumer confusion and exacerbate the challenges AOL faces in attracting Internet consumers to and engaging them on its web products and services.

Changes in AOL s relationship with a major customer of Advertising.com will put downward pressure on AOL s advertising revenues in 2008. Approximately 17% of AOL s growth in advertising revenues in 2007 was attributable to a major customer of Advertising.com. As a result of an amendment to the contract with this customer, beginning in 2008, this customer is under no obligation to continue to do business with Advertising.com, which is expected to result in a substantial reduction in advertising revenues to be received from this customer. Accordingly, if AOL does not secure new or expanded relationships with other customers in amounts sufficient to offset any loss of revenues from the customer, it will not be able to maintain or increase advertising revenues.

AOL faces intense competition in all aspects of its business. In its Internet access business, AOL competes with other Internet access providers, especially broadband access providers, and this competition could cause the number of AOL subscribers to decline at a faster rate than experienced in the past. With respect to advertising generated on the AOL Network, AOL competes for the time and attention of consumers with a wide range of Internet companies, such as Yahoo!, Google, MSN, MySpace and Facebook, and traditional media companies, which are increasingly offering their own Internet products and services. The competition AOL s advertising businesses face could intensify when Google s acquisition of DoubleClick is completed and if Microsoft s proposed acquisition of Yahoo! or other similar consolidations occur. The Internet is dynamic and rapidly evolving, and new and popular competitors, such as social networking sites, frequently emerge. AOL s Platform-A business group competes with other aggregators of third-party

advertising inventory and other companies offering competing advertising products, technology and services, as well as, increasingly, aggregators of such advertising products, technology and services. Competitors include such companies as 24/7 Real Media and ValueClick, as well as Google, Yahoo! and MSN. Competition among these companies is intensifying and may lead to continuing increases in traffic acquisition costs and continuing decreases in prices for advertising inventory. Following the

sales of its Internet access businesses, AOL Europe s primary competitors are global enterprises such as Google, MSN, and Yahoo!, new entrants such as Facebook, MySpace and other social networking sites and a large number of local enterprises. As AOL expands internationally, it will face intense competition from both global and local competitors. In addition, competition generally may cause AOL to incur unanticipated costs associated with research and product development. There can be no assurance that AOL will be able to compete successfully in the future with existing or potential competitors or that competition will not have an adverse effect on its business or results of operations.

Acquisitions of other companies could have an adverse impact on AOL s operations and result in unanticipated liabilities. During 2007, AOL acquired six companies and expects to make additional acquisitions and strategic investments in the future. If AOL does not effectively integrate the operations and systems of the Platform-A companies (including ADTECH, Quigo and TACODA), it could negatively affect AOL s ability to compete effectively and increase advertising revenues. The completion of acquisitions and strategic investments and the integration of acquired businesses involve a substantial commitment of resources. In addition, past or future transactions may be accompanied by a number of risks, including:

- the uncertainty of AOL s returns on investment due to the new and developing industries (e.g., mobile advertising) in which some of the acquired companies operate;
- the adverse impact of known potential liabilities or unknown liabilities, such as claims of patent or other intellectual property infringement, associated with the companies acquired or in which AOL invests;
- the difficulty of integrating technology, administrative systems, personnel and operations of acquired companies into AOL s services, systems and operations and unanticipated expenses related to such integration;
- potential loss of key talent at acquired companies;
- the potential disruption of AOL s on-going business and distraction of its management;
- additional operating losses and expenses of the businesses AOL acquires or in which it invests and the failure of such businesses to perform as expected;
- the failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the difficulty of reconciling possibly conflicting or overlapping contractual rights and duties; and
- the impairment of relationships with customers, partners and employees as a result of the combination of acquired operations and new management personnel.

The failure to successfully address these risks or other problems encountered in connection with past or future acquisitions and strategic investments could cause AOL to fail to realize the anticipated benefits of such transactions and incur unanticipated liabilities and could harm its business and operating results.

New or changing federal, state or international privacy legislation or regulation could hinder the growth of AOL s business. A variety of federal, state and international laws govern the collection, use, retention, sharing and security of consumer data that AOL uses to operate its services and to deliver certain advertisements to its customers, as well as the technologies used to collect such data. Not only are existing privacy-related laws in these jurisdictions evolving and subject to potentially disparate interpretation by governmental entities, new legislative proposals affecting privacy

are now pending at both the federal and state level in the U.S. Changes to the interpretation of existing law or the adoption of new privacy-related requirements could hinder the growth of AOL s business. Also, a failure or perceived failure to comply with such laws or requirements or with AOL s own policies and procedures could result in significant liabilities, including a possible loss of consumer or investor confidence or a loss of customers or advertisers.

RISKS RELATING TO TIME WARNER S CABLE BUSINESS

TWC may continue to face challenges in its systems in Dallas, Texas and Los Angeles, California. TWC continues to face challenges in the Dallas, Texas and Los Angeles, California systems, most of which were acquired in the Adelphia/Comcast Transactions. During 2007, TWC undertook a significant integration effort that included upgrading the capacity and technical performance of these systems to levels that allow the delivery of advanced services and features. However, the historical negative perception of cable service in Dallas and Los Angeles, due in part to the service provided by predecessor cable operators, could hinder TWC s efforts to attract new customers. In addition, the competition in Dallas and Los Angeles from Verizon and AT&T, is intense. As a result, the Dallas and Los Angeles systems could be unable to meaningfully improve their financial performance, which could adversely affect TWC s growth, financial condition and results of operations.

Increases in programming costs or an inability to obtain popular programming could adversely affect TWC s operations, business or financial results. Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting the increasing cost of obtaining desirable programming, particularly sports programming, as well as subscriber growth and the expansion of service offerings. It is expected that TWC s video service margins will decline over the next few years as programming cost increases outpace growth in video revenues. Furthermore, current and future programming providers that supply content that is desirable to TWC s subscribers may be unwilling to enter into distribution arrangements with TWC on acceptable terms. In addition, owners of non-broadcast video programming content may enter into exclusive distribution arrangements with TWC s competitors. A failure to carry programming that is attractive to TWC s subscribers could adversely impact TWC s subscription and advertising revenues.

TWC faces a wide range of competition, which could negatively affect its business and financial results. TWC s industry is and will continue to be highly competitive. Some of TWC s principal competitors, direct broadcast satellite (or DBS) operators and incumbent local telephone companies, in particular, offer services that provide features and functions comparable to the video, high-speed data and/or voice services that TWC offers, and they are offering them in bundles similar to TWC s. The telephone and DBS companies aggressively market their individual products as well as their bundles or synthetic bundles (i.e., video services provided principally by the DBS operator, and digital subscriber line service, traditional phone service and, in some cases, wireless service provided by the telephone company). These competitors try to distinguish their services from TWC s by offering aggressive promotional pricing, exclusive programming, a bundle including their own or an affiliate s wireless voice service and/or assertions of superior service or offerings.

In addition to these competitors, TWC faces competition on individual services from a range of competitors, including, in video, SMATV and video delivered to consumers over the Internet; in high speed data, Wi-Fi, Wi-Max and 3G wireless broadband services provided by mobile carriers such as Verizon Wireless, broadband over power line providers and municipal Wi-Fi services; and in voice, cellular telephone service providers and Internet phone providers, such as Vonage, and others. Furthermore, TWC operates its cable systems under non-exclusive franchises granted by state or local authorities. In some of TWC s operating areas, other operators have overbuilt TWC s systems and offer video, data and/or voice services in competition with TWC.

Any inability to compete effectively or an increase in competition with respect to video, voice or high-speed data services could have an adverse effect on TWC s financial results and return on capital expenditures due to possible increases in the cost of gaining and retaining subscribers and lower per subscriber revenue, could slow or cause a decline in TWC s growth rates, reduce its revenues, reduce the number of its subscribers or reduce its ability to increase penetration rates for services. As TWC expands and introduces new and enhanced products and services, it may be subject to competition from other providers of those products and services, such as telecommunications providers, Internet service providers and consumer electronics companies, among others. In addition, future advances

in technology, as well as changes in the marketplace and in the regulatory and legislative environments, may result in changes to the competitive landscape. TWC cannot predict the extent to which competition will affect its future business and financial results or return on capital expenditures.

Significant unanticipated increases in the use of bandwidth-intensive Internet-based services could increase TWC s costs. The rising popularity of bandwidth-intensive Internet-based services poses special risks for TWC s high-speed data business. Examples of such services include peer-to-peer file sharing services, gaming

services and the delivery of video via streaming technology and by download. If heavy usage of bandwidth-intensive services grows beyond TWC s current expectations, TWC may need to invest more capital than currently anticipated to expand the bandwidth capacity of its systems or TWC s customers may have a suboptimal experience when using TWC s high-speed data service. In addition, in order to continue to provide quality service at attractive prices, TWC needs the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make upgrades to TWC s broadband facilities. TWC s ability to do these things could be restricted by legislative efforts to impose so-called net neutrality requirements on cable operators.

Availability of SDV technology may not enable TWC to effectively manage its existing bandwidth. As of December 31, 2007, TWC had deployed switched digital video, or SDV, technology to over 1.4 million digital video subscribers, and TWC intends to further deploy this technology during 2008. SDV allows TWC to save bandwidth by transmitting particular programming services only to groups of homes or nodes where subscribers are viewing the programming at a particular time rather than broadcasting it to all subscriber homes. Deploying SDV requires installation of new hardware and software at each cable system where it is employed. In addition, bandwidth savings are based on the actual viewing habits of subscribers. As a result, TWC may experience operational difficulties in deploying SDV and may not realize all of the efficiencies it anticipates from the deployment of this technology. In addition, the FCC may interpret existing regulation or introduce new regulation to restrict cable operators ability to use SDV technology. If TWC experiences operational difficulties in deploying SDV, if TWC is unable to gain anticipated additional network capacity as a result of its SDV deployment plans or if TWC is prohibited by regulation from using SDV technology, TWC may have difficulty carrying the volume of HDTV channels and other bandwidth-intensive traffic carried by competitors and may be forced to make costly upgrades to its systems in order to remain competitive.

The Internal Revenue Service and state and local tax authorities may challenge the tax characterizations of the Adelphia Acquisition, the Redemptions or the Exchange, or related valuations, and any successful challenge by the Internal Revenue Service or state or local tax authorities could materially adversely affect Time Warner s tax profile, significantly increase its future cash tax payments and significantly reduce its future earnings and cash flow. The Adelphia Acquisition was designed to be a fully taxable asset sale, the TWC Redemption was designed to qualify as a tax-free split-off under section 355 of the Internal Revenue Code of 1986, as amended (the Tax Code), the TWE Redemption was designed as a redemption of Comcast s partnership interest in TWE, and the Exchange was designed as an exchange of designated cable systems. There can be no assurance, however, that the Internal Revenue Service (the IRS) or state or local tax authorities (collectively with the IRS, the Tax Authorities) will not challenge one or more of such characterizations or the related valuations. Such a successful challenge by the Tax Authorities could materially adversely affect Time Warner s tax profile (including its ability to recognize the intended tax benefits from these transactions), significantly increase its future cash tax payments and significantly reduce its future earnings and cash flow. The tax consequences of the Adelphia Acquisition, the Redemptions and the Exchange are complex and, in many cases, subject to significant uncertainties, including, but not limited to, uncertainties regarding the application of federal, state and local income tax laws to various transactions and events contemplated therein and regarding matters relating to valuation.

TWC may encounter unforeseen difficulties as it increases the scale of its video, high-speed data and voice offerings to commercial customers. TWC has sold video and high-speed data services to businesses for some time and in 2007 introduced an IP-based telephony service, Business Class Phone, geared to small- and medium-sized businesses. In order to provide its commercial customers with reliable services, TWC may need to increase expenditures, including spending on technology, equipment and personnel. If the services are not sufficiently reliable or TWC otherwise fails to meet commercial customers expectations, its commercial services business could be adversely affected. In addition, TWC faces competition from the existing local telephone companies as well as from a variety of other national and regional business services competitors. If TWC is unable to successfully attract and keep

commercial customers, its growth, financial condition and results of operations may be adversely affected.

TWC s business is subject to extensive governmental regulation, which could adversely affect its business. TWC s video and voice services are subject to extensive regulation at the federal, state, and local levels. In addition, the federal government also has been exploring possible regulation of high-speed data services. Additional

regulation, including regulation relating to rates, equipment, technologies, programming, levels and types of services, taxes and other charges, could have an adverse impact on TWC s services. If the United States Congress (Congress) or regulators were to disallow the use of certain technologies TWC uses today or to mandate the implementation of other technologies, TWC s services and results of operations could suffer. TWC expects that legislative enactments, court actions, and regulatory proceedings will continue to clarify and in some cases change the rights of cable companies and other entities providing video, data and voice services under the Communications Act and other laws, possibly in ways that TWC has not foreseen. The results of these legislative, judicial, and administrative actions may materially affect TWC s business operations in areas such as:

Cable Franchising. At the federal level, various provisions have been introduced in connection with broader Communications Act reform that would streamline the video franchising process to facilitate entry by new competitors. To date, no such measures have been adopted by Congress. In December 2006, the FCC adopted new regulations intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises, which could facilitate entry by TWC s competitors into areas where TWC operates. At the state level, several states, including California, New Jersey, North Carolina, South Carolina and Texas, have enacted statutes intended to streamline entry by additional video competitors, some of which provide more favorable treatment to new entrants than to existing providers. Similar bills are pending or may be enacted in additional states. To the extent federal or state laws or regulations facilitate additional competitive entry or create more favorable regulatory treatment for new entrants, TWC s operations could be materially and adversely affected.

À la carte Video Services. There has from time to time been federal legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an à la carte basis, which could alter the cost structure of TWC s services. Currently, no such legislation is pending and there are no pending proceedings related to à la carte video services at the FCC, although the FCC is examining the question of whether programming must be sold to multichannel video programming distributors, or MVPDs, at the wholesale level on an unbundled basis.

Carriage Regulations. In September 2007, the FCC adopted an order that will require cable operators that offer at least some analog service (i.e., are not operating all-digital systems) to provide to subscribers both analog and digital feeds of must-carry broadcast stations beginning February 18, 2009. If TWC is not able to obtain a waiver of this requirement for its smaller systems from the FCC, there is a risk that TWC will be forced to invest capital to upgrade the systems, sell them or shut them down, or be required to drop more popular programming services in order to carry the dual feeds. Currently, this obligation is scheduled to terminate in February 2012, subject to FCC review. In addition, in November 2007, the FCC revised its leased access rules by further lowering the permitted rate charged to most leased access programmers, as well as adopting new procedural and complaint provisions, and the FCC is seeking further comment on whether to extend the new rate methodology to program-length commercial and sales programming. To the extent the FCC extends the new rate methodology to other programming, TWC s revenues could be adversely affected. The FCC also has launched a proceeding to examine its substantive and procedural rules for program carriage. TWC is unable to predict whether any such proceedings will lead to any material changes in existing regulations. Any change in the existing carriage regulations could restrict TWC s ability to select programming that is attractive to its subscribers.

Voice Communications. Traditional providers of voice services generally are subject to significant regulations. It is unclear to what extent those regulations (or other regulations) apply to providers of nontraditional voice services, including TWC s. In orders over the past several years, the FCC subjected nontraditional voice service providers to a number of obligations applicable to traditional voice service. To the extent that the FCC (or Congress) imposes additional burdens, TWC s operations could be adversely

affected.

Net neutrality legislation or regulation could limit TWC s ability to operate its high-speed data business profitably, to manage its broadband facilities efficiently and to make upgrades to those facilities sufficient to respond to growing bandwidth usage by its high-speed data customers. Several disparate groups have adopted the term net neutrality in connection with their efforts to persuade Congress and regulators to adopt rules that

could limit the ability of broadband providers to apply differential pricing or network management policies to different uses of the Internet. Proponents of such regulation also seek to prohibit broadband providers from recovering the costs of rising bandwidth usage from any parties other than retail customers. The average bandwidth usage of TWC s high-speed data customers has been increasing significantly in recent years as the amount of high-bandwidth content and the number of applications available on the Internet continue to grow. In order to continue to provide quality service at attractive prices, TWC needs the continued flexibility to develop and refine business models that respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to make upgrades to its broadband facilities. As a result, depending on the form it might take, net neutrality legislation or regulation could impact TWC s ability to operate its high-speed data network profitably and to undertake the upgrades that may be needed to continue to provide high quality high-speed data services and could negatively impact its ability to compete effectively. Several petitions have been filed with the FCC asking it to adopt regulations in this area; however, TWC is unable to predict the likelihood that such regulatory proposals will be adopted.

RISKS RELATING TO BOTH THE TIME WARNER NETWORKS AND FILMED ENTERTAINMENT BUSINESSES

The Networks and Filmed Entertainment segments must respond to recent and future changes in technology, services and standards to remain competitive and continue to increase their revenue. Technology in the video, telecommunications and data services used in the entertainment industry is changing rapidly, and advances in technology, such as video-on-demand, new video formats and distribution via the Internet, have led to alternative methods of product delivery and storage. Certain changes in consumer behavior driven by these methods of delivery and storage could have a negative effect on the revenue of the Networks and Filmed Entertainment segments. For example, devices that allow users to view television programs or motion pictures from a remote location may cause changes in consumer behavior that could negatively affect the subscription revenue of cable system and direct broadcast satellite, or DBS, operators and telephone companies and therefore have a corresponding negative effect on the subscription revenue generated by the Networks segment and the licensing revenue generated by the Networks and Filmed Entertainment segments. Devices such as digital video recorders, or DVRs, that enable users to view television programs or motion pictures on a time-delayed basis or allow them to fast-forward or skip advertisements or network-based deployments of DVR-like technology may cause changes in consumer behavior that could adversely affect the advertising revenue of the advertising-supported networks in the Networks segment and have an indirect negative impact on the licensing revenue generated by the Filmed Entertainment segment and the revenue generated by Home Box Office from the licensing of its original programming in syndication and to basic cable networks. In addition, further increased use of portable digital devices that allow users to view content of their own choice, at a time of their choice, while avoiding traditional commercial advertisements, could adversely affect such advertising and licensing revenue.

Technological developments also pose other challenges for the Networks and Filmed Entertainment segments that could adversely impact their revenue and competitive position. For example, the Networks and Filmed Entertainment segments may not have the right, and may not be able to secure the right, to distribute their licensed content across new delivery platforms that are developed. In addition, technological developments could enable third-party owners of programming to bypass traditional content aggregators, such as the Turner networks and Home Box Office, and deal directly with cable system and DBS operators and telephone companies or other businesses that develop to offer content to viewers. Such limitations on the ability of the segments to distribute their content could have an adverse impact on their revenue. Cable system and DBS operators are developing new techniques that enable them to transmit more channels on their existing equipment to highly targeted audiences, reducing the cost of creating channels and potentially furthering the development of more specialized niche audiences. A greater number of options increases competition for viewers, and competitors targeting programming to narrowly defined audiences may improve their competitive position compared to the Networks and Filmed Entertainment segments for television advertising and for subscription and licensing revenue. In addition, traditional audience measures have evolved with emerging

technologies that can measure viewing audiences with improved sensitivity, which has resulted in changes to the basis for pricing and guaranteeing the advertising contracts of the advertising-supported networks in the Networks segment. There may be future technical and marketplace developments that will result in new audience measurements that may be used as the basis for the

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pricing and guaranteeing of such advertising. Any significant decrease in measured audiences for advertising on the advertising-supported networks in the Networks segment could have a significant negative impact on the advertising revenue of such networks and the licensing revenue generated by the Filmed Entertainment segment as well as the revenue generated by Home Box Office from the licensing of its original programming in syndication and to basic cable networks. The ability to anticipate and adapt to changes in technology on a timely basis and exploit new sources of revenue from these changes will affect the ability of the Networks and Filmed Entertainment segments to continue to grow and increase their revenue.

The Networks and Filmed Entertainment segments operate in highly competitive industries. The Company s Networks and Filmed Entertainment businesses generate revenue primarily through the production and distribution of feature films, television programming and home video products, licensing fees, the sale of advertising and subscriber fees paid by affiliates. Competition faced by the businesses within these segments is intense and comes from many different sources. For example:

The Networks and Filmed Entertainment segments compete with other television programming services for marketing and distribution by cable, satellite and other distribution systems, and the production divisions in these segments compete with other producers and distributors of television programming for air time on broadcast, cable and DBS networks, independent commercial television stations and basic and pay cable television services.

The Networks and Filmed Entertainment segments compete for viewers attention and audience share with other forms of programming and entertainment provided to viewers, including broadcast networks, local over-the-air television stations, basic and pay cable television services, motion pictures, home video, pay-per-view and video-on-demand services, Internet streaming and downloading, Internet sites providing social networking and user-generated content, interactive games and other online activities and other forms of news, information and entertainment.

The Networks segment faces competition for programming with commercial television networks, independent stations, and basic and pay cable television services, some of which have exclusive contracts with motion picture studios and independent motion picture distributors.

The advertising-supported networks and Turner s Internet sites in the Networks segment compete for advertising with numerous direct competitors and other media.

The ability of the Company s Networks and Filmed Entertainment segments to compete successfully depends on many factors, including their ability to provide high-quality and popular entertainment product and their ability to achieve high distribution levels. There has been consolidation in the media industry, and the Company s Networks and Filmed Entertainment segments competitors include industry participants with interests in other multiple media businesses that are often vertically integrated. Such vertical integration could have various negative effects on the competitive position of the Company s Networks and Filmed Entertainment segments. For example, vertical integration of other television networks and television and film production companies could adversely impact the Networks segment if it hinders the ability of the Networks segment to obtain programming for its networks. In addition, if purchasers of programming increasingly purchase their programming from production companies with which they are affiliated, such vertical integration could have a negative effect on the Filmed Entertainment segment s licensing revenue and the revenue generated by Home Box Office from the licensing of its original programming in syndication and to basic cable networks. There can be no assurance that the Networks and Filmed Entertainment segments will be able to compete successfully in the future against existing or potential competitors, or that competition will not have an adverse effect on their businesses or results of operations.

Although piracy poses risks to several of Time Warner s businesses, such risks are especially significant for the Networks and Filmed Entertainment segments due to the prevalence of piracy of feature films and television programming. See Risks Relating to Time Warner Generally Piracy of the Company s feature films, television programming and other content may decrease the revenues received from the exploitation of the Company s entertainment content and adversely affect its business and profitability.

The popularity of the Company s television programs and films and other factors is difficult to predict and could lead to fluctuations in the revenue of the Networks and Filmed Entertainment segments. Television

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program and film production and distribution are inherently risky businesses largely because the revenue derived from the production and distribution of a television program or motion picture, as well as the licensing of rights to the intellectual property associated with a program or film, depends primarily on its acceptance by the public, which is difficult to predict. The commercial success of a television program or feature film also depends on the quality and acceptance of other competing programs and films released at or near the same time, the availability of alternate forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, many of which are difficult to predict. In the case of the Turner networks, audience sizes are also factors that are weighed when determining their advertising rates. Poor ratings in targeted demographics can lead to a reduction in pricing and advertiser demand. Further, the theatrical success of a motion picture may affect revenue from other distribution channels, such as home entertainment and pay television programming services, and sales of licensed consumer products. Therefore, low public acceptance of the television programs or feature films of the Networks and Filmed Entertainment segments may adversely affect their respective results of operations.

The Networks and Filmed Entertainment segments are subject to labor interruption. The Networks and Filmed Entertainment segments and certain of their suppliers retain the services of writers, directors, actors, trade employees and others who are covered by collective bargaining agreements and who are involved in the development and production of motion pictures and television programs. On November 5, 2007, the Writers Guild of America (East and West) (the WGA) commenced an industry-wide strike following the expiration of its collective bargaining agreement on October 31, 2007, primarily due to the failure of the WGA to come to agreement with content producers over the revenue derived from exhibition of filmed entertainment content on new media platforms. In February 2007, content producers and the WGA reached an agreement on these issues, thereby ending the strike, and in January 2007 content producers and the Directors Guild of America (the DGA) came to an agreement on similar issues. The WGA strike has caused delays in the production of the segments feature films and television programs and the development of new television series. These delays could result in increased costs when resuming production.

The collective bargaining agreements between content producers and the American Federation of Television and Radio Artists (AFTRA) and the Screen Actors Guild (SAG) that cover the services of actors on feature films and network-prime-time television programs expire on June 30, 2008. Industry-wide negotiations with SAG and AFTRA, which will address similar new media issues to those addressed in the WGA and DGA negotiations, are scheduled to commence in March 2008. SAG and AFTRA could take actions in the form of strikes, work slowdowns or work stoppages if agreements are not reached before their respective contracts expire. Such actions could cause additional delays in the production or the release dates of the segments feature films and television programs, as well as higher costs resulting either from such actions or less favorable terms of these agreements on renewal.

RISKS RELATING TO TIME WARNER S FILMED ENTERTAINMENT BUSINESS

DVD sales have been declining, which may adversely affect the Filmed Entertainment segment s growth prospects and results of operations. Several factors, including increasing competition for consumer discretionary spending, piracy, the maturation of the DVD format, increased competition for retailer shelf space and the fragmentation of consumer leisure time, are contributing to an industry-wide decline in DVD sales both domestically and internationally. The high definition format war between the HD DVD and Blu-ray formats has slowed consumer adoption of those technologies. In January 2008, Warner Bros. announced that, starting in June 2008, it will release its content exclusively in the Blu-ray format. Nevertheless, consumer uncertainty may continue to slow widespread adoption of a new high definition format or lead consumers to forego adopting a high definition DVD format altogether, which would adversely affect DVD sales. DVD sales also may be affected as consumers increasingly shift from consuming physical entertainment products to digital forms of entertainment. The filmed entertainment industry faces a challenge in managing the transition from physical to digital formats in a manner that continues to support the current DVD business and its relationships with large retail customers and yet meets the growing consumer demand for delivery of filmed entertainment in a variety of digital formats. There can be no assurance that home video

wholesale prices can be maintained at current levels, due to aggressive retail pricing, digital competition and other factors. A continuing decline in DVD sales could have an adverse impact on the segment s results of operations and growth prospects.

The Filmed Entertainment segment s strategy includes the release of a limited number of event films each year, and the underperformance of one or more of these films could have an adverse effect on the Filmed Entertainment segment s results of operations and financial condition. The Filmed Entertainment segment expects to theatrically release a limited number of feature films each year that are expected to be event or tent-pole films and that generally have higher production and marketing costs than the other films released during the year. The underperformance of one of these films can have an adverse impact on the segment s results of operations in both the year of release and in the future. Historically, there has been a correlation between domestic box office success and international box office success, as well as a correlation between box office success and success in the subsequent distribution channels of home video and television. If the segment s films fail to achieve box office success, the results of operations and financial condition of the Filmed Entertainment segment could be adversely affected. Further, there can be no assurance that these historical correlations will continue in the future.

The costs of producing and marketing feature films have increased and may increase in the future, which may make it more difficult for a film to generate a profit. The production and marketing of feature films require substantial capital, and the costs of producing and marketing feature films have generally increased in recent years. These costs may continue to increase in the future, which may make it more difficult for the segment s films to generate a profit. As production and marketing costs increase, it creates a greater need to generate revenue internationally or from other media, such as home video, television and new media.

Changes in estimates of future revenues from feature films could result in the write-off or the acceleration of the amortization of film production costs. The Filmed Entertainment segment is required to amortize capitalized film production costs over the expected revenue streams as it recognizes revenue from the associated films. The amount of film production costs that will be amortized each quarter depends on how much future revenue the segment expects to receive from each film. Unamortized film production costs are evaluated for impairment each reporting period on a film-by-film basis. If estimated remaining revenue is not sufficient to recover the unamortized film production costs plus expected but unincurred marketing costs, the unamortized film production costs will be written down to fair value. In any given quarter, if the segment lowers its forecast with respect to total anticipated revenue from any individual feature film, it would be required to accelerate amortization of related film costs. Such a write-down or accelerated amortization could adversely impact the operating results of the Filmed Entertainment segment.

A decrease in demand for television product could adversely affect Warner Bros. revenues. Warner Bros. is a leading supplier of television programming. If there is a decrease in the demand for Warner Bros. television product, it could lead to the launch of fewer new television series and a reduction in the number of original programs ordered by the networks and the per-episode license fees generated by Warner Bros. in the near term. In addition, such a decrease in demand could lead to a reduction in syndication revenues in the future. Various factors may increase the risk of such a decrease in demand, including station group consolidation and vertical integration between station groups and broadcast networks, as well as the vertical integration between television production studios and broadcast networks, which can increase the networks reliance on their in-house or affiliated studios. In addition, the failure of ratings for the programming to meet expectations and the shift of viewers and advertisers away from network television to other entertainment and information outlets could adversely affect the amount of original programming ordered by networks and the amount they are willing to pay for such programming. Local television stations may face loss of viewership and an accompanying loss of advertising revenue as viewers move to other entertainment outlets, which may negatively impact the segment s ability to obtain the per-episode license fees in syndication that it has received in the past. Finally, the increasing popularity of local television content in international markets also could result in decreased demand, fewer available broadcast slots, and lower licensing and syndication revenue for U.S. television content.

RISKS RELATING TO TIME WARNER S NETWORKS BUSINESS

The loss of affiliation agreements could cause the revenue of the Networks segment to decline in any given period, and further consolidation of multichannel video programming distributors could adversely affect the segment. The Networks segment depends on affiliation agreements with cable system and DBS operators and telephone companies for the distribution of its networks and services, and there can be no assurance that these affiliation agreements will be renewed in the future on terms that are acceptable to the Networks segment. The

renewal of such agreements on less favorable terms may adversely affect the segment s results of operations. In addition, the loss of any one of these arrangements representing a significant number of subscribers or the loss of carriage on the most widely penetrated programming tiers could reduce the distribution of the segment s programming, which may adversely affect its advertising and subscription revenue. The loss of favorable packaging, positioning, pricing or other marketing opportunities with any distributor of the segment s networks also could reduce subscription revenue. In addition, further consolidation among cable system and DBS operators has provided greater negotiating power to such distributors, and increased vertical integration of such distributors could adversely affect the segment s ability to maintain or obtain distribution and/or marketing for its networks and services on commercially reasonable terms, or at all.

The inability of the Networks segment to license rights to popular programming or create popular original programming could adversely affect the segment s revenue. The Networks segment obtains a significant portion of its popular programming from third parties. For example, some of Turner s most widely viewed programming, including sports programming, is made available based on programming rights of varying durations that it has negotiated with third parties. Home Box Office also enters into commitments to acquire rights to feature films and other programming for its HBO and Cinemax pay television programming services from feature film producers and other suppliers for varying durations. Competition for popular programming licensed from third parties is intense, and the businesses in the segment may be outbid by their competitors for the rights to new popular programming or in connection with the renewal of popular programming they currently license. In addition, renewal costs could substantially exceed the existing contract costs. Alternatively, third parties from which the segment obtains programming, such as professional sports teams or leagues, may create their own networks.

The operating results of the Networks segment also fluctuate with the popularity of its programming with the public, which is difficult to predict. Revenue from the segment s businesses is therefore partially dependent on the segment s ability to develop strong brand awareness and to target key areas of the television viewing audience, including both newer demographics and preferences for particular genres, as well as its ability to continue to anticipate and adapt to changes in consumer tastes and behavior on a timely basis. Moreover, the Networks segment derives a portion of its revenue from the exploitation of the Company s library of feature films, animated titles and television titles. If the content of the Company s programming libraries ceases to be of interest to audiences or is not continuously replenished with popular original content, the revenue of the Networks segment could be adversely affected.

Increases in the costs of programming licenses and other significant costs may adversely affect the gross margins of the Networks segment. As described above, the Networks segment licenses a significant amount of its programming, such as motion pictures, television series, and sports events, from movie studios, television production companies and sports organizations. For example, Home Box Office relies on film studios for a significant portion of its content. In addition, the Turner networks have obtained the rights to produce and broadcast significant sports events such as the NBA play-offs, the Major League Baseball play-offs and a series of NASCAR races. If the level of demand for quality content exceeds the amount of quality content available, the networks may have to pay significantly higher licensing costs, which in turn will exert greater pressure on the segment to offset such increased costs with higher advertising and/or subscription revenue. There can be no assurance that the Networks segment will be able to renew existing or enter into additional license agreements for its programming and, if so, if it will be able to do so on terms that are similar to existing terms. There also can be no assurance that it will be able to obtain the rights to distribute the content it licenses over new distribution platforms on acceptable terms. If it is unable to obtain such extensions, renewals or agreements on acceptable terms, the gross margins of the Networks segment may be adversely affected.

The Networks segment also produces programming, and it incurs costs for new show concepts and all types of creative talent, including actors, writers and producers. The segment incurs additional significant costs, such as newsgathering and marketing costs. Unless they are offset by increased revenue, increases in the costs of creative

talent or in production, newsgathering or marketing costs may lead to decreased profits at the Networks segment.

The maturity of the U.S. video services business, together with rising retail rates, distributors focus on selling alternative products and other factors, could adversely affect the future revenue growth of the Networks segment. The U.S. video services business generally is a mature business, which may have a negative impact on

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the ability of the Networks segment to achieve incremental growth in its advertising and subscription revenues. In addition, programming distributors may increase their resistance to wholesale programming price increases, and programming distributors are increasingly focused on selling services other than video, such as high-speed data and voice services. Also, consumers basic cable rates have continued to increase, which could cause consumers to cancel their cable or satellite service subscriptions. The inability of the Networks segment to implement measures to maintain future revenue growth may adversely affect its business.

Changes in U.S. or foreign communications laws or other regulations may have an adverse effect on the business of the Networks segment. The multichannel video programming and distribution industries in the United States, as well as cable networks, are regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC. The U.S. Congress and the FCC currently are considering, and may in the future adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations of the Networks segment. For example, policymakers have expressed interest in exploring whether cable operators should offer à la carte programming to subscribers on a network-by-network basis or provide family-friendly tiers, and a number of cable operators, including TWC, have voluntarily agreed to offer family tiers. The FCC also is examining the manner in which some programming distributors package or bundle services sold to distributors; the same conduct is at issue in industry-wide antitrust litigation pending in Federal court in Los Angeles, in which the plaintiffs seek to prohibit wholesale bundling practices prospectively. The unbundling or tiering of program services may reduce the distribution of certain cable networks, thereby creating the risk of reduced viewership and increased marketing expenses, and may affect the segment s ability to compete for or attract the same level of advertising dollars. Policymakers have also raised concerns about the potential impact on childhood obesity rates of food and beverage advertising during children s television programming. Any decline in subscribers could lead to a decrease in the segment s advertising and subscription revenues. The Networks segment is unable to predict whether any new or revised regulations will result from these activities.

There also has been consideration of the extension of indecency rules applicable to over-the-air broadcasters to cable and satellite programming and stricter enforcement of existing laws and rules. If such an extension or attempt to increase enforcement occurred and were upheld, the content of the Networks segment could be subject to additional regulation, which could affect subscriber and viewership levels. Moreover, the determination of whether content is indecent is inherently subjective and, as such, it can be difficult to predict whether particular content would violate indecency standards. The difficulty in predicting whether individual programs, words or phrases may violate the FCC s indecency rules adds uncertainty to the ability of the Networks segment to comply with the rules. Violation of the indecency rules could lead to sanctions that may adversely affect the businesses and results of operations of the Networks segment.

RISKS RELATING TO TIME WARNER S PUBLISHING BUSINESS

The Publishing segment faces significant competition for advertising and audience. The Publishing segment faces significant competition from several direct competitors and other media, including the Internet. The Publishing segment s magazine and website operations compete for circulation and audience with numerous other magazine and website publishers and other media. The Publishing segment s magazine and website operations also compete with other magazine and website publishers and other media for advertising directed at the general public and at more focused demographic groups. Time Inc. s direct marketing operations compete with other direct marketers across all media, including the Internet, for the consumer s attention.

Competition for advertising revenue is primarily based on advertising rates, the nature and size of audience (including the circulation and readership of magazines and the number of unique visitors to and page views of websites), audience response to advertisers products and services and the effectiveness of sales teams. Other competitive factors in magazine and website publishing include product positioning, editorial quality, price and customer service, which

impact audience, circulation revenue and advertising revenue. The magazine and website publishing businesses present few barriers to entry and many new magazines and websites are launched annually across multiple sectors. In recent years competitors have launched and/or repositioned many magazines and websites, primarily in the celebrity, women s service and business sectors, that compete directly with *People, InStyle, Real Simple, Fortune* and other Publishing segment magazines, as well as the segment s websites. This has

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resulted in increased competition, especially at newsstands and mass retailers and particularly for celebrity and entertainment magazines. The Company anticipates that it will face continuing competition from these new competitors, and it is possible that additional competitors may enter the magazine and website publishing businesses and further intensify competition, which could have an adverse impact on the segment s revenue. In addition, websites that charge users for access may shift to a free-to-user advertising model, which could negatively affect the competitive position of the segment s websites.

The Publishing segment has in recent years made various changes in its magazine circulation practices and consequently faces new challenges in identifying new subscribers and increasing circulation, which could have an adverse impact not only on its circulation revenue but also on its advertising revenue.

Although the shift in consumer habits and/or advertising expenditures from traditional to online media poses risks to several of the Company s businesses, such risks are particularly significant for the Company s Publishing segment because a substantial portion of the segment s revenue is derived from the sale of advertising. See Risks Relating to Time Warner Generally The introduction and increased popularity of alternative technologies for the distribution of news, entertainment and other information and the resulting shift in consumer habits and/or advertising expenditures from traditional to online media could adversely affect the revenues of the Company s Publishing, Networks and Filmed Entertainment segments.

The Publishing segment could face increased costs and business disruption resulting from instability in the newsstand distribution channel. The Publishing segment operates a national distribution business that relies on wholesalers to distribute magazines published by the Publishing segment and other publishers to newsstands and other retail outlets. Due to industry consolidation, four wholesalers represent approximately 80% of the wholesale magazine distribution business in the U.S. There is a possibility of further consolidation among these wholesalers and/or insolvency of one or more of these wholesalers. Should there be a disruption in this wholesale channel it could adversely affect the Publishing segment s operating income and cash flow, including temporarily impeding the Publishing segment s ability to distribute magazines to the retail marketplace.

The Publishing segment s operating income could decrease as a result of rising paper costs. The Publishing segment s principal raw material is paper, and paper prices have fluctuated over the past several years. In addition, the paper industry is undergoing certain consolidation and ownership changes which could impact paper prices. Accordingly, if there are significant unanticipated increases in paper prices and the Publishing segment is not able to offset these increases, they could have a negative impact on the segment s operating income.

The Publishing segment faces risks relating to various regulatory and legislative matters, including changes in Audit Bureau of Circulations rules and possible changes in regulation of direct marketing. The Publishing segment s magazine subscription and direct marketing activities are subject to regulation by the FTC and the states under general consumer protection statutes prohibiting unfair or deceptive acts or practices. Certain areas of marketing activity are also subject to specific federal statutes and rules, such as the Telephone Consumer Protection Act, the Children s Online Privacy Protection Act, the Gramm-Leach-Bliley Act (relating to financial privacy), the FTC Mail or Telephone Order Merchandise Rule and the FTC Telemarketing Sales Rule. Other statutes and rules also regulate conduct in areas such as privacy, data security and telemarketing. New statutes and regulations are adopted frequently. In addition, the Publishing segment s magazine subscription activities are subject to the rules of the Audit Bureau of Circulations. New rules, as well as new interpretations of existing rules, are periodically adopted by the Audit Bureau of Circulations and could lead to changes in the segment s magazine circulation practices that could have a negative effect on the segment s ability to generate new magazine subscriptions, meet rate bases and support advertising sales.

Item 1B. ***Unresolved Staff Comments.***

Not applicable.

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Item 2. ***Properties.***

The following table sets forth certain information as of December 31, 2007 with respect to the Company s principal properties (over 250,000 square feet in area) that are occupied for corporate offices or used primarily by the Company s divisions, all of which the Company considers adequate for its present needs, and all of which were substantially used by the Company or were leased to outside tenants:

Location	Principal Use	Approximate Square Feet Floor Space	Type of Ownership; Expiration Date of Lease
New York, NY One Time Warner Center	Executive and administrative offices, studio and technical space (Corporate HQ, Turner and TWC)	1,007,500	Owned and occupied by the Company.
Dulles, VA 22000 AOL Way	Executive, administrative and business offices (AOL HQ)[(a)]	1,573,000	Owned and occupied by the Company.
New York, NY 75 Rockefeller Plaza Rockefeller Center	Business offices (AOL), sublet to outside tenants.	582,400	Leased by the Company. Lease expires in 2014. Approx. 397,000 sq. ft. is sublet to outside tenants.
Mt. View, CA Middlefield Rd.	Executive, administrative and business offices (AOL)	406,000	Leased by the Company. (Leases expire from 2009 2013). Approx. 246,300 sq. ft. is sublet to outside tenants.
Columbus, OH Arlington Centre Blvd.	Executive, administrative and business offices (AOL)	281,000	Owned and occupied by the Company.
Columbia, SC 3325 Platt Spring Rd.	Business offices, call center, warehouse (TWC)	318,500	Owned by the Company. Approx. 25% of the space is leased to an outside tenant.
Charlotte, NC 7800 and 7910 Crescent Executive Drive	Business offices (TWC)	277,500	Owned and occupied by the Company.
Burbank, CA The Warner Bros. Studio	Sound stages, administrative, technical and dressing room structures, screening theaters, machinery and equipment facilities, back lot and parking lot/structures and other Burbank properties (Warner Bros.)	4,677,000 sq. ft. of improved space on 158 acres[(b)]	Owned and occupied by the Company.
Burbank, CA 3400 Riverside Dr.	Executive and administrative offices (Warner Bros.)	421,000	Leased by the Company. Lease expires in 2019. Approx.

			21,000 sq. ft. is sublet to outside tenants.
Atlanta, GA One CNN Center	Executive and administrative offices, studios, technical space and retail (Turner)	1,277,000	Owned by the Company. Approx. 47,000 sq. ft. is leased to outside tenants.
Atlanta, GA 1050 Techwood Dr.	Business offices and studios (Turner)	1,170,000	Owned and occupied by the Company.
New York, NY 1100 and 1114 Ave. of the Americas	Executive and business offices (Home Box Office)	660,500	Leased by the Company under two leases expiring in 2018. Approx. 24,200 sq. ft. is sublet to outside tenants.
New York, NY Time & Life Bldg. Rockefeller Center	Executive, business and editorial offices (Time Inc.)	2,200,000	Leased by the Company. Most leases expire in 2017. Approx. 520,000 sq. ft. is sublet to outside tenants.

Location	Principal Use	Approximate Square Feet Floor Space	Type of Ownership; Expiration Date of Lease
London, England Blue Fin Building 110 Southwark St.	Executive and administrative offices (Time Inc. & IPC)	499,000	Owned by the Company. Approx. 105,000 sq. ft. is leased to outside tenants.
Birmingham, AL 2100 Lakeshore Dr.	Executive and administrative offices (Time Inc.)	398,000	Owned and occupied by the Company.

(a) In 2008, AOL plans to relocate its corporate headquarters to New York, NY. Certain administrative and business operations will remain in Dulles, VA.

(b) Ten acres consist of various parcels adjoining The Warner Bros. Studio, with mixed commercial and office uses.

Item 3. ***Legal Proceedings.***

Securities Matters

During the Summer and Fall of 2002, numerous shareholder class action lawsuits were filed against the Company, certain current and former executives of the Company and, in several instances, AOL. The complaints purported to be made on behalf of certain shareholders of the Company and alleged that the Company made material misrepresentations and/or omissions of material fact in violation of Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. Plaintiffs claimed, among other things, that the Company failed to disclose AOL s declining advertising revenues and that the Company and AOL inappropriately inflated advertising revenues in a series of transactions. All of these lawsuits were eventually centralized in the U.S. District Court for the Southern District of New York for coordinated or consolidated pre-trial proceedings (along with the federal derivative lawsuits, several lawsuits brought under the Employee Retirement Income Security Act of 1974 (ERISA), and other related matters, certain of which are described below) under the caption *In re AOL Time Warner Inc. Securities and ERISA Litigation.* In the summer of 2005, the Company entered into a settlement agreement to resolve this matter with the Minnesota State Board of Investment (MSBI), who had been designated lead plaintiff for the consolidated securities actions, and the court granted final approval of the settlement on April 6, 2006. The settlement fund established for the members of the class represented in this action (the MSBI Settlement Fund) consisted of $2.4 billion contributed by the Company and $100 million contributed by Ernst & Young LLP. In addition, the $150 million the Company previously paid in connection with the settlement of the investigation by the U.S. Department of Justice, and the $300 million the Company previously paid in connection with the settlement of its SEC investigation, were transferred to the MSBI Settlement Fund for distribution to investors through the MSBI settlement process. An initial distribution of these funds has been made, and administration of the settlement is ongoing.

During the Fall of 2002 and Winter of 2003, several putative class action lawsuits were filed alleging violations of ERISA in the U.S. District Court for the Southern District of New York on behalf of current and former participants in the Time Warner Savings Plan, the Time Warner Thrift Plan and/or the TWC Savings Plan (the Plans). Collectively, these lawsuits named as defendants the Company, certain current and former directors and officers of the Company and members of the Administrative Committees of the Plans. The lawsuits alleged that the Company and other defendants breached certain fiduciary duties to plan participants by, *inter alia*, continuing to offer Time Warner stock

as an investment under the Plans, and by failing to disclose, among other things, that the Company was experiencing declining advertising revenues and that the Company was inappropriately inflating advertising revenues through various transactions. In 2006, the parties entered into a settlement agreement to resolve the ERISA matters, and the court granted final approval of the settlement on September 27, 2006. The aggregate amount for which the Company settled this lawsuit as well as the related lawsuits is described below. On October 26, 2007, the court issued an order approving certain attorneys fees and expenses requested by plaintiffs counsel, as well as approving certain incentive awards to the lead plaintiffs. On November 26, 2007, two of the lead plaintiffs filed a notice of appeal of this decision. In a stipulation dated January 25, 2008, the parties agreed that the case be remanded to the district court for the limited purpose of considering the request by co-lead counsel to resolve the amounts at issue on appeal, and the appellate court ordered the remand on January 29, 2008.

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During the Summer and Fall of 2002, numerous shareholder derivative lawsuits were filed in state and federal courts naming as defendants certain current and former directors and officers of the Company, as well as the Company as a nominal defendant. The complaints alleged that defendants breached their fiduciary duties by, among other things, causing the Company to issue corporate statements that did not accurately represent that AOL had declining advertising revenues. Certain of these lawsuits were later dismissed, and others were eventually consolidated in their respective jurisdictions. In 2006, the parties entered into a settlement agreement to resolve all of the remaining derivative matters, and the Court granted final approval of the settlement on September 6, 2006. The court has yet to rule on plaintiffs petition for attorneys fees and expenses.

On November 11, 2002, Staro Asset Management, LLC filed a putative class action complaint in the U.S. District Court for the Southern District of New York on behalf of certain purchasers of Reliant 2.0% Zero-Premium Exchangeable Subordinated Notes for alleged violations of the federal securities laws. Plaintiff was a purchaser of subordinated notes, the price of which was purportedly tied to the market value of Time Warner stock. Plaintiff alleged that the Company made misstatements and/or omissions of material fact that artificially inflated the value of Time Warner stock and directly affected the price of the notes. On September 27, 2007, the Company filed a motion to dismiss this action based on plaintiff s failure to take any action to prosecute the case for nearly four years. On December 6, 2007, plaintiff voluntarily dismissed its complaint and on December 12, 2007, the court dismissed the matter with prejudice.

On November 15, 2002, the California State Teachers Retirement System filed an amended consolidated complaint in the U.S. District Court for the Central District of California on behalf of a putative class of purchasers of stock in Homestore.com, Inc. (Homestore). Plaintiff alleged that Homestore engaged in a scheme to defraud its shareholders in violation of Section 10(b) of the Exchange Act. The Company and two former employees of its AOL division were named as defendants in the amended consolidated complaint because of their alleged participation in the scheme through certain advertising transactions entered into with Homestore. Motions to dismiss filed by the Company and the two former employees were granted on March 7, 2003, and a final judgment of dismissal was entered on March 8, 2004. Plaintiff appealed and the Ninth Circuit Court issued an opinion on June 30, 2006 affirming the lower court s decision and remanding the case to the district court for further proceedings. The district court denied plaintiff s subsequent motion for leave to amend the complaint on December 18, 2006. In addition, on October 20, 2006, the Company joined its co-defendants in filing a petition for *certiorari* with the Supreme Court of the United States, seeking reconsideration of the Ninth Circuit s decision. In December 2006, the Company reached an agreement with plaintiff to settle its claims against the Company and its former employees. The court granted final approval of the settlement on December 4, 2007. Administration of the settlement is ongoing. The aggregate amount for which the Company has settled this as well as related lawsuits is described below.

During the fourth quarter of 2006, the Company established an additional reserve of $600 million related to its remaining securities litigation matters, some of which are described above, bringing the reserve for unresolved claims to approximately $620 million at December 31, 2006. The prior reserve aggregating $3.0 billion established in the second quarter of 2005 had been substantially utilized as a result of the settlements resolving many of the other shareholder lawsuits that had been pending against the Company, including settlements entered into during the fourth quarter of 2006. During the first and second quarters of 2007, the Company reached agreements to settle substantially all of the remaining securities litigation claims, a substantial portion of which had been reserved for at December 31, 2006. During 2007, the Company recorded charges of approximately $153 million for these settlements. At December 31, 2007, the Company s remaining reserve related to these matters is $10 million, which approximates an expected attorneys fee award in the previously settled derivative matter described above. The Company has no remaining securities litigation matters as of December 31, 2007.

Other Matters

Warner Bros. (South) Inc. (WBS), a wholly owned subsidiary of the Company, is litigating numerous tax cases in Brazil. WBS currently is the theatrical distribution licensee for Warner Bros. Entertainment Nederlands (Warner Bros. Nederlands) in Brazil and acts as a service provider to the Warner Bros. Nederlands home video licensee. All of the ongoing tax litigation involves WBS distribution activities prior to January 2004, when WBS conducted both theatrical and home video distribution. Much of the tax litigation stems from WBS position that in distributing videos to rental retailers, it was conducting a distribution service, subject to a municipal service tax, and

not the industrialization or sale of videos, subject to Brazilian federal and state VAT-like taxes. Both the federal tax authorities and the State of Sao Paulo, where WBS is based, have challenged this position. Certain of these matters were settled in September 2007 pursuant to a government-sponsored amnesty program. In some additional tax cases, WBS, often together with other film distributors, is challenging the imposition of taxes on royalties remitted outside of Brazil and the constitutionality of certain taxes. The Company intends to defend against the various remaining tax cases vigorously.

On October 8, 2004, certain heirs of Jerome Siegel, one of the creators of the Superman character, filed suit against the Company, DC Comics and Warner Bros. Entertainment Inc. in the U.S. District Court for the Central District of California. Plaintiffs complaint seeks an accounting and demands up to one-half of the profits made on Superman since the alleged April 16, 1999 termination by plaintiffs of Siegel s grants of one-half of the rights to the Superman character to DC Comics predecessor-in-interest. Plaintiffs have also asserted various Lanham Act and unfair competition claims, alleging wasting of the Superman property by DC Comics and failure to accord credit to Siegel. The Company answered the complaint and filed counterclaims on November 11, 2004, to which plaintiffs replied on January 7, 2005. On April 30, 2007, the Company filed motions for partial summary judgment on various issues, including the unavailability of accounting for pre-termination and foreign works. The case is scheduled for trial starting in May 2008. The Company intends to defend against this lawsuit vigorously.

On October 22, 2004, the same Siegel heirs filed a second lawsuit against the Company, DC Comics, Warner Bros. Entertainment Inc., Warner Communications Inc. and Warner Bros. Television Production Inc. in the U.S. District Court for the Central District of California. Plaintiffs claim that Jerome Siegel was the sole creator of the character Superboy and, as such, DC Comics has had no right to create new Superboy works since the alleged October 17, 2004 termination by plaintiffs of Siegel s grants of rights to the Superboy character to DC Comics predecessor-in-interest. This lawsuit seeks a declaration regarding the validity of the alleged termination and an injunction against future use of the Superboy character. Plaintiffs have also asserted Lanham Act and unfair competition claims alleging false statements by DC Comics regarding the creation of the Superboy character. The Company answered the complaint and filed counterclaims on December 21, 2004, to which plaintiffs replied on January 7, 2005. The case was consolidated for discovery purposes with the Superman action described immediately above. The parties filed cross-motions for summary judgment or partial summary judgment on February 15, 2006. In its ruling dated March 23, 2006, the court denied the Company s motion for summary judgment, granted plaintiffs motion for partial summary judgment on termination and held that further proceedings are necessary to determine whether the Company s *Smallville* television series may infringe on plaintiffs rights to the Superboy character. On January 12, 2007, the Company filed a motion for reconsideration of the court s decision granting plaintiffs motion for partial summary judgment on termination. On April 30, 2007, the Company filed a motion for summary judgment on non-infringement of *Smallville*. On July 27, 2007, the court granted the Company s motion for reconsideration, reversing the bulk of the March 23, 2006 ruling, and requested additional briefing on certain issues. The Company s motion for summary judgment is pending. The Company intends to defend against this lawsuit vigorously.

On May 24, 1999, two former AOL Community Leader volunteers filed *Hallissey et al. v. America Online, Inc.* in the U.S. District Court for the Southern District of New York. This lawsuit was brought as a collective action under the Fair Labor Standards Act (FLSA) and as a class action under New York state law against AOL and AOL Community, Inc. The plaintiffs allege that, in serving as Community Leader volunteers, they were acting as employees rather than volunteers for purposes of the FLSA and New York state law and are entitled to minimum wages. On December 8, 2000, defendants filed a motion to dismiss on the ground that the plaintiffs were volunteers and not employees covered by the FLSA. On March 10, 2006, the court denied defendants motion to dismiss. On May 11, 2006, plaintiffs filed a motion under the FLSA asking the court to notify former community leaders nationwide about the lawsuit and allow those community leaders the opportunity to join the lawsuit. A related case was filed by several of the *Hallissey* plaintiffs in the U.S. District Court for the Southern District of New York alleging violations of the retaliation provisions of the FLSA. This case was stayed pending the outcome of the *Hallissey* motion to dismiss and has not yet

been activated. Three related class actions have been filed in state courts in New Jersey, California and Ohio, alleging violations of the FLSA and/or the respective state laws. The New Jersey and Ohio cases were removed to federal court and subsequently transferred to the U.S. District Court for the Southern District of New York for consolidated pretrial proceedings with *Hallissey*. The California action was

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remanded to California state court, and on January 6, 2004 the court denied plaintiffs motion for class certification. Plaintiffs appealed the trial court s denial of their motion for class certification to the California Court of Appeals. On May 26, 2005, a three-justice panel of the California Court of Appeals unanimously affirmed the trial court s order denying class certification. The plaintiffs petition for review in the California Supreme Court was denied. The Company has settled the remaining individual claims in the California action. The Company intends to defend against the remaining lawsuits vigorously.

On January 17, 2002, Community Leader volunteers filed a class action lawsuit in the U.S. District Court for the Southern District of New York against the Company, AOL and AOL Community, Inc. under ERISA. Plaintiffs allege that they are entitled to pension and/or welfare benefits and/or other employee benefits subject to ERISA. In March 2003, plaintiffs filed and served a second amended complaint, adding as defendants the Company s Administrative Committee and the AOL Administrative Committee. On May 19, 2003, the Company, AOL and AOL Community, Inc. filed a motion to dismiss and the Administrative Committees filed a motion for judgment on the pleadings. Both of these motions are pending. The Company intends to defend against these lawsuits vigorously.

On August 1, 2005, Thomas Dreiling filed a derivative suit in the U.S. District Court for the Western District of Washington against AOL and Infospace Inc. as nominal defendant. The complaint, brought in the name of Infospace by one of its shareholders, asserts violations of Section 16(b) of the Exchange Act. Plaintiff alleges that certain AOL executives and the founder of Infospace, Naveen Jain, entered into an agreement to manipulate Infospace s stock price through the exercise of warrants that AOL had received in connection with a commercial agreement with Infospace. Because of this alleged agreement, plaintiff asserts that AOL and Mr. Jain constituted a group that held more than 10% of Infospace s stock and, as a result, AOL violated the short-swing trading prohibition of Section 16(b) in connection with sales of shares received from the exercise of those warrants. The complaint seeks disgorgement of profits, interest and attorneys fees. On September 26, 2005, AOL filed a motion to dismiss the complaint for failure to state a claim, which was denied by the court on December 5, 2005. On October 11, 2007, the parties filed cross-motions for summary judgment. On January 3, 2008, the court granted AOL s motion and dismissed the complaint with prejudice. On January 29, 2008, plaintiff filed a notice of appeal. The Company intends to defend against this lawsuit vigorously.

On September 1, 2006, Ronald A. Katz Technology Licensing, L.P. (Katz) filed a complaint in the U.S. District Court for the District of Delaware alleging that TWC and AOL, among other defendants, infringe a number of patents purportedly relating to customer call center operations, voicemail and/or video-on-demand services. The plaintiff is seeking unspecified monetary damages as well as injunctive relief. On March 20, 2007, this case, together with other lawsuits filed by Katz, was made subject to a Multidistrict Litigation Order transferring the case for pretrial proceedings to the U.S. District Court for the Central District of California. The Company intends to defend against this lawsuit vigorously.

On June 16, 1998, plaintiffs in *Andrew Parker and Eric DeBrauwere*, *et al. v. Time Warner Entertainment Company, L.P. and Time Warner Cable* filed a purported nation-wide class action in U.S. District Court for the Eastern District of New York claiming that TWE sold its subscribers personally identifiable information and failed to inform subscribers of their privacy rights in violation of the Cable Communications Policy Act of 1984 and common law. The plaintiffs seek damages and declaratory and injunctive relief. On August 6, 1998, TWE filed a motion to dismiss, which was denied on September 7, 1999. On December 8, 1999, TWE filed a motion to deny class certification, which was granted on January 9, 2001 with respect to monetary damages, but denied with respect to injunctive relief. On June 2, 2003, the U.S. Court of Appeals for the Second Circuit vacated the District Court s decision denying class certification as a matter of law and remanded the case for further proceedings on class certification and other matters. On May 4, 2004, plaintiffs filed a motion for class certification, which the Company opposed. On October 25, 2005, the court granted preliminary approval of a class settlement arrangement on terms that were not material to the Company. A final settlement approval hearing was held on May 19, 2006. On January 26, 2007, the court denied

approval of the settlement, and so the matter remains pending. The Company intends to defend against this lawsuit vigorously.

On October 20, 2005, a group of syndicate participants, including BNZ Investments Limited, filed three related actions in the High Court of New Zealand, Auckland Registry, against New Line Cinema Corporation (NLC Corp.), a wholly owned subsidiary of the Company, and its subsidiary, New Line Productions Inc. (NL

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Productions) (collectively, New Line). The complaints allege breach of contract, breach of duties of good faith and fair dealing, and other common law and statutory claims under California and New Zealand law. Plaintiffs contend, among other things, they have not received proceeds from certain financing transactions they entered into with New Line relating to three motion pictures: *The Lord of the Rings: The Fellowship of the Ring*; *The Lord of the Rings: The Two Towers*; and *The Lord of the Rings: The Return of the King* (collectively, the Trilogy). The parties to these actions have agreed that all claims will be heard before a single arbitrator, who has been selected, before the International Court for Arbitration, and the proceedings before the High Court of New Zealand have been dismissed without prejudice. The arbitration is scheduled to begin in May 2009. The Company intends to defend against these proceedings vigorously.

Other matters relating to the Trilogy have also been pursued. On February 28, 2005, Wingnut Films, Ltd. filed a case against NLC Corp, and Katja Motion Pictures Corp. (Katja) and NL Productions, both of which are wholly owned subsidiaries of NLC Corp., as well as other unnamed defendants, in the U.S. District Court for the Central District of California. The complaint alleged that NLC Corp. failed to make full payment to plaintiff with respect to its participation in Adjusted Gross Receipts (as defined in the parties contract). In December 2007, the parties agreed to settle this matter, and the case has been dismissed with prejudice.

On February 11, 2008, trustees of the Tolkien Trust and the J.R.R. Tolkien 1967 Discretionary Settlement Trust, as well as HarperCollins Publishers, Ltd. and two related publishing entities, sued NLC Corp., Katja, and other unnamed defendants in Los Angeles Superior Court. The complaint alleges that defendants breached contracts relating to the Trilogy by, among other things, failing to make full payment to plaintiffs for their participation in the Trilogy s gross receipts. The suit also seeks declarations as to the meaning of several provisions of the relevant agreements, including a declaration that would terminate defendants future rights to other motion pictures based on J.R.R. Tolkien s works, including *The Hobbit*. In addition, the complaint sets forth related claims of breach of fiduciary duty, fraud and for reformation, an accounting and imposition of a constructive trust. Plaintiffs seek compensatory damages in excess of $150 million, unspecified punitive damages, and other relief. The Company intends to defend against this lawsuit vigorously.

AOL Europe Services SARL (AOL Luxembourg), a wholly owned subsidiary of AOL organized under the laws of Luxembourg, has received two separate assessments from the French tax authorities for French value added tax (VAT) related to AOL Luxembourg s subscription revenues from French subscribers. The first assessment, received on December 27, 2006, relates to subscription revenues earned during the period from July 1, 2003 through December 31, 2003, and the second assessment, received on December 5, 2007, relates to subscription revenues earned during the period from January 1, 2004 through December 31, 2004. Together, the assessments, including interest accrued through the respective assessment dates, total 94 million (approximately $138 million based on the exchange rate as of December 31, 2007). The French tax authorities assert that the French subscriber revenues are subject to French VAT, instead of Luxembourg VAT, as originally reported and paid by AOL Luxembourg. AOL Luxembourg could receive similar assessments from the French tax authorities in the future for subscription revenues earned in 2005 through 2006. If AOL Luxembourg were to receive such additional assessments and were to be unsuccessful on appeal of such assessments and the current assessments, the Company believes AOL Luxembourg s total exposure, net of refunds for VAT previously paid to Luxembourg, related to subscription revenues from French subscribers earned from July 1, 2003 through October 31, 2006, including interest accrued through December 31, 2007, could equal up to 77 million (approximately $114 million based on the exchange rate as of the same date). The Company is currently appealing these assessments at the French VAT audit level and intends to defend against these assessments vigorously.

On August 30, 2007, eight years after the case was initially filed, the Supreme Court of the Republic of Indonesia overturned the rulings of two lower courts and issued a judgment against Time Inc. Asia and six journalists in the matter of *H.M. Suharto v. Time Inc. Asia et al.* The underlying libel lawsuit was filed in July 1999 by the former

dictator of Indonesia following the publication of *TIME* magazine s May 24, 1999 cover story Suharto Inc. Following a trial in the Spring of 2000, a three-judge panel of an Indonesian court found in favor of Time Inc. and the journalists, and that decision was affirmed by an intermediate appellate court in March 2001. The court s August 30, 2007 decision reversed those prior determinations and ordered defendants to, among other things, apologize for certain aspects of the May 1999 article and pay Mr. Suharto damages in the amount of one trillion rupiah (approximately $107 million based on the exchange rate as of December 31, 2007). The Company

continues to defend this matter vigorously and has challenged the judgment by filing a petition for review with the Supreme Court of the Republic of Indonesia on February 21, 2008. The Company does not believe it is likely that efforts to enforce such judgment within Indonesia, or in those jurisdictions outside of Indonesia in which the Company has substantial assets, would result in any material loss to the Company. Consequently, no loss has been accrued for this matter as of December 31, 2007. Moreover, the Company believes that insurance coverage is available for the judgment, were it to be sustained and, eventually, enforced.

On September 20, 2007, *Brantley, et al. v. NBC Universal, Inc., et al.* was filed in the U.S. District Court for the Central District of California against the Company and TWC. The complaint, which also named as defendants several other programming content providers (collectively, the programmer defendants) as well as other cable and satellite providers (collectively, the distributor defendants), alleged violations of Sections 1 and 2 of the Sherman Antitrust Act. Among other things, the complaint alleged coordination between and among the programmer defendants to sell and/or license programming on a bundled basis to the distributor defendants, who in turn purportedly offer that programming to subscribers in packaged tiers, rather than on a per channel (or à la carte) basis. Plaintiffs, who seek to represent a purported nationwide class of cable and satellite subscribers, demand, among other things, unspecified treble monetary damages and an injunction to compel the offering of channels to subscribers on an à la carte basis. On December 3, 2007, plaintiffs filed an amended complaint in this action that, among other things, dropped the Section 2 claims and all allegations of horizontal coordination. On December 21, 2007, the programmer defendants, including the Company, and the distributor defendants, including TWC, filed motions to dismiss the amended complaint. The Company intends to defend against this lawsuit vigorously.

On April 4, 2007, the National Labor Relations Board (NLRB) issued a complaint against CNN America Inc. (CNN America) and Team Video Services, LLC (Team Video). This administrative proceeding relates to CNN America s December 2003 and January 2004 terminations of its contractual relationships with Team Video, under which Team Video had provided electronic newsgathering services in Washington, DC and New York, NY. The National Association of Broadcast Employees and Technicians, under which Team Video s employees were unionized, initially filed charges of unfair labor practices with the NLRB in February 2004, alleging that CNN America and Team Video were joint employers, that CNN America was a successor employer to Team Video, and/or that CNN America discriminated in its hiring practices to avoid becoming a successor employer or due to specific individuals union affiliation or activities. The NLRB investigated the charges and issued the above-noted complaint. The complaint seeks, among other things, the reinstatement of certain union members and monetary damages. A hearing in the matter before an NLRB Administrative Law Judge began on December 3, 2007. The Company intends to defend against this matter vigorously.

From time to time, the Company receives notices from third parties claiming that it infringes their intellectual property rights. Claims of intellectual property infringement could require Time Warner to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. In addition, certain agreements entered into by the Company may require the Company to indemnify the other party for certain third-party intellectual property infringement claims, which could increase the Company s damages and its costs of defending against such claims. Even if the claims are without merit, defending against the claims can be time-consuming and costly.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters (including those matters described above), and developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company s business, financial condition and operating results.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

Not applicable.

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EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction G(3) to Form 10-K, the information regarding the Company s executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report.

The following table sets forth the name of each executive officer of the Company, the office held by such officer and the age of such officer as of February 16, 2008.

Name	Age	Office
Richard D. Parsons	59	Chairman of the Board of the Company
Jeffrey L. Bewkes	55	President and Chief Executive Officer
Edward I. Adler	54	Executive Vice President, Corporate Communications
Paul T. Cappuccio	46	Executive Vice President and General Counsel
Patricia Fili-Krushel	54	Executive Vice President, Administration
John K. Martin, Jr.	40	Executive Vice President and Chief Financial Officer
Carol A. Melton	53	Executive Vice President, Global Public Policy
Olaf Olafsson	45	Executive Vice President

Set forth below are the principal positions held by each of the executive officers named above:

Mr. Parsons	Chairman of the Board since May 2003, having also served as Chief Executive Officer from May 2002 through December 2007. Prior to May 2002, Mr. Parsons served as Co-Chief Operating Officer from the consummation of the January 2001 merger of America Online, Inc. (now AOL LLC) and Time Warner Inc., now known as Historic TW Inc. (Historic TW) (the Merger or the AOL-Historic TW Merger) and was President of Historic TW pre-Merger from February 1995. He previously served as Chairman and Chief Executive Officer of The Dime Savings Bank of New York, FSB from January 1991.
Mr. Bewkes	President and Chief Executive Officer since January 1, 2008; prior to that, President and Chief Operating Officer from January 1, 2006. Director since January 25, 2007. Prior to January 1, 2006, Mr. Bewkes served as Chairman, Entertainment & Networks Group from July 2002 and, prior to that, Mr. Bewkes served as Chairman and Chief Executive Officer of the Home Box Office division from May 1995, having served as President and Chief Operating Officer from 1991.
Mr. Adler	Executive Vice President, Corporate Communications since January 2004; prior to that, Mr. Adler served as Senior Vice President, Corporate Communications from the consummation of the Merger, Senior Vice President, Corporate Communications of Historic TW pre-Merger from January 2000 and Vice President, Corporate Communications of Historic TW prior to that.

Mr. Cappuccio	Executive Vice President and General Counsel since the consummation of the Merger, and Secretary until January 2004; prior to the Merger, he served as Senior Vice President and General Counsel of America Online, Inc. from August 1999. Before joining America Online, Inc., from 1993 to 1999,

	Mr. Cappuccio was a partner at the Washington, D.C. office of the law firm of Kirkland & Ellis. Mr. Cappuccio was also an Associate Deputy Attorney General at the U.S. Department of Justice from 1991 to 1993.
Ms. Fili-Krushel	Executive Vice President, Administration since July 2001; prior to that, she was Chief Executive Officer of the WebMD Health division of WebMD Corporation, an Internet portal providing health information and service for the consumer, from April 2000 to July 2001 and President of ABC Television Network from July 1998 to April 2000. Prior to that, she was President, ABC Daytime from 1993 to 1998.
Mr. Martin	Executive Vice President and Chief Financial Officer since January 2008; prior to that, he was TWC s Executive Vice President and Chief Financial Officer since August 2005. Mr. Martin joined TWC from Time Warner where he had served as Senior Vice President of Investor Relations from May 2004 and Vice President from March 2002 to May 2004. Prior to that, Mr. Martin was Director in the Equity Research group of ABN AMRO Securities LLC from 2000 to 2002, and Vice President of Investor Relations at Historic TW from 1999 to 2000. Mr. Martin first joined TW Inc. (the predecessor to Historic TW) in 1993 as a Manager of SEC financial reporting.
Ms. Melton	Executive Vice President, Global Public Policy since June 2005; prior to that, she served for eight years at Viacom Inc., most recently as Executive Vice President, Government Relations. Prior to that, Ms. Melton served as Vice President in Historic TW s Public Policy Office and as Washington Counsel to Warner Communications Inc. from 1987 to 1997.
Mr. Olafsson	Executive Vice President since March 2003. During 2002, Mr. Olafsson pursued personal interests, including working on a novel that was published in the fall of 2003. Prior to that, he was Vice Chairman of Time Warner Digital Media from November 1999 through December 2001 and prior to that, Mr. Olafsson served as President of Advanta Corp., a financial services company, from March of 1998 until November 1999.

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PART II

Item 5. ***Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The Company is a corporation organized under the laws of Delaware, and was formed on February 4, 2000 in connection with the AOL-Historic TW Merger. The principal market for the Company s Common Stock is the NYSE. For quarterly price information with respect to the Company s Common Stock for the two years ended December 31, 2007, see Quarterly Financial Information at pages 207 through 208 herein, which information is incorporated herein by reference. The number of holders of record of the Company s Common Stock as of February 15, 2008 was approximately 47,150.

On May 20, 2005, the Company announced that it would begin paying a regular quarterly cash dividend of $0.05 per share on its Common Stock beginning in the third quarter 2005. The Company paid a cash dividend of $0.05 per share in the third and fourth quarters of 2005 and the first and second quarters of 2006. On July 27, 2006, the Company announced an increase of its regular quarterly cash dividend to $0.055 per share on its Common Stock beginning in the third quarter of 2006. The Company paid a cash dividend of $0.055 per share in the third and fourth quarters of 2006 and the first and second quarters of 2007. On July 26, 2007, the Company announced an increase of its regular quarterly cash dividend to $0.0625 per share on its Common Stock beginning in the third quarter of 2007. The Company paid a cash dividend of $0.0625 per share in the third and fourth quarters of 2007.

The Company currently expects to continue to pay comparable cash dividends in the future; however, changes in the Company s dividend program will depend on the Company s earnings, investment opportunities, capital requirements, financial condition, restrictions in any existing indebtedness and other factors considered relevant by the Company s Board of Directors.

Company Purchases of Equity Securities

The following table provides information about purchases by the Company during the quarter ended December 31, 2007 of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[3]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[4]
October 1, 2007 October 31, 2007	12,324,084	$ 18.37	12,324,084	$ 3,315,798,667
November 1, 2007 November 30, 2007	12,034,046	$ 18.29	12,026,762	$ 3,095,790,032
December 1, 2007 December 31, 2007	11,321,416	$ 16.83	11,080,673	$ 2,909,240,953
Total	35,679,546	$ 17.85	35,431,519	

(1) The total number of shares purchased includes (a) shares of Common Stock purchased by the Company under the Stock Repurchase Program and the New Stock Repurchase Program, each as described in footnote 3 below, and (b) shares of Common Stock that are tendered by employees to the Company to satisfy the employees tax withholding obligations in connection with the vesting of awards of restricted stock, which are repurchased by the Company based on their fair market value on the vesting date. The number of shares of Common Stock purchased by the Company in connection with the vesting of such awards totaled 0 shares, 7,284 shares and 240,743 shares, respectively, for the months of October, November and December.

(2) The calculation of the average price paid per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.

(3) On August 3, 2005, the Company announced that its Board of Directors had authorized a Common Stock repurchase program that allowed the Company to repurchase, from time to time, up to $5 billion of Common Stock over a two-year period (the Stock Repurchase Program). On November 2, 2005, the Company announced the increase of the amount that could be repurchased under the Stock Repurchase Program to an aggregate of up to $12.5 billion of Common Stock. In addition, on February 17, 2006, the Company announced a further increase of the amount of the Stock Repurchase Program and the extension of the program s ending date. Under the extended program, the Company had authority to repurchase up to an aggregate of $20 billion of Common Stock during the period from July 29, 2005 through December 31, 2007. The Stock Repurchase Program expired on December 31, 2007. On August 1, 2007, the Company announced that its Board of Directors had authorized a new stock repurchase program that allows Time Warner to repurchase, from time to time, up to $5 billion of Common Stock (the New Stock Repurchase Program). Purchases under the Stock Repurchase Program were made, and purchases under the New Stock Repurchase Program may be made, from time to time, on the open market and in privately negotiated transactions. The size and timing of these purchases were based

(in the case of the Stock Repurchase Program) and will be based (in the case of the New Stock Repurchase Program) on a number of factors, including price and business and market conditions. In the past, the Company has repurchased shares of Common Stock pursuant to trading programs under Rule 10b5-1 promulgated under the Exchange Act, and it may repurchase shares of Common Stock under such trading programs in the future.

(4) This amount does not reflect (i) the fees, commissions and other costs associated with the Stock Repurchase Program and the New Stock Repurchase Program, and (ii) the dollar value of the 18,784,759 shares of Series LMCN-V Common Stock received by the Company on May 16, 2007 in the Liberty Transaction, which were applied to the Company s share repurchases under the Stock Repurchase Program. On May 16, 2007, the Company and Liberty completed a transaction in which Liberty exchanged shares of the Company s Series LMCN-V Common Stock and shares of the Company s Common Stock for a subsidiary of the Company that owned specified assets and cash (the Liberty Transaction). In connection with the Liberty Transaction, in November 2007 Liberty delivered to the Company 4,000,262 shares of the Company s Common Stock upon the resolution of a working capital adjustment. These 4,000,262 shares were also applied to the Company s share repurchases under the Stock Repurchase Program.

Item 6. ***Selected Financial Data.***

The selected financial information of the Company for the five years ended December 31, 2007 is set forth at pages 205 through 206 herein and is incorporated herein by reference.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

The information set forth under the caption Management s Discussion and Analysis of Results of Operations and Financial Condition at pages 69 through 126 herein is incorporated herein by reference.

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Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

The information set forth under the caption Market Risk Management at pages 123 through 125 herein is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data.***

The consolidated financial statements and supplementary data of the Company and the report of independent registered public accounting firm thereon set forth at pages 127 through 201, 209 through 217 and 203 herein are incorporated herein by reference.

Quarterly Financial Information set forth at pages 207 through 208 herein is incorporated herein by reference.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Not applicable.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the p