TIME WARNER INC.
Form 10-K
February 20, 2009

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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, 2008

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o	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 13, 2009, there were 3,587,795,646 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 30, 2008) was approximately $53.04 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 2009 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, 2008, the Company had a total of approximately 87,000 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.

Recent Developments

TWC Separation from Time Warner and Reverse Stock Split of Time Warner Common Stock

On May 20, 2008, the Company and its subsidiaries Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC) entered into a Separation Agreement (the Separation Agreement) with Time Warner Cable Inc. (TWC) and its subsidiaries Time Warner Entertainment Company, L.P. (TWE) and TW NY Cable Holding Inc. (TW NY), the terms of which will govern TWC s legal and structural separation from Time Warner (the Separation). As part of the Separation transactions, TWC will declare and pay a special cash dividend (the Special Dividend) of $10.855 billion to be distributed pro rata to holders of TWC Class A Common Stock and TWC Class B Common Stock, resulting in the receipt by Time Warner of approximately $9.25 billion from the dividend, each outstanding share of TWC Class A Common Stock and TWC Class B Common Stock will be converted into one share of TWC Common Stock and Time Warner will distribute all of the issued and outstanding shares of TWC Common Stock then held by Time Warner to its stockholders. Under the terms of the Separation Agreement, Time Warner had the option to complete this distribution as (a) a pro rata dividend in a spin-off, (b) an exchange offer in a split-off or (c) a combination thereof (the Distribution). On February 18, 2009, the Company notified TWC of Time Warner s election to effect the Distribution in the form of a spin-off.

Upon consummation of the Separation transactions, Time Warner s stockholders and/or former stockholders will hold approximately 85.2% of the issued and outstanding TWC common stock, and TWC s stockholders other than Time Warner will hold approximately 14.8% of the issued and outstanding TWC common stock.

The Separation Agreement contains customary covenants, and consummation of the Separation transactions is subject to customary closing conditions. As of February 12, 2009, all regulatory and other necessary governmental reviews of the Separation transactions have been satisfactorily completed. Time Warner and TWC expect the Separation transactions to be consummated in the first quarter of 2009.

In connection with the Separation transactions, at a special stockholder meeting held on January 16, 2009, the Company obtained stockholder approval to implement, at the discretion of the Company s Board of Directors, a reverse stock split of the Company s common stock prior to December 31, 2009 at a ratio of either 1-for-2 or 1-for-3.

See Item 1A, Risk Factors Risks Relating to Time Warner Cable s Business and the TWC Separation, for a discussion of risk factors relating to the Separation and Management s Discussion and Analysis of Results of Operations and Financial Condition Recent Developments for additional information regarding the Separation.

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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, the planned separation of TWC from the Company 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 report 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 worldwide on both the AOL Network and 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, free client software and services and a social media network for Internet consumers. In addition, through its Access Services business, AOL operates one of the largest Internet access subscription services in the U.S.

AOL has transitioned from a business that has primarily focused on generating subscription revenues to one that is focused on attracting and engaging Internet consumers. 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 declining subscriber base and related cost structure in its Access Services business. During 2008, AOL began separating its Access Services and Global Web Services businesses, which should enhance the operational focus and strategic options available for each business. As these businesses were historically highly integrated, this separation initiative has been complex. The Company anticipates that it will be in a position to manage AOL s Access Services and Global Web Services businesses separately during 2009.

Global Web Services

AOL s Global Web Services business is comprised of its Platform-A, MediaGlow and People Networks business units. As further discussed below, Platform-A sells advertising on the AOL Network and the Third Party Network, and MediaGlow and People Networks develop and operate websites, applications and services that are part of the AOL Network. In addition, AOL s Products and Technologies group develops and operates components of the AOL Network, such as e-mail, toolbar and search. The AOL Network consists of a variety of websites, related applications and services, including those accessed generally via the Internet or via AOL s Access Services business. Specifically, the AOL Network includes owned and operated websites, applications and services such as *AOL.com*, e-mail, MapQuest, Moviefone, Engadget, Asylum, international versions of the AOL portal and social media properties such as AIM, ICQ and Bebo. 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

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websites owned by third parties for which certain criteria have been met, including that the Internet traffic has been assigned to AOL.

AOL distributes its products and services through a variety of methods, including relationships with computer manufacturers and mobile carriers, and through search engine marketing and search engine optimization. In an effort to reach a broader 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 has expanded the AOL Network internationally and has AOL-branded and co-branded portals and websites in North and South America, Europe and the Asia Pacific region. Additionally, AOL has launched international versions of certain websites, including Asylum, Autoblog, Bebo and Engadget.

Platform-A

In support of its shift in focus toward its advertising-supported web services business, in 2007 AOL formed a business unit within its Global Web Services business called Platform-A. Platform-A s core focus is selling advertising on the AOL Network and the Third Party Network and licensing ad-serving technology to third-party websites. Platform-A offers to advertisers a range of capabilities and solutions, including optimization and targeting technologies, to deliver more effective advertising and reach specific audiences across the AOL Network and the Third Party Network. As of December 31, 2008, AOL s Platform-A business unit had operations in the United States and nine countries across Europe, as well as in Japan through a joint venture with Mitsui & Co., Ltd.

Platform-A s advertising services include 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 audience targeting opportunities, search engine management and lead generation services. Online advertising arrangements generally involve payments by advertisers on a cost-per-impression basis (where the advertiser pays a fee based on the number of advertising impressions displayed), on a fixed-fee basis (where the advertiser pays for placement of an advertisement on a specific website for a fixed period of time) or on a pay-for-performance basis (where the advertiser pays based on the click or customer action resulting from the advertisement). To connect advertisers with online advertising inventory, Platform-A utilizes advertising inventory from the AOL Network and purchases advertising inventory from publishers of Third Party Network websites, using proprietary optimization and targeting technology to best match advertisers with available inventory.

Advertising services on the AOL Network and the Third Party Network are primarily provided by Platform-A Inc. (formerly Advertising.com, Inc.) and its subsidiaries. During 2007 and the early part of 2008, AOL acquired several businesses to supplement its online advertising capabilities. These businesses include Third Screen Media LLC, a mobile advertising network and mobile ad-serving management platform provider, ADTECH AG (ADTECH), an international online ad-serving company, TACODA LLC, an online audience targeting advertising network, Quigo Technologies LLC, a site and content-targeting advertising company, and Perfiliate Limited (doing business as buy.at), which provides advertisers and publishers a platform for e-commerce marketing programs. During 2008, AOL substantially integrated the employees, products, technologies, systems and operations from these acquired businesses into the Platform-A business unit.

AOL s advertising technology systems are designed and managed to maintain availability and maximize performance. Platform-A uses 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. Platform-A currently uses ad serving technology services provided by third parties such as DoubleClick, Inc., a subsidiary of Google Inc. (Google), along with Platform-A s own ad serving technologies to manage the delivery of display advertising across the AOL Network and the Third Party Network. Platform-A intends to use primarily its own ad serving technologies by the second half of 2009. Platform-A utilizes delivery systems that determine the most effective and profitable advertisements to deliver on behalf of advertisers. This is achieved through the scheduling and delivery of advertisements based on a variety of factors, including audience segmentation and targeting, contextual relevance, content matching 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.

MediaGlow

In January 2009, AOL announced the centralization of its publishing efforts in MediaGlow, a business unit within its Global Web Services business. Through MediaGlow, AOL seeks to attract and engage Internet consumers, including current and former AOL subscribers, on the AOL Network by offering compelling and differentiated free programming, applications and services. MediaGlow develops and operates websites that are part of the AOL Network, including AOL.com, Moviefone, Asylum and many other highly-targeted branded sites. As part of its effort to attract and engage Internet consumers, AOL has relaunched the AOL.com homepage and a number of its programming and commerce channels and, in 2008, launched a number of new targeted websites, including Asylum, The Boombox, StyleList, WalletPop and Lemondrop. In 2009, AOL intends to develop and deliver original programming and launch a number of new targeted websites through MediaGlow.

People Networks

In 2008, AOL formed its People Networks business unit, which includes its websites, applications and services on the AOL Network related to social media, such as AIM, Bebo and ICQ. The People Networks business unit offers Internet consumers platforms and instant communication tools for entertainment, self-expression and community and seeks to provide advertisers a way to engage those consumers. In 2009, through People Networks, AOL intends to continue to develop and offer integrated Bebo, AIM and ICQ applications and services.

AOL acquired Bebo, Inc. (Bebo), a global social media network, in the second quarter of 2008.

Access Services

AOL s Access Services business offers consumers an online subscription service in the U.S. and Canada that includes dial-up Internet access for a monthly fee. As of December 31, 2008, AOL had 6.9 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 $11.99 per month, which provide varying levels of Internet access service, tools and services. In addition, AOL subsidiaries continue to provide the CompuServe and Netscape Internet access services.

Products and Technologies

In January 2009, AOL consolidated its Products and Technologies groups into one organization that supports its Global Web Services and Access Services businesses. This group manages the back-end infrastructure that supports both of these businesses and also develops and operates certain products and services that are part of the AOL Network, such as e-mail, client software, toolbar, search and MapQuest.

AOL employs a multiple vendor strategy in designing, structuring and operating its backend infrastructure, which may include multi-year hardware, software, network and services agreements to support AOL s businesses. These agreements include those related to AOLnet and the AOL Transit Data Network (ADTN). AOLnet, an Internet protocol (IP) network of third-party network service providers, is used for AOL s Access Services business. The ATDN, built from routers and high bandwidth circuits purchased under both long-term and short-term agreements, provides Internet connectivity, including functioning as a conduit for Time Warner s businesses. In connection with certain 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 infrastructure arrangements in order to align its capabilities with market conditions and to manage costs.

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.

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Google Alliance

In April 2006, AOL, Google and Time Warner completed the issuance to Google of a 5% indirect equity interest in AOL and entered into agreements in March 2006 that expanded their existing strategic alliance. Under the expanded alliance, Google provides search services on the AOL Network and provides to AOL a share of the revenue generated through searches conducted on the AOL Network. In addition, Google provides AOL the use of a white-labeled, modified version of its advertising platform to enable AOL to sell search and contextually-targeted text based advertising directly to advertisers on AOL-owned properties, provides AOL with advertising credits for promotion of AOL s properties on Google s network and other promotional opportunities for AOL content, collaborates in video search and promotion of AOL s video destination, and enables 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 Management s Discussion and Analysis of Results of Operations and Financial Condition Overview for additional details.

Competition

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 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 Internet is dynamic and rapidly evolving, and new and popular competitors, such as social networking sites, frequently emerge. Internationally, AOL s primary competitors are global enterprises such as Google, MSN and Yahoo!, newer entrants such as Facebook, MySpace and other social networking sites and a large number of local enterprises.

In addition, AOL s Platform-A business unit 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. In addition to those companies listed above, competitors include such companies as WPP Group plc (24/7 Real Media) and ValueClick, Inc., as well as traditional media companies seeking to increase their share of online advertising. Competition among these companies has been intensifying and may lead to continuing decreases in prices for certain advertising inventory, particularly in light of current economic conditions where advertisers in certain categories are lowering their marketing expenditures.

In its Access Services business, AOL competes with other Internet access providers, especially broadband access providers.

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, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services. In addition to its video, high-speed data and voice services, TWC sells advertising to a variety of national, regional and local customers.

TWC is a public company subject to the requirements of the Exchange Act, and its Class A Common Stock trades on the New York Stock Exchange (NYSE) under the symbol TWC. Time Warner currently owns approximately 84% of the common stock of TWC (including approximately 83% of the outstanding TWC Class A Common Stock and all outstanding shares of TWC Class B Common Stock and representing a 90.6% voting interest), and also currently owns an indirect 12.43% non-voting equity interest in TW NY, a subsidiary of TWC. On May 20, 2008, TWC and its subsidiaries TWE and TW NY entered into the Separation Agreement with Time Warner and its subsidiaries WCI, Historic TW and ATC, the terms of which will govern TWC s legal and structural separation from Time Warner. For additional information, 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 in bundled packages of multiple services and features. 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, 2008, 54% of TWC s customers subscribed to two or more of its primary services, including 21% of its customers who subscribed to all three primary services. As part of an increased emphasis on its commercial business, TWC began selling voice services to small- and medium-sized businesses in the majority of its operating areas during 2007, and substantially completed the roll out in the remainder of its operating areas during 2008. TWC believes that providing commercial services will generate additional opportunities for growth.

Residential Video Services

Programming Tiers. TWC offers three main levels or tiers of video programming Basic Service Tier (BST), Expanded Basic Service Tier (or Cable Programming Service Tier) (CPST) and Digital Basic Service Tier (DBT). BST generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, a few specialty networks, such as C-SPAN and QVC, and public access, educational and government channels. CPST enables BST subscribers to add to their service national, regional and local cable news, entertainment and other specialty networks, such as CNN, A&E, ESPN, CNBC and Discovery. 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 enables digital video subscribers (defined below) to add to their CPST service up to approximately 50 additional cable networks, including spin-off and successor networks to national cable services, news networks and niche programming services, such as History International and Biography. 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 in areas not subject to effective competition and certain video equipment, including set-top boxes, are subject to regulation under federal law. See Regulatory Matters Cable System Regulation Video Services.

Transmission Technology. TWC s video subscribers may receive service through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital technology, digital transmissions only. Customers who receive any level of video service at their dwelling or commercial establishment via digital transmissions over TWC s systems are referred to as digital video subscribers. As of December 31, 2008, 49% of TWC s homes passed, or approximately 13.1 million customers, were basic video subscribers and of those, approximately 8.6 million (or 66%) 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. Digital video subscribers will also have access to these services using a television enabled with tru2way technology, a common platform for set-top box applications, which TWC expects will be made available by third parties in mid-2009.

On-Demand Services. On-Demand services are available to digital video subscribers using a TWC-provided set-top box or, when available, a tru2way-enabled television. 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 broadcast and 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, Start Over 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. As of December 31, 2008, Start Over was available to 47%, or approximately 4.0 million, of TWC s digital video subscribers. TWC has begun rolling out other Enhanced TV features such as Look Back, which utilizes the Start Over technology to allow viewing of recently 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.

HD Television. In its more advanced divisions, as of December 31, 2008, TWC offered up to 95 channels of high-definition (HD) television, or HDTV, and expects to continue to add additional HD programming during 2009. 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 and, on select channels, HD programming viewed using Start Over is presented in HD.

DVRs. Set-top boxes equipped with digital video recorders (DVRs) enable customers, among other things, to pause and/or rewind live television programs and record programs on the hard drive built into the set-top box. TWC also offers HD DVRs, which enable customers to record HD programming. Subscribers pay an additional monthly fee for TWC s DVR service. As of December 31, 2008, 47%, or approximately 4.0 million, of TWC s digital video subscribers also subscribed to its DVR service.

Residential High-speed Data Services

As of December 31, 2008, TWC offered residential high-speed data services to nearly all of its homes passed and approximately 8.4 million customers, or 32% of estimated high-speed data service-ready homes passed, 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 all of its operating areas, TWC offers four tiers of its Road Runner high-speed data service: Turbo, Standard, Basic and Lite and, in New York City, it also offers Extreme. Generally, each tier offers different speeds at a different monthly fee, although TWC is testing consumption-based pricing in one of its operating areas. In addition, in the majority of its operating areas, TWC provides Turbo subscribers with Powerboost, which allows users to initiate brief download speed bursts when TWC s network capacity permits, and it is in the process of rolling Powerboost out to its Standard subscribers.

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 entertainment, games, news, sports, travel, music, movie listings and shopping sites. In addition, in 2008, TWC launched the Road Runner Video Store, which permits subscribers to rent or purchase television shows and movies for online viewing.

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 offered its residential Digital Phone service to nearly all of its homes passed as of December 31, 2008. Most Digital Phone 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 needs, including a local-only calling plan, an unlimited in-state calling plan and an international calling plan. As of December 31, 2008, approximately

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3.7 million customers, or 14% of estimated voice service-ready homes passed, subscribed to residential Digital Phone.

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 (E911) service and assisting in local number portability and long-distance traffic carriage.

Commercial Services

TWC has provided video, high-speed data and network and transport services to commercial customers for over a decade. During 2007, TWC began selling a commercial Digital Phone service, Business Class Phone, to small- and medium-sized businesses in the majority of its operating areas and substantially completed the roll out in the remainder of its operating areas during 2008. 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 commercial 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 and stay abreast of news, weather and financial information. Similar to residential customers, commercial customers receive video services through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital technology, digital transmissions only.

High-speed Data Services. TWC offers commercial 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 Road Runner Business Class brand. Commercial 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, 2008, TWC had 283,000 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. During 2007 TWC introduced Business Class Phone, a business-grade phone service geared to small- and medium-sized businesses. As of December 31, 2008, TWC had 30,000 Business Class Phone subscribers.

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

Advertising

TWC also generates revenues by selling advertising to a variety of national, regional and local customers. As part of the agreements under which it acquires video programming, TWC typically 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. In 2008, TWC and certain other cable operators formed a joint venture, Canoe Ventures LLC, focused on developing a common technology platform among cable operators for the delivery of advanced advertising products and services to be offered to programmers and advertisers.

Technology

Cable Systems. TWC transmits its video, high-speed data and voice signals on a hybrid fiber coaxial (HFC) network. As of December 31, 2008, virtually all of the 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 the bandwidth available to its systems over the next few years. TWC believes that this can be achieved without costly upgrades. For example, to accommodate increasing demands for greater capacity in its network, TWC is deploying a technology known as switched digital video (SDV). SDV technology expands network capacity by transmitting only those digital and HD video channels that are being watched within a given grouping of households at any given moment. Since it is generally the case that not all such channels are being watched at all times by a given group of households, SDV technology frees up capacity that can then be made available for other uses. As of December 31, 2008, approximately 60% of TWC s digital video subscribers received some portion of their video service via SDV technology, and TWC expects to continue to deploy SDV technology during 2009. For more information, see Regulatory Matters Cable System Regulation Video Services Switched Digital Video.

Set-top Boxes. Currently, TWC s digital video subscribers must have either a TWC-provided digital set-top box or a digital cable-ready television or similar device equipped with a conditional-access security card (CableCARD) in order to receive digital video programming. However, a digital cable-ready television or similar device equipped with a CableCARD cannot request certain digital signals that are necessary to receive TWC s two-way video services, such as VOD, channels delivered via SDV technology and the interactive program guide. In order to receive TWC s two-way video services, customers generally must have a TWC-provided digital set-top box. Tru2way-enabled televisions and other devices with tru2way technology will also be able to receive TWC s two-way video services. TWC purchases set-top boxes and CableCARDs from a limited number of suppliers and leases these devices to subscribers at monthly rates.

High-Speed Data and Voice Connectivity. TWC delivers high-speed data and voice services through TWC s 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 and voice traffic received from and sent over the provider s 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 those networks without a fee.

Video Programming

TWC carries local broadcast stations pursuant to either the Federal Communication Commission (FCC) must carry rules or a written retransmission consent agreement with the relevant station owner. Broadcasters recently made their elections for the current three-year carriage cycle, which began on January 1, 2009, and TWC 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. TWC generally pays a fixed monthly per-subscriber fee for such services and sometimes pays a fee for broadcast stations that elect retransmission consent. Such fees typically cover the network or the station s linear feed as well as its free On-Demand content. For more information, see Regulatory Matters Cable System Regulation Video Services Carriage of Broadcast Television Stations and Other Programming Regulation. Payments to the providers of some premium services may be based on a percentage of TWC s gross receipts from subscriptions to the services. Generally, TWC obtains rights to carry VOD movies and Pay-Per-View events and to sell and/or rent online video programming via the Road Runner Video Store 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 Ventures

In November 2008, TWC, Intel Corporation, Google, Comcast Corporation (Comcast) and Bright House Networks, LLC (together with TWC, Intel Corporation, Google and Comcast, the Clearwire Investors) collectively invested $3.2 billion in Clearwire Corporation, a wireless broadband communications company

(Clearwire Corp), and one of its operating subsidiaries, Clearwire Communications LLC (Clearwire LLC, and, collectively with Clearwire Corp, Clearwire). TWC invested $550 million for membership interests in Clearwire LLC and received voting and board of director nomination rights in Clearwire Corp. Clearwire LLC was formed by the combination of Sprint Nextel Corporation s (Sprint) and Clearwire Corp s respective wireless broadband businesses and is focused on deploying the first nationwide fourth-generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with the transaction, TWC entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint s second-generation and third-generation network and a wholesale agreement with Clearwire that will allow TWC to offer wireless services utilizing Clearwire s mobile broadband wireless network.

TWC is also a participant in a joint venture with certain other cable companies (SpectrumCo) that holds advanced wireless spectrum (AWS) licenses. In January 2009, SpectrumCo redeemed the 10.9% interest held by an affiliate of Cox Communications, Inc. (Cox), and Cox received AWS licenses, principally covering areas in which Cox has cable services, and approximately $70 million in cash (of which TWC s share was $22 million). Following the closing of the Cox transaction, SpectrumCo s AWS licenses cover 20 MHz of AWS over 80% of the continental United States and Hawaii.

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 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 and of wireless offerings, whether as a single offering or as part of a bundle, has intensified competition. In addition, technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC s customers from other providers and intensify the competitive environment.

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 League Pass) and video services that are comparable in many respects to TWC s digital video services, including TWC s DVR service and some of its interactive programming features. 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 video, high-speed data and Digital Phone services face competition from the video, DSL, wireless broadband and traditional and wireless phone offerings of AT&T Inc. (AT&T) and Verizon Communications Inc. (Verizon). In a number of TWC s operating areas, AT&T and Verizon have upgraded portions of their networks to carry two-way video, high-speed data and IP-based telephony services, each of which is similar to the corresponding service offered by TWC. Moreover, AT&T and Verizon market and sell service bundles of video, high-speed data and voice services plus wireless services, and they also market cross-platform features with their wireless services, such as remote DVR control from a wireless handset. TWC also faces competition from the DSL, wireless broadband and phone offerings of smaller incumbent local telephone 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 s systems and offer video, high-speed data and voice services in competition with TWC.

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 and cable overbuilders, 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 from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections, such as Hulu.com, as well as online order services with mail delivery, and video stores and home video services. Increasingly, content owners are using Internet-based delivery of content directly to consumers, often without charging a fee for access to the content. Furthermore, due to consumer electronics innovations, consumers will over time be more readily able to watch such Internet-delivered content on television sets.

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 third-generation wireless broadband services, such as those offered by Verizon, AT&T, Sprint and T-Mobile USA, Inc., and developing technologies, such as fourth-generation wireless services, Internet service via power lines, satellite and various other wireless services (e.g., Wi-Fi).

Digital Phone Competition. TWC s Digital Phone service competes with traditional and wireless phone providers, and an increasing number of homes in the U.S. are replacing their traditional telephone service with wireless phone service. TWC also competes with national providers of IP-based telephony products, such as Vonage Holdings Corp. (Vonage), Skype and magicJack, and companies that sell phone cards at a cost per minute for both national and international service. 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 and videogames, 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). To increase operational efficiencies and maximize performance within the Filmed Entertainment segment, the Company reorganized the New Line business in 2008 to be operated as a unit of Warner Bros.

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. Warner Bros. feature films are produced under both the Warner Bros. Pictures and Castle Rock banners. Warner Independent Pictures (WIP), a producer and acquirer of smaller budget and alternative films, ceased operations in October 2008. 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. 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 2008, Warner Bros released 15 original motion pictures for worldwide theatrical exhibition, including *The Dark Knight*, *10,000 B.C.*, *Get Smart*, *Yes Man* and *Gran Torino*. Of the total 2008 releases, seven were wholly financed by Warner Bros. and eight were financed with or by others. WIP released two films in 2008, including *Snow Angels*.

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. Through 2008, Warner Bros. has distributed one film, *RocknRolla*, under this agreement.

Warner Bros. distributes feature films for theatrical exhibition to more than 125 international territories. In 2008, Warner Bros. released internationally 14 English-language motion pictures and 35 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 it also distributes its films on DVD and in various digital formats.

New Line

New Line also produces and releases feature films both wholly on its own and under co-financing arrangements with others. Like Warner Bros., New Line s strategy focuses on offering a diverse slate of films with an emphasis on building and leveraging franchises. Included in its nine films released during 2008 were *Sex and the City: The Movie*, *Journey to the Center of the Earth* and *Four Christmases*.

Warner Bros. provides domestic distribution services for New Line releases. Prior to the reorganization of the New Line business under Warner Bros., New Line typically pre-sold the international rights to its films on a territory-by-territory basis while retaining a share in each film. However, beginning with films commencing principal photography after January 1, 2009, New Line films will be distributed internationally through the Warner Bros. infrastructure and the international rights are not expected to be pre-sold other than with respect to certain films subject to existing output agreements.

New Line entered into a two-year co-financing transaction arranged by The Royal Bank of Scotland in February 2007. As of February 2009, the Royal Bank of Scotland had satisfied its investment obligations pursuant to this co-financing transaction.

Picturehouse, a producer and distributor of independent films that was formed in 2005 and jointly owned by New Line and Home Box Office, Inc., ceased operations in October 2008. This venture released five films in 2008, including *Kit Kittredge: An American Girl* and *The Women*.

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 2008 included *The Dark Knight*, *I Am Legend* and *Sex and the City: The Movie*. 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, through May 2008, it distributed product in both of the HD DVD and Blu-ray high-definition formats. In June 2008, WHV commenced distributing its high-definition products exclusively in the Blu-ray format.

Warner Premiere, a division of Warner Specialty Films Inc. established in 2006, develops and produces filmed entertainment that is distributed initially through DVD sales (direct-to-video) and short-form content that is distributed through online and wireless platforms. Warner Premiere released seven direct-to-video titles in 2008. In addition, in 2008, Warner Premiere Digital released several motion comics series, which incorporate various animation features into comic book artwork, including *The Watchmen*, *Batman: Black & White* and *Batman: Mad Love* based on DC Comics properties, as well as *The Peanuts Motion Comics* based on the classic Charles Schulz series. *Superman: Red Son*, also based on a DC Comics property, is expected to be released in 2009.

Warner Bros. Interactive Entertainment (WBIE), a division of WBHE, develops, publishes and licenses interactive videogames for a variety of platforms based on Warner Bros. and DC Comics properties, as well as original game properties. In December 2007, the WBHE group acquired TT Games Limited, a U.K.-based developer and publisher of videogames, including the *LEGO Star Wars* videogame franchise. In 2008, WBIE continued to expand its games publishing business by increasing its development capabilities and relationships, entering into several new videogame distribution agreements and further leveraging the global distribution infrastructure of WHV. In 2008, WBIE published three of its own videogame titles worldwide, *LEGO Batman*, *Speed Racer* and *Guinness World Records*, and co-published *Lego Indiana Jones*, which was distributed worldwide by a third party. WBIE also published, co-published or distributed a number of additional third party videogame titles primarily in North America.

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 2008-09 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*, *ER* and *The Mentalist* 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* and *America s Best Dance Crew.* 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.

Digital Media

Warner Bros. Digital Distribution (WBDD), a division of WBHE, enters into domestic and international licensing arrangements for distribution of Warner Bros. film and television content through both VOD and/or

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permanent download or electronic sell-through (EST) transactions via cable, IPTV systems, satellite and online services for delivery to households, hotels and other viewers worldwide. WBDD licenses film and television content for both VOD and EST to cable and satellite partners such as Comcast, TWC, DirecTV and DISH Network, as well as broadband customers including Apple Inc. s iTunes, Amazon.com, Inc. s Video on Demand, Microsoft Corporation s Xbox 360, Sony s Playstation 3 and Blockbuster. WBDD has also licensed movies to Netflix s subscription on demand service. In 2008, WBDD broadened its VOD content release strategy by initiating the release, both domestically and in 12 international territories, of selected films through VOD on the same date as their release on DVD and EST.

In 2008, WBDD also made films available for mobile VOD offerings in five countries and entered into arrangements with a number of mobile handset and PC manufacturers to pre-load films onto their devices to be marketed to consumers. In addition to its content licensing activities, WBDD manages Warner Bros. direct to consumer retail website *warnervideo.com*. In partnership with WBIE, WBDD expanded its digital distribution strategy to include the distribution of interactive videogames online and to offer videogames for sale on the iTunes Apps store.

WBDD entered into several licenses in 2008 to make Warner Bros. content available for manufacturing-on-demand services, whereby content is selected by the consumer online or at an in-store kiosk and then burned onto discs or other electronic storage devices for delivery to the consumer. These services are expected to launch in 2009.

WBDD is also working with WHV to expand its digital copy offerings, which make electronic copies of movies available to consumers who purchase specially marked DVDs, either by entering a code included in the DVD packaging that allows consumers to download a file containing the film or by placing an electronic copy of the film directly on the DVD that the consumer can upload. In 2008, digital copies were offered to purchasers of DVDs on 33 titles in the United States and digital copy offers were also made available for certain titles in eight international territories.

WBTVG s online destination *TMZ.com*, a joint venture with AOL, is one of the leading entertainment news websites in the U.S. In 2007, WBTVG launched its second online destination, *MomLogic.com*, which also serves as the portal of an online advertising network targeting mothers, and in 2008, WBTVG launched the destination sites *TheWB.com* and *KidsWB.com*, and re-launched *Essence.com*, in conjunction with Time Inc. s *Essence* magazine. In 2009, WBTVG plans to launch one or more additional destination sites. WBTVG s digital production venture, Studio 2.0, continues to create original programming for online and wireless distribution.

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. WBTVG also distributes certain off-air, or library, television series online in the U.S. through *TheWB.com* and other destination sites, and through distribution agreements with third party video exhibition sites. Internationally, WBTVG has a number of Warner Bros. branded on-demand program services, which, as of December 31, 2008, included five services in the U.K., two in France, two in Japan and one in each of Italy, Germany, Austria and China. In addition, WBTVG operates a linear Warner Bros. branded general entertainment channel in Latin America.

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.

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Warner Bros. International Cinemas Inc. holds interests, either wholly owned or through joint ventures, in 90 multi-screen cinema complexes, with over 700 screens in Japan, Italy and the U.S. as of December 31, 2008.

DC Comics, wholly owned by the Company, publishes a wide array of graphic novels and an average of over 90 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 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, an agreement for the co-financing and distribution of interactive videogames and a film co-financing and distribution arrangement.

Competition

The production and distribution of theatrical motion pictures, television, videogame 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 premium pay television programming services. The networks owned by Turner Broadcasting System, Inc. (Turner) are collectively referred to as the Turner Networks. Premium 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 receipt of monthly subscriber fees paid by cable system operators, satellite distribution services, telephone companies and other customers (known as affiliates) that have contracted to receive and distribute such networks and from the sale of advertising (other than Turner Classic Movies and Boomerang, which sell advertising only in certain international markets). The Home Box Office Services generate revenues principally from fees paid by affiliates (as defined above) 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, mini-series 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 financial and business services, pharmaceuticals and medical, food and beverage, automotive and movie studios. 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, the perceived quality of the network and of the particular programming, 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 98.9 million U.S. television households as reported by Nielsen Media Research (U.S. television households) as of December 2008; and TNT, which reached approximately 98.0 million U.S. television households as of December 2008; as well as Cartoon Network (including *Adult Swim*, its overnight block of contemporary animation aimed at young adults), which reached approximately 97.7 million U.S. television households as of December 2008; truTV (formerly Court TV), which reached approximately 91.1 million U.S. television households as of December 2008; Turner Classic Movies, a commercial-free network presenting classic films; and Boomerang, an animation network featuring classic cartoons. HD feeds of TBS, TNT and Cartoon Network 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.

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 jointly manage a portfolio of the NBA s digital businesses and NBA TV and NBA League Pass. 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 through the 2013 season. In addition, Turner has secured rights to produce and telecast certain NASCAR Sprint Cup Series races through 2014.

Turner s CNN and HLN (formerly CNN Headline News) networks, 24-hour per day cable television news services, reached approximately 98.3 million and 98.2 million U.S. television households, respectively, as of December 2008. An HD feed of CNN also is available. As of December 31, 2008, CNN managed 46 news bureaus and editorial operations, of which 13 are located in the U.S.

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 80 region-specific versions and local-language feeds of Cartoon Network, Boomerang, Turner Classic Movies, TNT and other networks in approximately 180 countries around the world. In the U.K. and Ireland, Turner distributes Cartoonito, a pre-school animation network, and in

India and certain other South Asian territories, it distributes Pogo, an entertainment network for children. Turner India also distributes HBO in India and the Maldives. In 2008, Turner launched Tooncast, a kids animation network distributed in Latin America. In addition, Turner operates a number of pay television entertainment networks that vary in content, including movies, series, fashion and music, and owns the sales representation rights for nine third-party owned networks operating principally in Latin America.

CNN International, an English language news network, is distributed in more than 190 countries and territories as of the end of 2008. CNN International is comprised of network feeds in five separate regions: Europe/Middle East/Africa, Asia Pacific, South Asia, Latin America and North America. HLN is distributed in Canada, the Caribbean, parts of Latin America and the Asia Pacific region; CNN en Espaňol 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; CNN Chile, a Spanish language 24-hour news network distributed in Chile; 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 2008, Turner, along with a local partner, launched Cartoon Network Turkey and TNT Turkey, both Turkish language channels distributed in Turkey. Also in 2008, Turner made an investment in and entered into a partnership with an Indian production company to develop and launch Real, a general entertainment Hindi language channel in India that is expected to launch in 2009. In addition, in 2009, Turner and Warner Bros. plan to launch an English language movie channel in India and Turner plans to launch a Spanish language version of truTV in Latin America.

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 Espaňol* 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. In addition, Turner operates *NBA.com* under an agreement with the NBA through 2016. Turner also operates *CartoonNetwork.com*, a popular advertiser-supported site in the U.S., as well as 38 international sites affiliated with the regional children s services feeds.

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 40.9 million subscriptions as of December 31, 2008. Both HBO and Cinemax are made available in HD on a number of multiplex channels. Home Box Office also offers HBO On Demand and Cinemax On Demand, subscription products that enable digital cable and telephone company customers 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.

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HBO is also defined by its award-winning original dramatic and comedy series, such as *True Blood*, *The Sopranos, Entourage* and *Curb Your Enthusiasm*, as well as movies, mini-series, boxing matches and sports news programs, comedy specials, family programming and documentaries. In 2008, among other awards, HBO won 26 Primetime Emmys the most of any network as well as 8 Sports Emmys.

HBO also generates revenues from the exploitation of its original programming through multiple distribution outlets. HBO Home Entertainment 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 Apple Inc. through its online iTunes stores in the U.S. and the U.K. as well as on various mobile telephone platforms. 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. In the fourth quarter of 2007 and the first quarter of 2008, HBO acquired additional interests in HBO Asia and HBO South Asia, and in the fourth quarter of 2008, HBO acquired an additional interest in the HBO Latin America Group.

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 *Gossip Girl*, *90210*, *One Tree Hill*, *America s Next Top Model, 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, 2008, The CW was carried nationally by affiliated television stations covering 94% of U.S. television households. Among the affiliates of The CW are 13 stations owned by Tribune Broadcasting and nine CBS-owned stations.

Competition

The Networks compete with other television programming services for marketing and distribution by cable, satellite and other distribution systems. The Networks also compete 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. The Turner Networks and Turner s websites compete for advertising with numerous direct competitors and other media.

The Networks production divisions 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.

Publishing

As of December 31, 2008, Time Inc. published 23 magazines in the U.S., including *People, Sports Illustrated, Time, InStyle, Real Simple, Southern Living* and *Fortune,* and over 90 magazines outside the U.S., primarily through IPC Media (IPC) in the U.K. and Grupo Editorial Expansión (GEE) in Mexico. In addition, Time Inc. operates almost 50 websites worldwide, such as *CNNMoney.com*, *People.com* and *SI.com,* that collectively had average monthly unique visitors of over 29 million worldwide in 2008, according to Nielsen Media Research in the U.S. and comScore Media Metrix in the U.K.

In recent years, Time Inc. has expanded its business primarily through developing and acquiring websites. In addition, Time Inc. has increased its licensed international editions and product extensions, including books and television programs.

In the fourth quarter of 2008, Time Inc. reorganized its U.S. magazines and companion websites into three business units, each under a single management team: (1) Style and Entertainment, (2) News and (3) Lifestyle. This new structure is expected to allow Time Inc. to reduce its costs while bringing together under centralized management products that have a common appeal in the marketplace. In addition, magazine consumer marketing and production and distribution activities are generally centralized, and subscription fulfillment activities for Time Inc. s U.S. magazines are primarily administered from a centralized facility in Tampa, Florida.

Style and Entertainment

People is a weekly magazine that reports on celebrities and other newsworthy individuals. *People* magazine generated approximately 18% of Time Inc. s revenues in 2008. The *People* franchise also includes: *People en Espaňol,* 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 *PeopleEnEspaňol.com*, a bilingual website aimed primarily at the U.S. Hispanic audience.

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. through IPC and in Mexico through GEE.

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.

Essence Communications Inc. (ECI) publishes *Essence*, a leading lifestyle magazine for African-American women in the U.S., and *Essence*.com, a related website, and also produces the annual Essence Music Festival. In 2008, ECI partnered with Warner Bros. to re-launch *Essence.com* and expand the brand s content online and into television.

News

Sports Illustrated is a weekly magazine that covers sports. *Sports Illustrated for Kids* is a monthly sports magazine intended primarily for pre-teenagers. *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 and college and high school sports. *SI.com* operates *FanNation.com*, a social-media, community site for sports fans and fantasy sports enthusiasts. Time Inc. also publishes the sports magazine *Golf*, a leading monthly golf magazine, and *Golf.com*, a related website, which feature user-friendly content designed to help readers play their best golf and maximize their golfing experience.

Time is a weekly newsmagazine that summarizes the news and interprets the week s events, both national and international. *Time* also has three 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.

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. Time Inc. also publishes the business and financial magazines

Money, a monthly magazine that reports primarily on personal finance, and *FSB: Fortune Small Business*, a monthly magazine covering small business that is published under an agreement with the 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 operated in partnership with CNN.

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Lifestyle

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. After airing a television series for two seasons on PBS, *Real Simple* began airing a weekly television series on TLC in October 2008.

Southern Progress Corporation (SPC) publishes four monthly magazines, the regional lifestyle magazine *Southern Living,* the epicurean magazine *Cooking Light* and the shelter magazines *Coastal Living* and *Southern Accents.* In addition to *MyRecipes*.com, a recipes website launched in 2007, in 2008 SPC launched *MyHomeIdeas.com*, which features shelter content from SPC and other Time Inc. brands.

Sunset, a monthly magazine, and *Sunset.com*, a related website, focus on western lifestyle in the U.S.

Health, a monthly magazine for women, focuses on information about health and wellness. Its related website, *Health.com*, was relaunched in 2008.

All You is a monthly lifestyle and service magazine for value conscious women.

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.*

Other Publishing Operations

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* and their related websites.

International

IPC, a leading U.K. consumer magazine publisher, publishes approximately 75 magazines as well as numerous special issues. 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 *Homes & Gardens* in the home and garden sector, *Horse & Hound* and *Country Life* 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 2008, IPC launched ShopStyle, a shopping portal on *instyle.co.uk*, and video channels on *nme.com, nuts.co.uk, trustedreviews.com* and *golfmonthly.co.uk* and also acquired *Mousebreaker.com,* a leading U.K. free-to-play game site.

GEE, a leading Mexican consumer magazine publisher, publishes 13 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; *InStyle Mexico*, a fashion and lifestyle magazine for women; 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., and in 2008 GEE launched *Travel & Leisure Mexico* pursuant to a license agreement with the American Express Publishing Corporation. GEE also operates *CNNExpansíon.com*, a leading business website in Mexico, and *MetrosCúbicos.com*, a leading website for classified real estate listings in Mexico. In 2008, GEE acquired a majority interest in *MedioTiempo.com*, a leading sports website in Mexico.

Time Inc. licenses over 50 editions of its magazines for publication outside the U.S. to publishers in over 20 countries.

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 food, toiletries and cosmetics, drugs, automobiles, financial services and insurance, apparel, computers and telecommunications, retail and department stores, travel and media and movies.

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In 2008, Time Inc. s U.S. magazines accounted for 18.5% (compared to 18.6% in 2007) 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 5, respectively, in terms of PIB-measured advertising revenues in 2008, and Time Inc. had six 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.

In August 2008, Time Inc. purchased the U.S.-based school and youth group fundraising company QSP, Inc. and its Canadian affiliate, Quality Service Programs Inc. (collectively, QSP). QSP offers fundraising programs that help schools and youth groups raise money through the sale of magazine subscriptions to Time Inc. magazines and magazines of other publishers, among other products.

In September 2008, Time Inc. launched Maghound, an online-based magazine membership service that allows members to select their favorite magazines from a broad range of titles from multiple publishers for one set monthly fee, with the ability to switch titles at any time.

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. A small number of wholesalers are responsible for a substantial portion of Time Inc. s newstand sales of magazines. IPC s Marketforce (UK) Ltd distributes and markets copies of all IPC magazines, some international editions of Time Inc. s U.S. magazines and certain other publishers magazines outside of the U.S. through third-party wholesalers to retail outlets.

Paper and Printing

Paper constitutes a significant component of physical costs in the production of magazines. During 2008, Time Inc. purchased over 375,000 tons of paper principally from three 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.

In addition to magazine fundraising programs, QSP offers fundraising programs that help schools and youth groups to raise money through the sale of chocolate, cookie dough and other products.

Southern Living At Home, the direct selling division of SPC, specializes in home décor products that are sold in the U.S. through approximately 25,000 independent consultants at parties hosted in people s homes. In January 2009, Time Inc. announced its intention to put Southern Living At Home up for sale.

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

Postal Rates

Postal costs represent a significant operating expense for the Company s magazine publishing and direct-marketing activities. In 2008, Time Inc. spent over $250 million for services provided by the U.S. Postal Service. The U.S. Postal Service implemented an approximately 3% postal rate increase effective May 12, 2008 for all classes of mail and will implement an additional increase in May 2009 which is expected to increase Time Inc. s postal rate by approximately 5%. 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. It is possible that additional competitors may enter the website publishing business.

Competition for magazine and website advertising revenues is primarily based on advertising rates, the nature and size of the 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, and competition for advertising has intensified even further due to the difficult current economic conditions.

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 transactions related to TWC s 2006 acquisition of cable systems from Adelphia Communications Corporation (Adelphia) and Comcast (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 the United States Congress (Congress) and various federal agencies have in the past materially affected, and may in the future materially affect, the Company.

Cable System 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 signals and cable programming, 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.

Video Services

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 has been no finding by the FCC of 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 tier or BST, which generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, a few specialty networks and public access, educational and government channels. This 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 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, commonly called must carry, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. Broadcasters recently made their elections for the current carriage cycle, which began on January 1, 2009.

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 that elect must carry 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.

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 rules that will require cable operators that offer at least some analog service (i.e., operators that are not operating all-digital systems) to provide subscribers down-converted analog versions of must-carry broadcast stations digital signals. In addition, must-carry stations broadcasting in HD format must be carried in HD on cable systems with greater than 552 MHz capacity; standard-definition signals may be carried only in analog format. Those rules will become effective after the broadcast television transition from analog to digital service for full power television stations, and are currently scheduled to terminate after three years, subject to FCC review. Congress recently extended the digital transition deadline from February 17, 2009 to June 12, 2009.

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. These rules are the subject of an ongoing FCC proceeding, and recent revisions to such rules are stayed pursuant to an appeal in the U.S. Court of Appeals for the Sixth Circuit. The FCC also has an open proceeding to examine its substantive and procedural rules for program carriage. The Company is unable to predict whether any such proceedings will lead to any material changes in existing regulations.

In November 2007, as part of the FCC s collection of information for its Video Competition Report, the FCC 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 in order to determine whether the FCC s so-called 70/70 test has been met. If the FCC were to determine 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, it may have the authority to promulgate certain additional regulations covering cable operators.

Ownership Limitations. There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities, including local telephone companies and multichannel multipoint distribution service facilities. The Communications Act also requires 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 December 2007, the FCC adopted an order establishing a 30% limit on the percentage of nationwide multichannel video subscribers that any single cable provider can serve. This rule is now under appellate review. The Communications Act also requires 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. The matter remains pending before the FCC. It is uncertain when the FCC will rule on this issue or how any regulations it adopts might affect the Company.

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 permits the FCC to regulate the rates, terms and conditions imposed by these utilities for cable systems use of utility poles and conduit space. States are permitted to preempt FCC jurisdiction over pole attachments through certifying that they regulate the terms of attachments themselves. Many states in which TWC operates have done so. Most of these certifying states have generally followed the FCC s pole attachment rate standards and guidelines. The FCC or a certifying state could increase pole attachment rates paid by cable operators. In addition, the FCC has adopted a higher pole attachment rate applicable to pole attachments made by companies providing telecommunications services. The applicability of, and method for calculating, pole attachment rates for cable operators that provide digital voice services remains unclear. In November 2007, the FCC issued a Notice of Proposed Rulemaking that proposes to establish a new unified pole attachment rate that would apply to attachments made by a cable operator that are used to provide high-speed Internet services and, potentially, digital voice services as well. The proposed rate would be higher than the current rate paid by cable service providers. If adopted, this proposal could materially increase TWC s current payments for pole attachments.

Set-Top Box Regulation. Certain regulatory requirements are also applicable to set-top boxes and other equipment that can be used to receive digital video services. 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 requiring the FCC to pass rules fostering the availability of set-top boxes. An implementing regulation, which became effective on July 1, 2007, requires cable operators to cease placing into service new set-top boxes that have integrated security. Direct broadcast operators are not subject to this requirement.

Switched Digital Video. The deployment of 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. The Enforcement Bureau of the FCC has issued preliminary decisions and forfeiture orders finding that TWC s notice of its deployment of SDV technology violates FCC rules. These staff-level decisions do not constitute final agency action on the substantive legal issues, and are the subject of a pending appeal. However, if these decisions are upheld, they could impose significant costs upon TWC and/or impede its ability to make additional capacity available for new services through the use of SDV. TWC intends to seek further review by the FCC and, if necessary, the courts.

Multiple Dwelling Units and Inside Wiring. 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 to expand the scope of the rules to prohibit exclusive marketing and bulk billing agreements. The order has been appealed by the National Cable and Telecommunications Association (the NCTA), the cable industry s principal trade organization. The FCC also has adopted rules facilitating competitors access to the cable wiring inside MDUs. This order, which also has been appealed by the NCTA, could have an adverse impact on TWC s business because it would allow competitors to use wiring inside MDUs that the cable industry has already deployed.

Copyright Regulation. 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, in exchange for filing reports with the U.S. Copyright Office and contributing a percentage of revenue to a federal copyright royalty pool, cable operators obtain rights to retransmit copyrighted material contained in broadcast signals pursuant to a compulsory license. The elimination or substantial modification of this compulsory copyright license has been the subject of ongoing legislative and administrative review, and, if eliminated or modified, could adversely affect TWC s ability to obtain suitable programming and could substantially increase TWC s programming costs. Additionally, the U.S. Copyright Office has released a ruling on issues relating to the calculation of compulsory license fees that could increase the amount cable operators are required to pay into the copyright royalty pool. Further, the U.S. Copyright Office has not yet made any determinations as to how the compulsory license will apply to digital broadcast signals and services.

Program Access and 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 the FCC s program carriage 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 allowed the arbitration of a claim brought by the Mid-Atlantic Sports Network because the claim was brought prior to the suspension. In that case, in October 2008, the FCC s Media Bureau upheld the arbitrator s ruling in favor of the Mid-Atlantic Sports Network, and TWC has petitioned for review by the full FCC. In addition, Herring Broadcasting, Inc., which does business as WealthTV, filed a program carriage complaint against TWC and other cable operators alleging discrimination against WealthTV s programming in favor of similarly situated video programming vendors in violation of the FCC s rules. These proceedings remain pending.

Other Federal Regulatory Requirements. The Communications Act also includes provisions regulating customer service, 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. The FCC also actively regulates other aspects of TWC s video services, including the mandatory blackout of syndicated, network and sports programming; customer service standards; political advertising; indecent or obscene programming; Emergency Alert System requirements for analog and digital services; closed captioning requirements for the hearing impaired; commercial restrictions on children s programming; equal employment opportunity; recordkeeping and public file access requirements; and technical rules relating to operation of the cable network.

Franchising. Cable operators generally 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 June 2008, the U.S. Court of Appeals for the Sixth Circuit upheld regulations adopted by the FCC in December 2006 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). 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.

At the state level, several states, including California, Kansas, New Jersey, North Carolina, Ohio, South Carolina, Texas and Wisconsin 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. 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.

High-Speed Data Internet Access Services

TWC provides high-speed data services over its existing cable facilities. In 2002, the FCC released an order in which it determined that cable-provided high-speed Internet access service is an interstate information service rather than a cable service or a telecommunications service, as those terms are defined in the Communications Act. That determination was sustained by the U.S. Supreme Court. The information service classification means that the service is not subject to regulation as a cable service or as a telecommunications service under federal, state, or local law. Nonetheless, TWC s high-speed data service is subject to a number of regulatory requirements, including compliance with the Communications Assistance for Law Enforcement Act (CALEA) requirement that high-speed data service providers implement certain network capabilities to assist law enforcement agencies in conducting surveillance of criminal suspects.

Net Neutrality Legislative and Regulatory Proposals. In previous Congressional sessions, legislation has been introduced proposing net neutrality requirements. These legislative proposals would have limited to a greater or lesser extent the ability of broadband providers to adopt pricing models and network management policies.

In September 2005, the FCC issued its Net Neutrality Policy Statement, which at the time the agency characterized as a non-binding policy statement. The principles contained in the Net Neutrality Policy Statement set forth the FCC s view that consumers are entitled to access and use lawful Internet content and applications of their choice, to connect to lawful devices of their choosing that do not harm the broadband provider s network and to competition among network, application, service and content providers. The Net Neutrality Policy Statement notes that these principles are subject to reasonable network management. Subsequently, the FCC made these principles binding as to certain telecommunications companies for specified periods of time pursuant to voluntary commitments in orders adopted in connection with mergers undertaken by those companies.

Several parties have sought to persuade the FCC to adopt net neutrality-type regulations in a number of proceedings before the agency; however, none of these proceedings has resulted in the adoption of formal regulations. Despite this, a formal complaint was filed against Comcast alleging that its use of reset packets to manage peer-to-peer file-sharing traffic constituted an unreasonable network management practice. In August 2008, the FCC released a decision finding in favor of the complainant relying in part on the FCC s Net Neutrality Policy Statement. That decision is under appeal. Net neutrality legislation or regulation could limit TWC s ability to operate its high-speed data business profitably and manage its broadband facilities efficiently to respond to growing bandwidth usage by TWC s high-speed data customers.

Voice Services

TWC currently offers residential Digital Phone and Business Class Phone voice services using interconnected Voice over Internet Protocol (VoIP) technology. Traditional providers of circuit-switched telephone services generally are subject to significant regulation. It is unclear whether and to what extent regulators will subject interconnected VoIP services such as TWC s residential Digital Phone and Business Class Phone services to the same regulations that apply to these traditional services 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, extended a number of traditional telephone carrier regulations to interconnected VoIP providers, including requiring interconnected VoIP providers to provide E911 capabilities as a standard feature to their subscribers; to comply with the requirements of CALEA to assist law enforcement investigations in providing, after a lawful request, call content and call identification information; to contribute to the federal universal service fund; to pay regulatory fees; to comply with subscriber privacy rules; to provide access to their services to persons with disabilities; and to comply with local number portability (LNP) rules when subscribers change telephone providers. With respect to LNP requirements, the FCC clarified that local exchange carriers and commercial mobile radio service providers have an obligation to port numbers to interconnected VoIP providers.

Certain other issues related to interconnected VoIP services also remain unclear. In particular, in November 2004, the FCC determined that regardless of their regulatory classification, certain interconnected VoIP services qualify as interstate services with respect to economic regulation. The FCC preempted state regulations that address such issues as entry certification, tariffing and E911 requirements, as applied to certain interconnected VoIP services. On March 21, 2007, the U.S. Court of Appeals for the Eighth Circuit affirmed the FCC s November 2004 order with respect to these VoIP services, particularly those having portable or nomadic capability. The jurisdictional classification of other types of interconnected VoIP services, particularly fixed services such as that provided by TWC, remains uncertain. The Wisconsin and Missouri public utility commissions, for instance, have ruled that TWC s Digital Phone service is subject to traditional, circuit-switched telephone regulation, while other state commissions have opened investigations into how such VoIP services should be treated in their respective states.

The FCC and various states are also considering how interconnected VoIP services should interconnect with incumbent phone company networks. Because the FCC has yet to classify interconnected VoIP service, the precise scope of interconnection rules as applied to interconnected VoIP service is not clear. As a result, some small incumbent telephone companies may resist interconnecting directly with TWC. Finally, the FCC is considering comprehensive intercarrier compensation reform including the appropriate compensation regime applicable to interconnected VoIP traffic over the public switched telephone network. It is unclear whether and when the FCC or Congress will adopt further rules relating to VoIP interconnection and how such rules would affect TWC s interconnected VoIP service.

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. Upon completion of the Separation, the Turner Networks and the Home Box Office Services will no longer be vertically integrated cable programmers and, as a result, these regulatory obligations will cease to apply.

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. This matter remains pending before the FCC.

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In June 2008, the FCC initiated an inquiry and rulemaking to examine the use of product placement and integration in television programming. In this proceeding, the FCC sought comment on whether to enhance its existing sponsorship identification rules applicable to broadcast programming, and whether to extend such rules to cable programming. The proceeding also sought comment on whether to expressly prohibit the use of paid product placement or integration in children s television programming. It is unclear what, if any, action the FCC will take in this matter.

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) and the FTC Mail or Telephone Order Merchandise Rule. Other statutes and rules also regulate conduct in areas such as privacy, data security, product safety 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 December 2007, the FTC advised AOL that it had closed its Consent Decree compliance investigation. In 2007, AOL entered into Assurances of Voluntary Compliance (AVC) with the State of Florida and a multi-state group 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.

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

Background

TWC was created in connection with the March 31, 2003 restructuring of TWE (the TWE Restructuring), 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 respective acquisitions by TW NY and Comcast of assets comprising in the aggregate substantially all of the cable assets of Adelphia (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 under the symbol TWC.

Time Warner currently 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 currently owns an indirect 12.43% non-voting equity interest in TW NY.

On May 20, 2008, Time Warner, WCI, ATC and Historic TW entered into the Separation Agreement with TWC, TWE and TW NY, the terms of which will govern TWC s legal and structural separation from Time Warner. As part of the Separation transactions, Time Warner will transfer its indirect 12.43% interest in TW NY to TWC in exchange for newly issued shares of TWC Class A Common Stock, each outstanding share of TWC Class A Common Stock and TWC Class B Common Stock will be converted into one share of TWC Common Stock (as discussed below) and Time Warner will distribute all of the issued and outstanding shares of TWC Common Stock then held by Time Warner to its stockholders through the Distribution. Time Warner has elected to effect the Distribution in the form of a spin-off. Upon consummation of the Separation transactions, Time Warner s stockholders and/or former stockholders will hold approximately 85.2% of the issued and outstanding TWC common stock, and TWC s stockholders other than Time Warner will hold approximately 14.8% of the issued and outstanding TWC common stock. Time Warner and TWC expect the Separation to be consummated in the first quarter of 2009. See Management s Discussion and Analysis of Results of Operations and Financial Condition Recent Developments for additional information regarding the Separation.

Concurrently with the execution of the Separation Agreement, Time Warner and TWC entered into amendments to the shareholder agreement between Time Warner and TWC dated as of April 20, 2005 and the registration rights agreement between Time Warner and TWC dated as of March 31, 2003. In addition, prior to the Distribution, TWC will adopt a Second Amended and Restated Certificate of Incorporation (the TWC Second Amended and Restated Certificate of Incorporation) and amend and restate its by-laws. Summaries of certain provisions of each of these documents are set forth below.

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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.

Common Stock 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. TWC s existing amended and restated certificate of incorporation (the TWC Certificate of Incorporation) 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. In connection with the Separation, prior to the Distribution, TWC will file the Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware. Effective upon the filing, each outstanding share of TWC Class A Common Stock and TWC Class B Common Stock will be automatically converted into one fully paid and non-assessable share of TWC Common Stock, par value $0.01 per share (the TWC Common Stock). Holders of TWC Common Stock will have identical rights and one vote per share on all matters submitted to a vote of stockholders.

Board of Directors of TWC. Under the terms of the TWC Certificate of Incorporation and TWC s existing by-laws (the TWC By-laws), 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). 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 TWC Second Amended and Restated Certificate of Incorporation, TWC will have a single class of directors and a single class of common stock and holders of TWC Common Stock will vote as one class for the election of all of the members of TWC s board of directors.

Under the terms of the TWC Certificate of Incorporation, until August 1, 2009, at least 50% of the board of directors of TWC must be independent directors as defined under the NYSE listed company rules. This provision will be retained in the TWC Second Amended and Restated Certificate of Incorporation.

Protections of Minority Class A Common Stockholders. Under the terms of the TWC Certificate of Incorporation, 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 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.

The TWC Second Amended and Restated Certificate of Incorporation will include provisions regarding required approvals that are substantially similar to those described above, except that, while 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 currently required in certain circumstances, pursuant to the TWC Second Amended and Restated Certificate of Incorporation, the approval of the holders of a majority of the voting power of the outstanding shares of TWC Common Stock held by persons other than Time Warner will be required.

Matters Affecting the Relationship between Time Warner and TWC

Shareholder Agreement

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. In the Separation Agreement, Time Warner agreed that the calculation of indebtedness under the Shareholder Agreement would exclude (i) any indebtedness incurred pursuant to the credit agreement TWC entered into with certain financial institutions on June 30, 2008 to fund, in part, the Special Dividend and (ii) any indebtedness that reduces, on a dollar-for-dollar basis, the commitments of the lenders under that credit agreement.

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, 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, 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.

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 (i) 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 (ii) 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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Concurrently with the execution of the Separation Agreement, Time Warner and TWC entered into Amendment No. 1 to the Shareholder Agreement. Under this amendment, all of Time Warner s and TWC s rights and obligations under the Shareholder Agreement will terminate upon the completion of the Separation.

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.

The provisions described above will not be included in TWC s amended and restated By-Laws that will become effective in connection with the Separation.

Registration Rights Agreement

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 of 1933, as amended, 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.

Concurrently with the execution of the Separation Agreement, Time Warner and TWC entered into Amendment No. 1 to the Registration Rights Agreement, which provides Time Warner with the right to require TWC to file any registration statement necessary to consummate the Separation. In addition, under this amendment, all of Time Warner s and TWC s rights and obligations under the Registration Rights Agreement will terminate upon the consummation of the Distribution.

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, 2008 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 product, at December 31, 2008 and

December 31, 2007, is set forth in Note 15 to the Company s consolidated financial statements, Commitments and Contingencies Commitments Programming Licensing Backlog.

Item 1A. *Risk Factors.*

RISKS RELATING TO TIME WARNER GENERALLY

Weakening economic conditions or other factors could continue to reduce the Company s advertising or other revenues or hinder its ability to maintain or increase such revenues. Expenditures by advertisers tend to be cyclical, reflecting general economic conditions, such as recessions, as well as budgeting and buying patterns. The global economy is currently undergoing a period of slowdown and unprecedented volatility, which some observers view as a recession, and the future economic environment may continue to be less favorable than that of recent years. This slowdown could lead to further reduced advertising expenditures in the foreseeable future. Because several of the Company s segments derive a substantial portion of their revenues from the sale of advertising, declines and delays in advertising expenditures could continue to reduce the Company s revenues and hinder its ability to maintain or increase these revenues. Advertising expenditures also could be negatively affected by other factors, such as shifting societal norms, pressure from public interest groups, changes in laws and regulations and other social, political, technological 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, pharmaceutical, retail, telecommunications and food and beverage 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 or other sectors could further adversely affect the Company s advertising revenues or its ability to maintain or increase such revenues.

Economic slowdowns may have, and in the case of the current economic slowdown, have had, additional consequences that impact the Company s business and results of operations. Because many of the products and services offered by the Company are largely discretionary items, further weakening economic conditions or outlook could lead to declines in sales of such products and services. In addition, declines in consumer spending may indirectly impact the Company s revenues by adversely affecting the sales of products that are required to use the Company s products, such as high definition televisions and high definition DVD players, or by putting downward pricing pressure on advertising because advertisers may not perceive as much value in advertising if consumers are purchasing fewer of their products or services. Accordingly, declines in consumer spending could have additional negative effects on the Company s revenues or the Company s ability to increase revenues. In addition, if growth in the number of homes occupied continues to decline, it could negatively impact TWC s ability to attract new or retain existing basic video subscribers and generate increased subscription revenues. The Company also faces risks associated with the impact of economic downturns on third parties, such as suppliers, retailers, film co-financing partners and other parties with which it does business. If these parties file for protection under bankruptcy laws or otherwise experience negative effects on their businesses due to the economic slowdown or other reasons related to economic conditions, it could negatively affect the Company s business or operating results.

Time Warner is exposed to risks associated with turmoil in the financial markets. U.S. and global credit and equity markets have recently undergone significant disruption, making it difficult for many businesses to obtain financing on acceptable terms. In addition, equity markets are continuing to experience wide fluctuations in value. If these conditions continue or worsen, the Company s cost of borrowing may increase, and it may be more difficult to obtain financing in the future. In addition, an increasing number of financial institutions and insurance companies have reported significant deterioration in their financial condition. If any of the significant lenders, insurance companies or other financial institutions are unable to perform their obligations under the Company s credit agreements, insurance policies or other contracts, and the Company is unable to find suitable replacements on acceptable terms, the

Company s results of operations, liquidity and cash flows could be adversely affected. The Company also faces challenges relating to the impact of the disruption in the global financial markets on other parties with which the Company does business, such as vendors, retailers and film co-financing partners. The inability of these parties to obtain financing on acceptable terms could impair their ability to perform under their agreements with the Company and lead to various negative effects on the Company, including business disruption, decreased revenues, increases in bad debt write-offs and, in the case of film co-financing partners, greater risk with respect to the performance of the Company s films. A sustained decline in the financial stability of these parties could have an adverse impact on Time Warner s business and results of operations.

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:

- economic volatility and the global economic slowdown;
- currency exchange rate fluctuations;
- the requirements of 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;
- potentially adverse tax developments;
- longer payment cycles;
- political or social unrest;
- seasonal volatility in business activity;
- risks related to government regulation;
- the existence in some countries of statutory shareholder minority rights and restrictions on foreign direct ownership;
- the presence of corruption in certain countries; and
- higher than anticipated costs 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. 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 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 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.

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.

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.

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, and this competition may intensify further during economic downturns. 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.

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, DVDs and interactive videogames 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. Policing the unauthorized use of the Company s intellectual property is difficult, and the steps taken by the Company to combat piracy will not prevent the infringement by and/or piracy of unauthorized third parties in every case. There can 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, 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.

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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 or service disruptions 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 information technology systems and networks of the Company and third party vendors, 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 privacy, online gaming, consumer protection, data retention and data protection, content regulation, defamation, age verification, the use of cookies (such as software that allows for audience targeting and tracking of performance metrics), pricing, advertising to both children and adults, taxation, sweepstakes, promotions, billing and real estate. The application of such 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 Privacy Protection Act*,* which restricts the ability of online services to collect user information from minors. There have been additional federal and state legislative proposals for online child protection, including with respect to the ability of minors to access social networking services. 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 and the Communications Decency 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

AOL s business model involves significant risks. AOL has transitioned from a business that has primarily focused on generating subscription revenues to one that is more focused on attracting and engaging Internet consumers. During the shift in its business model and on a continuing basis, AOL s subscription revenues have been declining, and these declines in subscription revenues have not been offset by increases in advertising revenues. Subscription revenues will remain an important source of operating income before depreciation and amortization (or OIBDA) for AOL in 2009, and if subscribers to AOL s Internet access service decline at a rate faster than anticipated, AOL s ability to generate OIBDA in 2009 may be adversely affected.

Following the transition, AOL has become more dependent on advertising revenues to maintain or improve its financial performance. Cost reductions need to be made in order to better align AOL s costs with an advertising-supported business model, to maintain or improve its financial performance and to adjust to weakening economic conditions. However, identifying and implementing cost reductions is becoming increasingly difficult to do in an operationally effective manner and is leading to employee distraction and a decline in morale, as well as difficulty in hiring and retaining necessary employees. In addition, AOL is now more prone to the risks associated with operating an advertising business. Advertising revenues are more unpredictable and variable than subscription revenues and are more likely to be adversely affected during economic downturns. AOL s advertising business has benefited from 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 affected. See Risks Relating to Time Warner Generally Weakening economic conditions or other factors could continue to reduce the Company s advertising or other revenues or hinder its ability to maintain or increase such revenues, as well as the risks relating to AOL s advertising business described below.

Demand and pricing for, and volume sold of, online advertising may face downward pressure. During 2008, AOL experienced lower demand from a number of advertiser categories (e.g., the retail, financial services, and automotive industries), a higher proportion of sales made through lower-priced sales channels, and pricing declines in certain inventory segments. In order for advertising revenues to be maintained or increased in 2009 over 2008, AOL believes that it will be important to increase the overall volume of advertising sold, including sales of advertising through its higher-priced channels and to maintain or increase pricing for advertising. If overall demand continues to decline, if sales continue to trend towards lower-priced sales channels or if overall pricing declines occur, AOL s advertising revenues, operating margins and its ability to generate OIBDA could be adversely affected.

Uncertainty about a possible sale or other disposition of AOL is having an adverse impact on AOL s workforce that could negatively affect AOL s business. In 2008, the Company began a strategic review of its ownership of AOL. The uncertainty regarding AOL s ownership status has had an adverse impact on employee morale and AOL s ability to attract and retain employees and thus may adversely impact AOL s ability to implement its business strategy, as well as its advertising relationships and its ability to operate effectively or efficiently.

AOL s lack of a proprietary search service may have an adverse impact on AOL s advertising revenues. Unlike its key competitors for search advertising revenues, AOL does not own or control a search service and instead relies on Google to provide search services. As a result, AOL is not able to package and sell search advertising along with display advertising services outside the AOL Network and certain Time Warner digital properties. As search advertising represents a significant portion of online advertising spending, AOL believes that its lack of a proprietary search service may have an adverse impact on its ability to generate and increase advertising revenues.

AOL faces risks associated with its dependence upon Google for search services. Google is the exclusive unpaid and paid web search provider for substantially all of the AOL Network and AOL s products. In 2008, search advertising revenues comprised approximately one-third of AOL s total advertising revenues and was the only category of AOL s advertising revenues that grew year-over-year. Changes that Google has made and may unilaterally make in the future to its paid search service or advertising network, including changes in pricing, algorithms or advertising relationships, could have a significant negative impact on AOL s advertising revenues. Furthermore, AOL has agreed to use Google s algorithmic search and sponsored links on an exclusive basis through December 19, 2010. Upon expiration of this agreement, there can be no assurance that if the agreement is renewed, AOL would receive the same or a higher revenue share as it does under the current agreement, nor can there be any assurance that if AOL enters into an arrangement with an alternative search provider, the terms would be as favorable as those under the current Google agreement.

AOL faces intense competition in all aspects of its business. The Internet is dynamic and rapidly evolving, and new and popular competitors, such as social networking sites, frequently emerge. Although AOL acquired Bebo, Inc. in 2008, Bebo faces strong competition from bigger and more established social networking sites. Competition among companies offering advertising products, technology and services and aggregators of third-party advertising inventory, advertising products, technology and services is intense and may contribute to continuing decreases in prices for certain advertising inventory that would negatively affect AOL s Platform-A business unit. 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. The competition faced by AOL s Access Services business, especially from broadband access providers, could cause the number of AOL subscribers to decline at a faster rate than experienced in the past. 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.

Following the sales of AOL s Access Services businesses in Europe, AOL depends on third parties for advertising revenues in Europe, and actions taken by such third parties could adversely impact AOL s advertising revenues. AOL has sold to third parties its access businesses, including its subscriber relationships, in the U.K., France and Germany. AOL depends on the current owners of these businesses and its relationships with its former subscribers to generate advertising revenues in these countries. AOL provides to the owners of its former access businesses varying levels of programming and advertising services and receives a portion of advertising revenues generated from certain activities. If one or more of these agreements is terminated by these third party or these parties take actions that impact AOL s relationships with its former subscribers, AOL s advertising revenues could be adversely affected.

Changes to third-party software made by the third-party providers or by consumers could have an adverse impact on AOL s advertising business. AOL s advertising business is dependent upon third-party software, such as browsers, in order for advertising to be delivered, rendered, measured and reported, and changes made by the third parties or consumers to functionality, features or settings within this software could have an adverse impact on AOL s advertising business. Also, other third party software may be used to block advertisements or delete cookies, and the widespread adoption and use of such software may have an adverse impact on AOL s advertising business.

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. AOL has continued to acquire other companies, products and technologies and to purchase or develop content, applications, features and tools designed to attract and engage Internet consumers to address this fragmentation. However, there can be no assurance that these efforts will result in an increased number of consumers or increased engagement by Internet consumers on the AOL Network. 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 unit but could adversely impact the advertising revenue generated on the AOL Network.

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. Even if AOL successfully develops and offers compelling and differentiated content, products and services, AOL s advertising revenues may not increase.

Continued growth in AOL s advertising business also depends on the ability of the Platform-A business unit 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 unit 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 effectively distribute its content, products and services, AOL may not be able to attract new Internet consumers or maintain or increase the engagement of Internet consumers and may not be able to increase advertising revenues. Distribution of AOL s content, 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 content, products and services via traditional methods may become less effective, and new distribution strategies may need to be developed. Even if AOL is able to effectively distribute its content, 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. For example, consumers may choose not to access or utilize the AOL content, products or services even if they are made available to them. Accordingly, even if AOL is able to effectively distribute its content, products and services, AOL s advertising revenues may not increase.

Unless AOL increases the number of visitors to the AOL Network and maintains or increases their activity in areas where advertising revenues are generated, and even if it succeeds in doing so, 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. Even if the number of visitors to the AOL Network increases and even if their activity increases in areas where advertising revenues are generated, AOL s advertising revenues may not increase.

More individuals are using devices other than personal and laptop computers to access and use the Internet, and if AOL cannot make its content, 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 content, products and services via these alternative devices, AOL must ensure that its content, 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 content, products and services available on alternative devices, fewer Internet consumers may access and use AOL s content, products and services.

Also, the Platform-A business unit 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.

Acquisitions of other companies could have an adverse impact on AOL s operations and result in unanticipated liabilities. During 2007 and 2008, AOL acquired 14 companies and may make additional acquisitions and strategic investments in the future. If AOL does not effectively integrate the operations and systems of Bebo, Inc. and the Platform-A companies (including Perfiliate Limited (doing business as buy. at), ADTECH, Quigo Technologies LLC and TACODA LLC), 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 adversely impact AOL s advertising revenues. 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 THE TWC SEPARATION AND TIME WARNER S CABLE BUSINESS

The Company may not achieve some or all of the benefits that it expects from the Separation. Time Warner believes that the Separation will result in several benefits to the Company, including increased long-term strategic, financial, operational and regulatory flexibility, a more efficient capital structure, a corporate structure that will better enable management to focus on Time Warner s content and other businesses and further enhancement of the efficacy of equity incentives granted to management of those businesses. Similarly, TWC believes that the Separation will result in several benefits to TWC, including increased long-term strategic, operational and regulatory flexibility and a more efficient capital structure. The Company cannot predict with certainty when these benefits will occur or the extent to which they actually will be achieved, if at all. Furthermore, even if some or all of these benefits are achieved, they may not result in the creation of value for Time Warner and TWC stockholders.

After the Separation, Time Warner s businesses will be less diversified, which may adversely affect its business and operating results. After the Separation is completed, Time Warner will have a different operational and financial profile. Time Warner s current diversification of revenue sources, resulting from TWC s businesses together with the Company s other businesses, tends to moderate operational volatility. The substantial majority of the revenues currently generated by TWC are subscription revenues. Certain of the Company s divisions other than TWC derive a substantial portion of their revenues from the sale of advertising and content. Due to a number of factors, advertising and content revenues are generally more variable and less predictable than subscription revenues. Following the Separation, the Company will have less diversification of revenue sources, and, as a result, Time Warner s results of operations, cash flows, working capital and financing requirements may be subject to increased volatility.

In addition, all of TWC s operations are domestic, while Time Warner s other divisions operate and serve customers worldwide. After the Separation, Time Warner s exposure to the risks related to doing business internationally will increase proportionately. These risks include, among other things, economic volatility, currency exchange rate fluctuations and risks related to government regulation. One or more of these risks could adversely affect the Company s international operations and its overall business and operating results.

TWC has incurred a substantial amount of debt, which may limit its flexibility or prevent it from taking advantage of business opportunities. In connection with the Separation, TWC incurred $7.0 billion of indebtedness pursuant to two public offerings of senior unsecured notes and debentures completed in 2008 to fund, in part, the Special Dividend and is expected to incur additional indebtedness to fund the Special Dividend and expenses related to the Separation Transactions through a combination of borrowings under TWC s bridge facility, additional financing in the public debt markets and/or borrowings under TWC s revolving credit facility. The increased indebtedness and the terms of TWC s financing arrangements and any future indebtedness will impose various restrictions on TWC that could limit its ability to respond to market conditions, provide for its capital investment needs or take advantage of business opportunities. In addition, as a result of TWC s increased borrowings, its interest expense will be higher than it has been in the past, which will affect TWC s profitability and cash flows.

If the TWC Separation Transactions are determined to be taxable for income tax purposes, Time Warner and Time Warner s stockholders that are subject to U.S. federal, state or local income tax could incur significant income tax liabilities. The TWC Separation Transactions are conditioned upon Time Warner s receipt of a private letter ruling from the Internal Revenue Service (the IRS) and opinions of tax counsel confirming that the TWC Separation Transactions should generally qualify as tax-free to Time Warner and its stockholders. The ruling and opinions rely on certain facts, assumptions, representations and undertakings from Time Warner and TWC regarding the past and future conduct of the companies businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, Time Warner and its stockholders may not be able to rely on the ruling or the opinions and could be subject to significant tax liabilities. Notwithstanding the private letter ruling and opinions, the IRS or state or local tax authorities (collectively with the IRS, the Tax Authorities) could determine on audit that the TWC Separation Transactions should be treated as taxable transactions if the Tax Authority determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated, or for other reasons, including as a result of significant changes in the stock ownership of Time Warner or TWC after the Distribution. Under the tax sharing agreement among Time Warner and TWC, TWC generally would be required to indemnify Time Warner against its taxes resulting from the failure of any of the TWC Separation Transactions to qualify as tax-free (Transaction Taxes) as a result of (i) certain actions or failures to act by TWC or (ii) the failure of certain representations to be made by TWC to be true. However, in the event that Transaction Taxes are incurred for any other reason, Time Warner would not be entitled to indemnification. In addition, due to the potential impact of significant stock ownership changes on the taxability of the TWC Separation Transactions, Time Warner and TWC may determine not to enter into transactions that might otherwise be advantageous, such as issuing equity securities to satisfy financing needs or acquiring businesses or assets with equity securities, if such issuances would exceed certain thresholds and such actions could be considered part of a plan or series of related transactions that include the Distribution.

The 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 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 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 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. Any inability to compete effectively or an increase in competition with respect to video, high-speed data or voice 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 services, it may be subject to competition from other providers of those 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, in the economy 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 negatively impact customer demand for TWC s video services and increase TWC s costs. The rising popularity of bandwidth-intensive Internet-based services poses special risks for TWC s video and high-speed data businesses. Examples of such services include peer-to-peer file sharing services, gaming services and the delivery of video via streaming technology and by download. Increasingly, content owners are delivering content directly to consumers over the Internet, often without charging a fee for access to the content. The increasing availability of free content over the Internet could negatively impact customer demand for TWC s video services, especially premium and On-Demand services, and could result in content owners seeking higher license fees from TWC in order to subsidize such free distribution. In addition, 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. Also, 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 and manage bandwidth usage efficiently. TWC s ability to do these things could be restricted by legislative efforts to impose so-called net neutrality requirements on cable operators.

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 has extended some regulation to high-speed data service and is considering additional regulations. TWC is also subject to regulation of its video services relating to rates, equipment, technologies, programming levels and types of services, taxes and other charges. Modification to existing regulations or the imposition of new regulations 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, high-speed data and voice services under the

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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 various areas, including:

Carriage Regulations. The FCC s must carry rules require TWC to carry some local broadcast television signals on some of its cable systems that it might not otherwise carry. If the FCC seeks to revise or expand the must carry rules, such as to require carriage of multicast streams, TWC would be forced to carry video programming that it would not otherwise carry and potentially to drop other, more popular programming in order to free capacity for the required programming, which could make TWC less competitive. The FCC s program carriage rules restrict cable operators and MVPDs from unreasonably restraining the ability of an unaffiliated programming vendor to compete fairly by discriminating against the programming vendor on the basis of its non-affiliation in the selection, terms or conditions for carriage. The FCC has launched a proceeding to examine its substantive and procedural rules for program carriage. TWC is unable to predict whether such proceeding will lead to any material changes in existing regulations. Any change in the existing carriage regulations or successful program carriage complaints could restrict TWC s ability to select programming that is attractive to its subscribers.

Voice Services. 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 interconnected Voice over IP (VoIP) services, including TWC s. In orders over the past several years, the FCC subjected interconnected VoIP service providers to a number of obligations applicable to traditional voice service. To the extent that the FCC (or Congress) imposes additional burdens on such providers, 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 and manage its broadband facilities efficiently 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 effectively manage or operate their broadband networks. Proponents of net neutrality advocate a variety of regulations, including regulations that prohibit broadband providers from recovering the costs of rising bandwidth usage from any parties other than retail customers, require absolute nondiscrimination for any Internet traffic and require forms of open access. 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 and to manage bandwidth usage efficiently. As a result, depending on the form it might take, net neutrality legislation or regulation could adversely impact TWC s ability to operate its high-speed data network profitably and 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.

If TWC is prohibited by regulation from using SDV technology, it may be forced to make costly upgrades to its system in order to remain competitive. As of December 31, 2008, TWC had deployed switched digital video, or SDV, technology to approximately 5.2 million digital video subscribers. SDV technology 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. The FCC may interpret existing regulation or introduce new regulation to restrict cable operators ability to use SDV technology. 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.

Increases in programming or retransmission 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, primarily due to the increasing cost of obtaining desirable programming, particularly broadcast and sports programming. TWC s video service margins have declined in recent years and will continue to decline over the next few years as cable programming and broadcast station retransmission consent cost increases outpace growth in video revenues. Furthermore, providers of desirable content 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 may encounter unforeseen difficulties as it increases the scale of its offerings to commercial customers. TWC has sold video, high-speed data and network and transport 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, the growth of its commercial services business may be limited. 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 retain commercial customers, its growth, financial condition and results of operations may be adversely affected.

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 and changes in consumer behavior to remain competitive and continue to increase their revenue. Technology in the video, telecommunications and data services used in the entertainment industry continues to evolve rapidly, and advances in technology, such as video-on-demand, new video formats and distribution via the Internet and cellular networks, 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 or to stream or download such programming from third parties 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. Also, content owners are increasingly delivering their content directly to consumers over the Internet, often without charge, and consumer electronics innovations have enabled consumers to watch such Internet-delivered content on television sets, which could have a similar negative effect on the segments revenue. In addition, 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. The Networks and Filmed Entertainment segments must continue to adapt their content to changing viewership habits in order to remain competitive. If they cannot adapt to the changing lifestyles and preferences of consumers and capitalize on technological advances with favorable business models, it could have a negative impact on their businesses.

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 that 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 other content distributors could place limitations on the ability of the segments to distribute their content that 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 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 and consumer preferences 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, home video products and interactive videogames, 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. 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, adapt to new technologies and distribution platforms and achieve widespread distribution. 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, television programming and interactive videogames. 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 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, technicians, trade employees and others involved in the development and production of motion pictures and television programs who are covered by collective bargaining agreements. If the segments and their suppliers are unable to renew expiring collective bargaining agreements, it is possible that the affected unions could take actions in the form of strikes, work slowdowns or work stoppages. Such actions would cause delays in the production or the release dates of the segments feature films and television programs, as well as result in higher costs either from such actions or less favorable terms of the applicable agreements on renewal. Even if the affected unions do not take such actions, the inability to renew expiring agreements and the possibility that a strike, work slowdown or work stoppage may occur could cause delays in the production or release dates of films and television programs. As of February 19, 2009, The Screen Actors Guild (SAG), which covers performers in feature films and filmed television programs, and the producers of such content had not reached an agreement on contracts that expired on June 30, 2008. Productions have been delayed to avoid costly shutdowns due to the potential of a SAG strike, and, if an agreement is not reached or SAG goes on strike, it will cause further delays in production and consequently 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 contained in the applicable agreements on renewal. The agreements between the producers and the American Federation of Musicians (the AFM) expire on February 25, 2009, and the status of negotiations with SAG could adversely affect negotiations with the AFM.

The popularity of the Company s television programs, films and interactive videogames and other factors are difficult to predict and could lead to fluctuations in the revenue of the Networks and Filmed Entertainment segments. Television program, film and interactive videogame production and distribution are inherently risky businesses largely because the revenue derived from the production and distribution of a television program, motion picture or videogame, as well as the licensing of rights to the intellectual property associated with a program, film or videogame, depends primarily on its acceptance by the public, which is difficult to predict. The commercial success of a television program, feature film or interactive videogame also depends on the quality and acceptance of other competing programs, films and videogames 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 interactive videogames and licensed consumer products. Therefore, low public acceptance of the television programs, feature films or interactive videogames of the Networks and Filmed Entertainment segments may adversely affect their respective results of operations.

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 weakening economic conditions, the deteriorating financial condition of major retailers, the maturation of the DVD format, increasing competition for consumer discretionary spending and leisure time, piracy and increased competition for retailer shelf space, 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 ended in February 2008 with Toshiba Corporation s announcement of its decision to discontinue its HD DVD businesses; however, reduced consumer discretionary spending in a challenging economic environment, may slow widespread adoption of the Blu-ray format or lead consumers to forego adopting a high definition DVD format altogether, which would adversely affect DVD sales. DVD sales also may be negatively 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 electronic 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 electronic 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. In addition, in the event of a protracted economic downturn, reduced consumer discretionary spending could lead to further declines in DVD sales. A continuing decline in DVD sales could have an adverse impact on the segment s growth prospects and results of operations.

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.

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.

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.

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

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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. 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 target key audience demographics, 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, 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 programming concepts and various 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 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 video service rates have continued to increase, which could cause consumers to cancel their video service subscriptions or reduce the number of services they subscribe to, and the risk of this occurring may be greater during economic slowdowns. 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, there 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 increase the segment s operating costs and negatively 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. Policymakers have also raised concerns about violence in television programming, as well as the potential impact on childhood obesity rates of food and beverage advertising during children s television programming. The Networks segment is unable to predict whether any new or revised regulations will result from these various activities.

In June 2008, the FCC initiated a proceeding to examine the use of product placement and integration in television programming. The FCC has sought comment on whether to enhance its existing sponsorship identification disclosure rules, extend such rules to cable networks and expressly prohibit the use of paid product placement or integration in children s television programming. Extension of the sponsorship identification disclosure rules, particularly enhanced rules, to the Networks segment could impose additional costs on the segment and inhibit its flexibility in using paid product placement or integration in connection with certain types of programming content. The Networks segment is unable to predict whether any new or revised regulations will result from this proceeding.

Policymakers have also 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.

Declining DVD sales poses risks to the Networks segment. The Networks segment generates a portion of its revenues through the sale of its content on DVDs, and a continuing decline in DVD sales could have a negative impact on the segment s growth prospects and results of operations. See 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.

RISKS RELATING TO TIME WARNER S PUBLISHING BUSINESS

Although weakening economic conditions pose 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 print and digital advertising, both of which have been negatively affected by such conditions. See Risks Relating to Time Warner Generally Weakening economic conditions or other factors could continue to reduce the Company s advertising or other revenues or hinder its ability to increase such revenues. Poor economic conditions have had a negative impact on print advertising spending, and this spending may not rebound when economic conditions improve or it may take several years for such a rebound to occur. The industry-wide slowdown in digital display advertising expenditures could continue to adversely affect the segment s ability to increase digital advertising revenues. In addition, weakening economic conditions could reduce consumer expenditures, which could adversely affect the Publishing segment s subscription revenues.

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The Publishing segment could face increased costs and business disruption resulting from instability in the wholesaler distribution channel. The Publishing segment operates a national distribution business that relies on wholesalers to distribute its magazines to newsstands and other retail outlets. A small number of wholesalers are responsible for a substantial percentage of the wholesale magazine distribution business in the U.S. Recently, there has been significantly increased instability in the wholesaler channel that has led to one major wholesaler leaving the business and to certain disruptions to magazine distribution. There is the possibility of further consolidation among these major wholesalers and insolvency of or non-payment by one or more of these wholesalers, especially in light of the economic climate and its impact on retailers. Distribution channel disruptions can temporarily impede the Publishing segment s ability to distribute magazines to the retail marketplace, which could, among other things, negatively affect the ability of certain magazines to meet the rate base established with advertisers. Continued disruption in the wholesaler channel, an increase in wholesaler costs or the failure of wholesalers to pay amounts due could adversely affect the Publishing segment s operating income or cash flow.

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 faces significant competition for advertising and audience. The Publishing segment faces significant competition from several direct competitors and other media, including the Internet. Additional competitors may enter the website publishing business and further intensify competition, which could have an adverse impact on the segment s revenue. Competition for print advertising expenditures has intensified in recent years as advertising spending has increasingly shifted from traditional to digital media, and this competition has intensified even further due to difficult economic conditions. There can be no assurance that the Publishing segment will be able to compete successfully in the future against existing or potential competitors or that competition will not have an adverse effect on its business or results of operations.

The Publishing segment faces risks relating to various regulatory and legislative matters, including possible changes in Audit Bureau of Circulations rules and possible changes in legislation or 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), and the FTC Mail or Telephone Order Merchandise Rule. Other statutes and rules also regulate conduct in areas such as privacy, data security, product safety and telemarketing. New statutes and regulations are adopted frequently. A number of states have recently proposed Do Not Mail legislation, similar to Federal Do Not Call legislation, which would allow consumers to register their names on a list and not receive direct mail. If such bills are passed, the potential impact on Time Inc. s circulation and other business conducted via direct mail could be significant. 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, 2008 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	Administrative and business offices (AOL)	1,573,000	Owned and occupied by the Company. Approx. 32,400 sq. ft. is leased to an outside tenant.
New York, NY 75 Rockefeller Plaza Rockefeller Center	Sublet to outside tenants by Corporate and AOL	582,400	Leased by the Company. Lease expires in 2014. Approx. 397,000 sq. ft. is sublet to outside tenants by Corporate and approx. 175,200 sq. ft. is sublet to an outside tenant by AOL.
Mt. View, CA Middlefield Rd.	Executive, administrative and business offices (AOL)	406,000	Leased by the Company. Leases expire from 2009 to 2013. Approx. 246,300 sq. ft. is sublet to outside tenants.
Bangalore, India RMZ Ecospace Campus 1A and Campus 1B Outer Ring Road Bellandur	Executive, business and administrative offices (AOL)	303,000	Leased by the Company. Lease expires in 2012.
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. 79,600 sq. ft. is leased to an outside tenant.

Charlotte, NC 7800 and 7910 Crescent Executive Drive	Business offices (TWC)	271,200	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[a]	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.

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Location	Principal Use	Approximate Square Feet Floor Space	Type of Ownership; Expiration Date of Lease
Atlanta, GA One CNN Center	Executive and administrative offices, studios, technical space and retail (Turner)	1,280,000	Owned by the Company. Approx. 48,000 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 (HBO)	673,100	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.[b]
London, England Blue Fin Building 110 Southwark St.	Executive and administrative offices (Time Inc.)	499,000	Owned by the Company. Approx. 118,000 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] Ten acres consist of various parcels adjoining The Warner Bros. Studio, with mixed commercial and office uses.
[b] Approximately 498,000 of the 520,000 square feet is sublet to a tenant that filed for bankruptcy in September 2008.

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

Shareholder Derivative Lawsuits

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. At December 31, 2008, the Company s remaining reserve related to these matters is \$9 million, which approximates an expected award for plaintiffs attorneys fees.

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 São 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.

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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. On March 26, 2008, the court entered an order of summary judgment finding, among other things, that plaintiffs notices of termination were valid and that plaintiffs had thereby recaptured, as of April 16, 1999, their rights to a one-half interest in the Superman story material, as first published, but that the accounting for profits would not include profits attributable to foreign exploitation, republication of pre-termination works and trademark exploitation. On October 6, 2008, the court dismissed plaintiffs Lanham Act and wasting claims with prejudice. In orders issued on October 14, 2008, the court determined that the remaining claims in the case will be subject to phased non-jury trials. The first phase of the trial is scheduled to commence on April 21, 2009, and the second phase is scheduled to commence on June 9, 2009. 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. On March 31, 2008, the court, among other things, denied the Company s summary judgment motion as moot in view of the court s July 27, 2007 reconsideration ruling. To the extent any issues remain, 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. On February 21, 2008, the court granted plaintiffs motion to issue notice to the former community leaders nationwide, and between April and May of 2008, the parties issued that notice. The parties subsequently reached an agreement to issue supplemental notice to newly identified members as well as previously notified members of the putative class and submitted this agreement to the court for approval in August 2008. In November

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2008, the court approved this agreement. In December 2008, the parties issued the supplemental notice and the members of the putative class have until February 28, 2009 to opt-in to 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 remanded to California state court, and on January 6, 2004 the court denied plaintiffs motion for class certification, which was affirmed by the California Court of Appeals. 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 with the U.S. Court of Appeals for the Ninth Circuit. Briefing on the appeal was completed in August 2008. 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 and/or voicemail 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. In April 2008, AOL, TWC and other defendants filed common motions for summary judgment, which argued, among other things, that a number of claims in the patents at issue are invalid under Sections 112 and 103 of the Patent Act. On June 19 and August 4, 2008, the court issued orders granting, in part, and denying, in part, those motions. Defendants filed additional individual motions for summary judgment in August 2008, which argued, among other things, that defendants respective products do not infringe the surviving claims in plaintiff s patents. Those motions have been fully briefed. 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 nationwide 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

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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, but final approval of that settlement was denied on January 26, 2007. The parties subsequently reached a revised settlement to resolve this action on terms that are not material to the Company and submitted their agreement to the district court on April 2, 2008. On May 8, 2008, the district court granted preliminary approval of the settlement, but it is still subject to final approval by the district court and there can be no assurance that the settlement will receive this approval. Absent the issuance of final court approval of the revised settlement, 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 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). In September 2008, the parties reached an agreement in principle to settle these matters on terms that are not material to the Company, and the settlement agreement was finalized and executed on December 22, 2008.

Other matters relating to the Trilogy have also been pursued. 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. On May 14, 2008, NLC Corp. moved to dismiss under California law certain claims in the complaint and on June 24, 2008, the court granted that motion, finding that plaintiffs had failed to state sufficient facts to support their fraud and breach of fiduciary duty claims, and granted plaintiffs leave to amend the complaint. On July 14, 2008, plaintiffs filed an amended complaint, adding a cause of action for reformation of the underlying contracts. NLC Corp. again moved to dismiss certain claims and, on September 22, 2008, the court granted that motion, dismissing the plaintiffs claims for reformation and punitive damages without leave to amend. On October 3, 2008, plaintiffs moved for reconsideration of that decision, and on November 20, 2008 the court denied the plaintiffs motion. 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 three 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 revenues earned during the period from July 1, 2003 through December 31, 2003. The second assessment, received on December 5, 2007, relates to revenues earned during the period from January 1, 2004 through December 31, 2004. The third assessment was received on December 23, 2008 and relates to revenues earned during the period from January 1, 2005 through December 31, 2005. These assessments, including interest accrued through the respective assessment dates, total 147 million (approximately $207 million based on the exchange rate as of December 31, 2008). The French tax authorities allege 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 a similar assessment from the French tax authorities in the future for subscription revenues earned in 2006. The

Company is currently appealing these assessments at the French VAT audit level and intends to continue 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 $91 million based on the exchange rate as of December 31, 2008). 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. Mr. Suharto s heirs opposed this petition in a filing made on or about April 4, 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, 2008. 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 (the First Amended Complaint) 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 First Amended Complaint. On March 10, 2008, the court granted these motions, dismissing the First Amended Complaint with leave to amend. On March 20, 2008, plaintiffs filed a second amended complaint (the Second Amended Complaint) that modified certain aspects of the First Amended Complaint in an attempt to address the deficiencies noted by the court in its prior dismissal order. On April 22, 2008, the programmer defendants, including the Company, and the distributor defendants, including TWC, filed motions to dismiss the Second Amended Complaint, which motions were denied by the court on June 25, 2008. On July 14, 2008, the programmer defendants and the distributor defendants filed motions requesting the court to certify its June 25 order for interlocutory appeal to the U.S. Court of Appeals for the Ninth Circuit, which motions were denied by the district court on August 4, 2008. On November 14, 2008, the Company was dismissed as a programmer defendant, and Turner Broadcasting System, Inc. was substituted in its place. 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 and ended on July 21, 2008. On November 19, 2008, the Administrative Law Judge issued a non-binding recommended decision finding CNN America liable. On February 17, 2009, CNN America filed exceptions to this decision with the NLRB. The Company intends to defend against this matter vigorously.

On June 6, 2005, David McDavid and certain related entities (collectively, McDavid) filed a complaint against Turner Broadcasting System, Inc. (Turner) and the Company in Georgia state court. The complaint asserted, among other things, claims for breach of contract, breach of fiduciary duty, promissory estoppel and fraud relating to an alleged oral agreement between plaintiffs and Turner for the sale of the Atlanta Hawks and Thrashers sports franchises and certain operating rights to the Philips Arena. On August 20, 2008, the court issued an order dismissing all claims against the Company. The court also dismissed certain claims against Turner for breach of an alleged oral exclusivity agreement, for promissory estoppel based on the alleged exclusivity agreement and for breach of fiduciary duty. A trial as to the remaining claims against Turner commenced on October 8, 2008 and concluded on December 2, 2008. On December 9, 2008, the jury announced its verdict in favor of McDavid on the breach of contract and promissory estoppel claims, awarding damages on those claims of $281 million and $35 million, respectively. Pursuant to the court s direction that McDavid choose one of the two claim awards, McDavid elected the $281 million award. The jury found in favor of Turner on the two remaining claims of fraud and breach of confidential information. On January 12, 2009, Turner filed a motion to overturn the jury verdict or, in the alternative, for a new trial. The Company has established a $281 million reserve for this matter at December 31, 2008, although it intends to defend against this lawsuit 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.***

A Special Meeting of Stockholders of the Company was held on January 16, 2009 (the January 2009 Special Meeting). The following matter was voted on at the January 2009 Special Meeting:

Approval of Company proposal (a) to authorize the Company s Board of Directors to effect, in its discretion, a reverse stock split of the outstanding and treasury Common Stock of Time Warner, at a reverse stock split ratio of either 1-for-2 or 1-for-3, as determined by the Board of Directors and (b) to approve a corresponding amendment to the Company s Restated Certificate of Incorporation to effect the reverse stock split and to reduce proportionately the total number of shares of Common Stock and shares of Series Common Stock that Time Warner is authorized to issue, subject to the Board of Directors authority to abandon such amendment:

Votes For	Votes Against	Abstentions	Broker Non-Votes
3,037,658,327	52,670,740	4,226,676	0

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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 15, 2009.

Name	Age	Office
Jeffrey L. Bewkes	56	Chairman and Chief Executive Officer
Edward I. Adler	55	Executive Vice President, Corporate Communications
Paul T. Cappuccio	47	Executive Vice President and General Counsel
Patricia Fili-Krushel	55	Executive Vice President, Administration
John K. Martin, Jr.	41	Executive Vice President and Chief Financial Officer
Carol A. Melton	54	Executive Vice President, Global Public Policy
Olaf Olafsson	46	Executive Vice President

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

Mr. Bewkes	Chairman and Chief Executive Officer since January 1, 2009; prior to that, Mr. Bewkes served as President and Chief Executive Officer from January 1, 2008 and 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 January 2001 merger of America Online, Inc. (now known as AOL LLC) and Time Warner Inc., now known as Historic TW Inc. (Historic TW) (the Merger or the AOL-Historic TW 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.

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, 2008, see Quarterly Financial Information at pages 221 through 222 herein, which information is incorporated herein by reference. The number of holders of record of the Company s Common Stock as of February 13, 2009 was approximately 44,800.

The Company began paying a regular quarterly cash dividend on its Common Stock in the third quarter of 2005. The Company paid a cash dividend of $0.055 per share in 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 and each quarter of 2008.

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, economic conditions and other factors considered relevant by the Company s Board of Directors.

In connection with the Separation transactions, at a special stockholder meeting held on January 16, 2009, the Company obtained stockholder approval to implement, at the discretion of the Company s Board of Directors, a reverse stock split of the Company s common stock prior to December 31, 2009 at a ratio of either 1-for-2 or 1-for-3.

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Company Purchases of Equity Securities

The following table provides information about purchases by the Company during the quarter ended December 31, 2008 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, 2008 - October 31, 2008	0	$	N/A	0	$	2,202,463,464
November 1, 2008 - November 30, 2008	5,171	$	9.15	0	$	2,202,463,464
December 1, 2008 - December 31, 2008	1,887	$	9.11	0	$	2,202,463,464
Total	7,058	$	9.14	0		

(1) The total number of shares purchased includes (a) shares of Common Stock purchased by the Company under the Stock Repurchase Program 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, 5,171 shares and 1,887 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 1, 2007, the Company announced that its Board of Directors had authorized a stock repurchase program that allows Time Warner to repurchase, from time to time, up to $5 billion of Common Stock (the Stock Repurchase Program). Purchases under the 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 will be based 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 the fees, commissions and other costs associated with the Stock Repurchase Program.

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

The selected financial information of the Company for the five years ended December 31, 2008 is set forth at pages 219 through 220 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 72 through 133 herein is incorporated herein by reference.

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

The information set forth under the caption Market Risk Management at pages 130 through 132 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 134 through 215, 223 through 231 and 217 herein are incorporated herein by reference.

Quarterly Financial Information set forth at pages 221 through 222 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 period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company s management to allow timely decisions regarding the required disclosure.

Management s Report on Internal Control Over Financial Reporting

Management s report on internal control over financial reporting and the report of independent registered public accounting firm thereon set forth at pages 216 and 218 is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Item 9B. ***Other Information.***

On February 19, 2009, the Company s Board of Directors adopted an amendment to Article III, Section 3 of the Company s By-laws, which became effective immediately, to change the requirements relating to director nominations by stockholders in connection with a meeting of stockholders. Article III, Section 3 was amended to provide that the Company is not required to present, at a meeting of stockholders, a stockholder proposal nominating a person for director unless such stockholder is present in person at or sends a qualified representative to the meeting to present the proposal, assuming that all other procedural requirements of Article III, Section 3 have been satisfied. A copy of the By-laws, as amended, is filed as Exhibit 3.3 to this report.

PART III

Items 10, 11, 12, 13 and 14. ***Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Director Independence; Principal Accountant Fees and Services.***

Information called for by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference from the Company s definitive Proxy Statement to be filed in connection with its 2009 Annual Meeting of Stockholders pursuant to Regulation 14A, except that (i) the information regarding the Company s executive officers called for by Item 401(b) of Regulation S-K has been included in Part I of this Annual Report; and (ii) the information regarding certain Company equity compensation plans called for by Item 201(d) of Regulation S-K is set forth below.

The Company has adopted a Code of Ethics for its Senior Executive and Senior Financial Officers. A copy of the Code is publicly available on the Company s website at *www.timewarner.com/corp/corp_governance/governance_conduct.html*. Amendments to the Code or any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will also be disclosed on the Company s website.

Equity Compensation Plan Information

The following table summarizes information as of December 31, 2008, about the Company s outstanding equity compensation awards and shares of Common Stock reserved for future issuance under the Company s equity compensation plans.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights[4] (a)**	**Weighted-average exercise price of outstanding options, warrants and rights[4] (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[5] (c)**
Equity compensation plans approved by security holders[1]	231,359,372	$ 22.13	181,602,959
Equity compensation plans not approved by security holders[2]	165,763,943	$ 35.26	0
Total[3]	397,123,315	$ 28.00	181,602,959

(1) Equity compensation plans approved by security holders are the (i) Time Warner Inc. 2006 Stock Incentive Plan, (ii) Time Warner Inc. 2003 Stock Incentive Plan, (iii) Time Warner Inc. 1999 Stock Plan and (iv) Time Warner Inc. 1988 Restricted Stock and Restricted Stock Unit Plan for Non-Employee Directors. The Time Warner Inc. 2006 Stock Incentive Plan and the Time Warner Inc. 2003 Stock Incentive Plan were approved by the Company s

stockholders in May 2006 and May 2003, respectively. The Time Warner Inc, 1999 Stock Plan and the Time Warner Inc. 1988 Restricted Stock and Restricted Stock Unit Plan for Non-Employee Directors were approved in 1999 by the stockholders of AOL and Historic TW, respectively, and were assumed by the Company in connection with the AOL-Historic TW Merger, which was approved by the stockholders of both AOL and Historic TW on June 23, 2000. The Time Warner Inc. 2003 Stock Incentive Plan expired in May 2008. In addition, the Time Warner Inc. Employee Stock Purchase Plan was terminated in 2008.

(2) Equity compensation plans not approved by security holders consist of the AOL Time Warner Inc. 1994 Stock Option Plan, which expired in November 2003.

(3) Does not include options to purchase an aggregate of 22,944,644 shares of Common Stock (21,916,666 of which were awarded under plans that were approved by the stockholders of either AOL or Historic TW prior to the AOL-Historic TW Merger), at a weighted average exercise price of $52.05, granted under plans assumed in connection with transactions and under which no additional options may be granted. No dividends or dividend equivalents are paid on any of the outstanding stock options.

(4) Column (a) includes 22,267,892 shares of Common Stock underlying outstanding restricted stock units and 4,230,336 shares of Common Stock underlying outstanding performance stock units, assuming a maximum payout of 200% of the target number of performance stock units at the end of the performance period. Because there is no exercise price associated with restricted stock units or performance stock units, such equity awards are not included in the weighted-average exercise price calculation in column (b). See discussion below for a description of the principal terms of performance stock units.

(5) Includes securities available under the Time Warner Inc. 1988 Restricted Stock and Restricted Stock Unit Plan for Non-Employee Directors, which uses the formula of .003% of the shares of Common Stock outstanding on December 31 of the prior calendar year to determine the maximum amount of securities available for issuance each year under the plan (resulting in 107,628 shares available for issuance in 2009). Of the shares available for future issuance under the Time Warner Inc. 1999 Stock Plan, a maximum of 447,524 shares may be issued in connection with awards of restricted stock or restricted stock units as of December 31, 2008. Of the shares available for future issuance under the Time Warner Inc. 2006 Stock Incentive Plan, a maximum of 40,193,269 shares may be issued in connection with awards of restricted stock, restricted stock units or performance stock units as of December 31, 2008. The Time Warner Inc. 2003 Stock Incentive Plan expired in May 2008 and no further grants can be made from the plan.

The Time Warner Inc. 2006 Stock Incentive Plan (the 2006 Stock Incentive Plan) was approved by the stockholders of Time Warner in May 2006. Under the 2006 Stock Incentive Plan, stock options (non-qualified and incentive), stock appreciation rights, restricted stock, and other stock-based awards, including restricted stock units and performance stock units, can be granted to employees, directors and consultants of the Company and its consolidated subsidiaries. Awards of restricted stock and other stock-based awards can be performance-based awards and have terms designed to meet the requirements of Section 162(m) of the Code. No incentive stock options or stock appreciation rights have been awarded under the 2006 Stock Incentive Plan. The exercise price of a stock option under the 2006 Stock Incentive Plan cannot be less than the fair market value of the Common Stock on the date of grant. In September 2008, the Company amended the 2006 Stock Incentive Plan effective October 1, 2008 to change the definition of fair market value from the average of the high and low prices of the Common Stock on the NYSE to the closing sale price of shares of Common Stock as reported on the NYSE Composite Tape for grants made on or after October 1, 2008. The stock options generally become exercisable, or vest, in installments of 25% over a four-year period, subject to acceleration upon the occurrence of certain events such as retirement, death or disability, and expire ten years from the grant date. Participants in the 2006 Stock Incentive Plan awarded stock options do not receive dividends or dividend equivalents or have any voting rights with respect to the shares of Common Stock underlying the stock options. Similarly, any participants who are awarded stock appreciation rights will not receive dividends or dividend equivalents or have any voting rights with respect to the shares of Common Stock covered by the stock appreciation rights. The number of shares available for award under the 2006 Stock Incentive Plan will be reduced by the total number of shares covered by awards under the 2006 Stock Incentive Plan, including awards of stock appreciation rights. Stock appreciation rights generally can have a term of no more than ten years. No more than 30% of the total 150 million shares of Common Stock that can be issued pursuant to the 2006 Stock Incentive Plan can be issued for awards of restricted stock and other stock-based awards paid through the issuance of shares of stock, such as restricted stock units and performance stock units. Awards of restricted stock and restricted stock units vest in amounts and at times designated at the time of award, and generally vest over a four-year period. Awards of restricted stock and restricted stock units are subject to restrictions on transfer and forfeiture prior to vesting. Participants awarded restricted stock and restricted stock units are generally entitled to receive dividends or dividend equivalents, respectively, on such awards. The 2006 Stock Incentive Plan will expire on May 19, 2011.

The Time Warner Inc. 2003 Stock Incentive Plan (the 2003 Stock Incentive Plan) was approved by the stockholders of Time Warner in May 2003. The 2003 Stock Incentive Plan expired on May 16, 2008 and grants may no longer be made under the 2003 Stock Incentive Plan. Under the 2003 Stock Incentive Plan, stock options (non-qualified and incentive), stock appreciation rights, restricted stock, and other stock-based awards, including restricted stock units and performance stock units, could be granted to employees, directors and consultants of the Company and its consolidated subsidiaries. Awards of restricted stock and other stock-based awards could be performance-based awards and have terms designed to meet the requirements of Section 162(m) of the Code. No incentive stock options or stock appreciation rights were awarded under the 2003 Stock Incentive Plan. The exercise price of a stock option under the 2003 Stock Incentive Plan could not be less than the fair market value of the Common Stock on the date of grant. In September 2008, the Company amended the 2003 Stock Incentive Plan effective October 1, 2008 to change the definition of fair market value from the average of the high and low prices of the Common Stock on the NYSE to the closing sale price of shares of Common Stock as reported on the NYSE Composite Tape. The change did not affect the exercise price of outstanding stock options under the 2003 Stock Incentive Plan, but the new definition will be used to calculate the gain realized upon the exercise of stock options and the vesting of restricted stock units issued under the plan. The outstanding stock options under the 2003 Stock Incentive Plan generally become exercisable, or vest, in installments of 25% over a four-year period, subject to acceleration upon the occurrence of certain events such as retirement, death or disability, and expire ten years from the grant date. Holders of stock options awarded under the 2003 Stock Incentive Plan do not receive dividends or dividend equivalents or have any voting rights with respect to the shares of Common Stock underlying the stock options. No more than 20% of the total 200 million shares of Common Stock that could be issued pursuant to the 2003 Stock Incentive Plan could be issued for awards of restricted stock and other stock-based awards paid through the issuance of shares of stock, such as restricted stock units and performance stock units. Awards of restricted stock and restricted stock units vest in amounts and at times designated at the time of award, and generally have vested over a four-year period. Awards of restricted stock and restricted stock units are subject to restrictions on transfer and forfeiture prior to vesting. Participants awarded restricted stock and restricted stock units are generally entitled to receive dividends or dividend equivalents, respectively, on such awards.

The Company s senior executive officers and certain senior executives at the Company s subsidiaries may be granted performance stock units under the 2006 Stock Incentive Plan. In January 2007, the Compensation and Human Development Committee adopted and approved the principal terms of performance stock units for awards made in 2007 and 2008. Recipients of performance stock units received awards designated as a target number of units that may be paid out in a number of shares of Common Stock based on the Company s total stockholder return, or TSR, relative to the TSR of other companies in the S&P 500 Index (subject to certain adjustments) over a performance period, generally three years. Depending on the Company s TSR ranking relative to the TSR of the other companies in the S&P 500 Index, a holder will receive between 0% and 200% of his or her target award following the three-year performance period (with a 0% payout if the Company s TSR ranking is below the 25th percentile and 200% if the Company s TSR ranking is at the 100th percentile). On February 18, 2009, the Compensation and Human Development Committee adopted and approved the principal terms of performance stock unit awards for grants made beginning in February 2009. Recipients of these grants will receive awards designated as a target number of units that may be paid out in a number of shares of Common Stock based on (i) the Company s TSR relative to the TSR of the other companies in the S&P 500 Index (subject to certain adjustments) and (ii) the Company s growth in Adjusted Earnings Per Share (Adjusted EPS) relative to the growth in Adjusted EPS of the other companies in the S&P 500 Index (subject to certain adjustments), in each case over a three-year performance period. For the purposes of the performance stock unit awards, Adjusted EPS means the Adjusted Earnings Per Share of a company for a designated period, generally a twelve-month period ending on a specified date, as reported by Bloomberg. Depending on the Company s TSR ranking and Adjusted EPS growth ranking relative to the TSR rankings and Adjusted EPS growth rankings of the other companies in the S&P 500 Index, a holder will receive between 0% and 200% of his or her target award following the three-year performance period. If (i) the Company s TSR ranking and Adjusted EPS growth ranking are both below the 50th percentile or (ii) the Company s TSR ranking is at or above the 50th percentile, then the percentage of a holder s target performance stock units that will vest will be based on the Company s TSR ranking for the performance period. If the Company s TSR ranking is below the 50th percentile and its Adjusted EPS growth ranking is at or above the 50th percentile, the percentage of a holder s target performance stock units that will vest will be the average of (x) the percentage of target performance stock units that would vest based on the Company s TSR ranking during the performance period and (y) 100%.

Holders of unvested performance stock units will not be entitled to receive or accrue dividends or dividend equivalents on the awards. Upon the termination of employment of a holder by the Company other than for cause, termination by the holder for good reason, retirement or disability, the holder will receive for his or her outstanding performance stock units a payment of Common Stock following the end of the applicable performance period based on the Company s actual performance pro-rated based on the amount of time the holder was an employee during the performance period. Upon the death of a holder, the Company will pay a pro-rated amount of Common Stock based on the Company s actual performance (or target performance, if less than one year) through the date of the holder s death. Upon the occurrence of certain events involving a change of control of the Company or the applicable subsidiary, the holder s outstanding performance stock units will be accelerated and paid out in an amount of shares of Common Stock based on (i) the Company s actual performance from the beginning of the applicable performance cycle to the date of the change in control and (ii) a deemed performance at target from the date of the change in control to the end of the performance period. Performance stock units were awarded from the 2006 Stock Incentive Plan in 2007 and 2008 and will be awarded in 2009.

The Time Warner Inc. 1999 Stock Plan (the 1999 Stock Plan) was approved by the stockholders of AOL in October 1999 and was assumed by the Company in connection with the AOL-Historic TW Merger in 2001. Under the 1999 Stock Plan, stock options (non-qualified and incentive), stock purchase rights, i.e., restricted stock and restricted stock units, can be granted to employees, directors and consultants of the Company and its consolidated subsidiaries. No incentive stock options have been awarded under the 1999 Stock Plan. The exercise price of a stock option under the 1999 Stock Plan cannot be less than the fair market value of the Common Stock on the date of grant. In September 2008, the Company amended the 1999 Stock Plan effective October 1, 2008 to change the definition of fair market value from the average of the high and low sales prices of the Common Stock on the NYSE to the closing sale price of shares of Common Stock as reported on the NYSE Composite Tape for grants made on or after October 1, 2008. The stock options generally become exercisable, or vest, in installments of 25% over a four-year period, subject to acceleration upon the occurrence of certain events such as retirement, death or disability, and expire ten years from the grant date. No more than 5 million of the total 100 million shares of Common Stock that can be issued pursuant to the 1999 Stock Plan can be issued for awards of restricted stock and restricted stock units. Awards of restricted stock and restricted stock units vest in amounts and at times designated at the time of award, and generally have vested over a four- or five-year period. Awards of restricted stock and restricted stock units are subject to restrictions on transfer and forfeiture prior to vesting. Participants awarded restricted stock and restricted stock units are generally entitled to receive dividends or dividend equivalents, respectively, on such awards. The awards of stock options made to non-employee directors of the Company are made pursuant to the 1999 Stock Plan, which provides for an award of 8,000 stock options (or such higher number as approved by the Board) when a non-employee director is first elected to the Board of Directors and then annual awards of 8,000 stock options following the annual meeting of stockholders. Stock options awarded to non-employee directors vest in installments of 25% over a four-year period or earlier if the director does not stand for re-election or is not re-elected after being nominated. Holders of stock options awarded under the 1999 Stock Plan do not receive dividends or dividend equivalents on the stock options. The 1999 Stock Plan will terminate on October 28, 2009.

The AOL Time Warner Inc. 1994 Stock Option Plan (the 1994 Plan) was assumed by the Company in connection with the AOL-Historic TW Merger. The 1994 Plan expired on November 18, 2003 and stock options may no longer be awarded under the 1994 Plan. Under the 1994 Plan, nonqualified stock options and related stock appreciation rights could be granted to employees (other than executive officers) of and consultants and advisors to the Company and certain of its subsidiaries. No stock appreciation rights are currently outstanding under the 1994 Plan. The exercise price of a stock option under the 1994 Plan could not be less than the fair market value of the Common Stock on the date of grant. In September 2008, the Company amended the 1994 Plan effective October 1, 2008 to change the definition of fair market value from the average of the high and low sales prices of the Common Stock on the NYSE to the closing sale price of shares of Common Stock as reported on the NYSE Composite Tape. The change did not affect the exercise price of outstanding stock options under the 1994 Plan, but the new definition will be used to calculate the gain realized upon the exercise of stock options and the vesting of restricted stock units issued under the plan. The outstanding options under the 1994 Plan generally became exercisable in installments of one-third or one-quarter on each of the first three or four anniversaries, respectively, of the date of grant, subject to acceleration upon the occurrence of certain events, and expire ten years from the grant date. Holders of stock options awarded under the 1994 Plan do not receive dividends or dividend equivalents on the stock options.

The Time Warner Inc. 1988 Restricted Stock and Restricted Stock Unit Plan for Non-Employee Directors (the Directors Restricted Stock Plan) was approved most recently in May 1999 by the stockholders of Historic TW and was assumed by the Company in connection with the AOL-Historic TW Merger. The Directors Restricted Stock Plan provides for the award each year on the date of the annual stockholders meeting of either restricted stock or restricted stock units, as determined by the Board of Directors, to non-employee directors of the Company with value established by the Board of Directors. The awards of restricted stock and restricted stock units vest in equal annual installments on the first four anniversaries of the first day of the month in which the restricted stock or restricted stock units were awarded and in full if the director ends his or her service as a director due to (a) mandatory retirement, (b) failure to be re-elected after being nominated, (c) death or disability, (d) the occurrence of certain events constituting a change in control of the Company and (e) with the approval of the Board of Directors on a case-by-case basis, under certain other designated circumstances. Restricted stock units also vest in full if a director retires from the Board of Directors after serving as a director for five years. If a non-employee director leaves the Board for any other reason, his or her unvested restricted stock and restricted stock units are forfeited to the Company. Participants awarded restricted stock and restricted stock units are generally entitled to receive dividends or dividend equivalents, respectively, on such awards. Restricted stock units have been awarded since 2005. The Directors Restricted Stock Plan will terminate on May 19, 2009. Beginning with grants made in 2009, grants of restricted stock units made to non-employee directors of the Company will be made pursuant to the 2006 Stock Incentive Plan. See the discussion of the 2006 Stock Incentive Plan above. The terms of the restricted stock units awarded to non-employee directors will not change, except that the awards of restricted stock units will be made to non-employee directors each year on the day following the annual stockholders meeting.

PART IV

Item 15. ***Exhibits and Financial Statements Schedules.***

(a)(1)-(2) *Financial Statements and Schedules:*

(i) The list of consolidated financial statements and schedules set forth in the accompanying Index to Consolidated Financial Statements and Other Financial Information at page 71 herein is incorporated herein by reference. Such consolidated financial statements and schedules are filed as part of this Annual Report.

(ii) All other financial statement schedules are omitted because the required information is not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

(3) *Exhibits:*

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report and such Exhibit Index is incorporated herein by reference. Exhibits 10.1 through 10.52 listed on the accompanying Exhibit Index identify management contracts or compensatory plans or arrangements required to be filed as exhibits to this Annual Report, and such listing is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIME WARNER INC.

By: /s/ John K. Martin, Jr.

Name: John K. Martin, Jr.

Title: Executive Vice President and Chief Financial Officer

Date: February 20, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey L. Bewkes **(Jeffrey L. Bewkes)**	Director, Chairman of the Board and Chief Executive Officer (principal executive officer)	February 20, 2009
/s/ John K. Martin, Jr. **(John K. Martin, Jr.)**	Executive Vice President and Chief Financial Officer (principal financial officer)	February 20, 2009
/s/ Pascal Desroches **(Pascal Desroches)**	Sr. Vice President and Controller (principal accounting officer)	February 20, 2009
/s/ Herbert M. Allison, Jr. **(Herbert M. Allison, Jr.)**	Director	February 20, 2009
/s/ James L. Barksdale **(James L. Barksdale)**	Director	February 20, 2009
/s/ Stephen F. Bollenbach **(Stephen F. Bollenbach)**	Director	February 20, 2009
/s/ Frank J. Caufield **(Frank J. Caufield)**	Director	February 20, 2009

/s/ Robert C. Clark	Director	February 20, 2009
(Robert C. Clark)		

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Signature	Title	Date
/s/ Mathias Döpfner	Director	February 20, 2009
(Mathias Döpfner)		
/s/ Jessica P. Einhorn	Director	February 20, 2009
(Jessica P. Einhorn)		
/s/ Reuben Mark	Director	February 20, 2009
(Reuben Mark)		
/s/ Michael A. Miles	Director	February 20, 2009
(Michael A. Miles)		
/s/ Kenneth J. Novack	Director	February 20, 2009
(Kenneth J. Novack)		
	Director	February , 2009
(Richard D. Parsons)		
/s/ Deborah C. Wright	Director	February 20, 2009
(Deborah C. Wright)		

TIME WARNER INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

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

INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is a supplement to the accompanying consolidated financial statements and provides additional information on Time Warner Inc. s (Time Warner or the Company) businesses, current developments, financial condition, cash flows and results of operations. MD&A is organized as follows:

Overview. This section provides a general description of Time Warner s business segments, as well as recent developments the Company believes are important in understanding the results of operations and financial condition or in understanding anticipated future trends.

Results of operations. This section provides an analysis of the Company s results of operations for the three years ended December 31, 2008. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

Financial condition and liquidity. This section provides an analysis of the Company s cash flows for the three years ended December 31, 2008, as well as a discussion of the Company s outstanding debt and commitments that existed as of December 31, 2008. Included in the analysis of outstanding debt is a discussion of the amount of financial capacity available to fund the Company s future commitments, as well as a discussion of other financing arrangements.

Market risk management. This section discusses how the Company monitors and manages exposure to potential gains and losses arising from changes in market rates and prices, such as interest rates, foreign currency exchange rates and changes in the market value of financial instruments.

Critical accounting policies. This section identifies those accounting policies that are considered important to the Company s results of operations and financial condition, require significant judgment and require estimates on the part of management in application. All of the Company s significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 1 to the accompanying consolidated financial statements.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to Item 1A, Risk Factors in Part I of this report, for a discussion of the risk factors applicable to the Company.

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OVERVIEW

Time Warner is a leading media and entertainment company, whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are HBO, TNT, CNN, AOL, *People*, *Sports Illustrated*, *Time* and Time Warner Cable. The Company produces and distributes films through Warner Bros. and New Line Cinema, including *The Dark Knight*, *Sex and the City: The Movie*, *Get Smart*, *Journey to the Center of the Earth* and the *Harry Potter* films, as well as television series, including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *The Closer* and *ER*. During 2008, the Company generated revenues of $46.984 billion (up 1% from $46.482 billion in 2007), Operating Loss of $15.957 billion (compared to Operating Income of $8.949 billion in 2007), Net Loss of $13.402 billion (compared to Net Income of $4.387 billion in 2007) and Cash Provided by Operations of $10.332 billion (up 22% from $8.475 billion in 2007). As discussed more fully in Business Segment Results, the year ended December 31, 2008 included asset impairments of $24.309 billion, primarily related to reductions in the carrying values of goodwill and identifiable intangible assets.

Impact of the Current Economic Environment

The current global economic recession adversely impacted the Company s businesses in the fourth quarter of 2008 and is expected to continue to adversely impact them during 2009. For example, during the fourth quarter of 2008, the Company s Advertising revenues declined 7% compared to the similar period in the prior year. The Company also expects Advertising revenues to decline in 2009. Additionally, the current economic environment is adversely impacting the Company s ability to increase Content revenues due to, among other things, reduced consumer spending on DVDs. Further, the Cable segment has experienced a slowdown in growth of its revenue generating unit categories.

Despite the current economic environment, the Company believes it continues to have strong liquidity to meet its needs for the foreseeable future. At December 31, 2008, the Company had $18.735 billion of unused committed capacity, including cash and equivalents and credit facilities containing commitments from a geographically diverse group of major financial institutions, with $5.605 billion at Time Warner and $13.130 billion at Time Warner Cable Inc. (together with its subsidiaries, TWC), $10.855 billion of which TWC expects to use to finance the Special Dividend, as defined below. The only significant portion of the Company s debt that is due before December 31, 2010 is $2.000 billion of floating rate public debt that matures on November 13, 2009, which is classified as debt due within one year in the accompanying consolidated balance sheet. See Financial Condition and Liquidity for further details regarding the Company s total committed capacity.

Time Warner Businesses

Time Warner classifies its operations into five reportable segments: AOL, Cable, Filmed Entertainment, Networks and Publishing.

Time Warner evaluates the performance and operational strength of its business segments based on several factors, of which the primary financial measure is operating income (loss) before depreciation of tangible assets and amortization of intangible assets (Operating Income (Loss) before Depreciation and Amortization). Operating Income (Loss) before Depreciation and Amortization eliminates the uneven effects across all business segments of considerable amounts of noncash depreciation of tangible assets and amortization of certain intangible assets, primarily recognized in business combinations. Operating Income (Loss) before Depreciation and Amortization should be considered in addition to

Operating Income (Loss), as well as other measures of financial performance. Accordingly, the discussion of the results of operations for each of Time Warner s business segments includes both Operating Income (Loss) before Depreciation and Amortization and Operating Income (Loss). For additional information regarding Time Warner s business segments, refer to Note 14, Segment Information.

AOL. AOL LLC (together with its subsidiaries, AOL) operates a Global Web Services business, which is comprised of its Platform-A, MediaGlow and People Networks business units. Platform-A sells advertising services

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worldwide on both the AOL Network and third-party Internet sites, referred to as the Third Party Network. MediaGlow and People Networks develop and operate the AOL Network, which includes a leading network of web brands, free client software and services and a social media network for Internet consumers. In addition, through its Access Services business, AOL operates one of the largest Internet access subscription services in the United States. As of December 31, 2008, AOL had 6.9 million AOL brand subscribers in the U.S., which does not include registrations for free AOL services. In 2008, AOL generated revenues of $4.165 billion (9% of the Company s overall revenues) and had $671 million in Operating Loss before Depreciation and Amortization and $1.147 billion in Operating Loss, both of which included asset impairments of $2.229 billion, primarily related to reductions in the carrying value of goodwill.

AOL has transitioned from a business that primarily focused on generating Subscription revenues to one that is focused on attracting and engaging Internet consumers and providing advertising services on both the AOL Network and the Third Party Network. AOL s focus is on growing its Global Web Services business, while managing costs in this business, as well as managing its declining subscriber base and related cost structure in its Access Services business. During 2008, the Company announced that it had begun separating the AOL Access Services and Global Web Services businesses, which should enhance the operational focus and strategic options available for each of these businesses. As these businesses were historically highly integrated, this separation initiative has been complex. The Company anticipates that it will be in a position to manage AOL s Access Services and Global Web Services businesses separately during 2009. Beginning in the first quarter of 2009, AOL is undertaking a significant restructuring, primarily of its Global Web Services business, and expects to incur restructuring charges ranging from $125 million to $150 million primarily in the first half of 2009.

In 2007, AOL formed the Platform-A business unit, which sells advertising on the AOL Network and the Third Party Network and licenses ad-serving technology to third-party websites. Platform-A offers to advertisers a range of capabilities and solutions, including optimization and targeting technologies, to deliver more effective advertising and reach specific audiences across the AOL Network and the Third Party Network. During 2007 and the early part of 2008, AOL acquired various businesses to supplement its online advertising capabilities, and these businesses increased Advertising revenues on the Third Party Network by $131 million in 2008 compared to 2007.

AOL s MediaGlow and People Networks business units develop and operate websites, applications and services that are part of the AOL Network. In addition, AOL s Products and Technologies group develops and operates components of the AOL Network, such as e-mail, toolbar and search. The AOL Network consists of a variety of websites, related applications and services that can be accessed generally via the Internet or via AOL s Access Services business. Specifically, the AOL Network includes owned and operated websites, applications and services such as *AOL.com*, e-mail, MapQuest, Moviefone, Engadget, Asylum, international versions of the AOL portal and social media properties such as AIM, ICQ and Bebo. 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. During the second quarter of 2008, AOL completed the acquisition of Bebo, Inc. (Bebo), a leading global social media network, which AOL continues to integrate into its Global Web Services business.

During 2008, AOL s Advertising revenues on both the AOL Network and the Third Party Network were negatively impacted by weakening economic conditions resulting in lower demand from a number of advertiser categories as well as certain sales execution and systems integration issues, including matters relating to the integration of the sales operations of the acquired businesses under Platform-A into a single sales force. Additionally, Advertising revenues on the AOL Network were negatively affected by certain factors and trends, including increased volume of inventory monetized through lower priced sales channels, declines in the price of advertising inventory in certain inventory segments and an overall increase in marketplace competition. Third Party Network advertising has historically had higher traffic acquisition costs (TAC) and, therefore, lower incremental margins than display advertising. Due to the differing cost structures associated with the AOL Network

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and Third Party Network components of the Global Web Services business, a period-over-period increase or decrease in aggregate Advertising revenues will not necessarily translate into a similar increase or decrease in Operating Income (Loss) before Depreciation and Amortization attributable to AOL s advertising activities.

During 2008, the Company also experienced a significant decline in Advertising revenues due, in part, to a decrease in business from a major customer of Platform-A Inc. (formerly Advertising.com, Inc.). Revenues from this relationship decreased to $26 million for the year ended December 31, 2008 from $215 million for the year ended December 31, 2007.

Paid-search advertising activities on the AOL Network are conducted primarily through AOL s strategic relationship with Google Inc. (Google). In connection with the expansion of this strategic relationship in April 2006, Google acquired a 5% interest in AOL, and, as a result, 95% of the equity interests in AOL are indirectly held by the Company and 5% are indirectly held by Google. As part of the April 2006 transaction, Google received certain registration rights relating to its equity interest in AOL. In late January 2009, Google exercised its right to request that AOL register Google s 5% equity interest for sale in an initial public offering. Time Warner has the right, but not the obligation, to purchase Google s equity interest for cash or shares of Time Warner common stock based on the appraised fair market value of the equity interest in lieu of conducting an initial public offering. The Company has not yet determined in which manner it will proceed.

AOL s Access Services business offers an online subscription service to consumers that includes dial-up Internet access. AOL continued to experience declines during 2008 in the number of its U.S. subscribers and related revenues, due primarily to AOL s decisions to focus on its advertising business and offer most of its services (other than Internet access) for free to support the advertising business, AOL s significant reduction of subscriber acquisition and retention efforts, and the industry-wide decline of the dial-up ISP business and growth in the broadband Internet access business. The decline in U.S. subscribers has moderated, with a decline of 2.4 million for the year ended December 31, 2008 compared to a decline of 3.9 million for the year ended December 31, 2007. The decline in subscribers has had an adverse impact on AOL s Subscription revenues. However, dial-up network costs have also decreased and are anticipated to continue to decrease as subscribers decline, although AOL expects the rate of the decrease in dial-up network costs to moderate. AOL s Advertising revenues associated with the AOL Network, in large part, are generated from the activity of current and former AOL subscribers. Therefore, the decline in subscribers also could have an adverse impact on AOL s Advertising revenues generated on the AOL Network to the extent that subscribers canceling their subscriptions do not maintain their relationship with and usage of the AOL Network.

Cable. Time Warner s cable business, 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, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services. In 2008, TWC generated revenues of $17.200 billion (36% of the Company s overall revenues) and had $8.694 billion in Operating Loss before Depreciation and Amortization and $11.782 billion in Operating Loss, both of which included asset impairments of $14.867 billion, primarily related to the impairment of cable franchise rights.

TWC principally offers three services video, high-speed data and voice over its broadband cable systems. TWC markets its services separately and in bundled packages of multiple services and features. As of December 31, 2008, 54% of TWC s customers subscribed to two or more of its primary services, including 21% of its customers who subscribed to all three primary services. Historically, TWC has focused primarily on residential customers, while also selling video, high-speed data and networking and transport services to commercial customers. As part of an increased emphasis on its commercial business, TWC also began selling its commercial Digital Phone service, Business Class Phone, to small- and medium-sized businesses during 2007. During 2008, TWC generated nearly $800 million of revenues from its commercial services. TWC believes

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providing commercial services will generate additional opportunities for growth. In addition, TWC sells advertising to a variety of national, regional and local customers.

Video is TWC s largest service in terms of revenues generated and, as of December 31, 2008, TWC had approximately 13.1 million basic video subscribers, of which approximately 8.6 million subscribed to TWC s digital video service. Although providing video services is a competitive and highly penetrated business, TWC expects to continue to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. TWC s digital video subscribers provide a broad base of potential customers for additional services. Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting programming rate increases on existing services, costs associated with retransmission consent agreements, subscriber growth and the expansion of service offerings (e.g., new network channels). TWC expects that its video service margins as a percentage of video revenues will continue to decline over the next few years as increases in programming costs outpace growth in video revenues.

As of December 31, 2008, TWC had approximately 8.4 million residential high-speed data subscribers. TWC expects continued growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to continue to slow over time as high-speed data services become increasingly penetrated. TWC also offers commercial high-speed data services and had 283,000 commercial high-speed data subscribers as of December 31, 2008.

As of December 31, 2008, TWC had approximately 3.7 million residential Digital Phone subscribers. TWC expects increases in Digital Phone subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as Digital Phone services become increasingly penetrated and as an increasing number of homes in the U.S. replace their traditional telephone service with wireless phone service. TWC rolled out Business Class Phone to small- and medium-sized businesses during 2007 in the majority of its operating areas and substantially completed the roll-out in the remainder of its operating areas during 2008. As of December 31, 2008, TWC had 30,000 commercial Digital Phone subscribers.

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 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 and of wireless offerings, whether as a single offering or as part of a bundle, has intensified competition. In addition, technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC s customers from other providers and intensify the competitive environment. TWC expects that competition will continue to intensify in the future, which may negatively affect the growth of revenue generating units. By continuing to enhance its services with innovative offerings and continuing to focus on customer service, TWC believes it will distinguish its services from those of its competitors.

Beginning in the first quarter of 2009, TWC is undertaking a significant restructuring, primarily consisting of headcount reductions, and expects to incur restructuring charges ranging from $50 million to $100 million during 2009.

Time Warner currently owns approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also currently owns an indirect 12.43% non-voting equity interest in TW NY Cable Holding Inc. (TW NY), a subsidiary of TWC. On May 20, 2008, TWC and its subsidiaries Time Warner Entertainment Company, L.P. (TWE) and TW NY entered into a Separation Agreement (the Separation Agreement) with Time Warner and its subsidiaries Warner Communications Inc. (WCI), Historic TW Inc. (Historic TW) and American Television and Communications Corporation (ATC), the terms of which will govern TWC s legal and structural separation from Time Warner. Refer to Recent Developments for further details.

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Filmed Entertainment. Time Warner s Filmed Entertainment segment comprises Warner Bros. Entertainment Group (Warner Bros.), one of the world s leading studios, and New Line Cinema Corporation (New Line). In 2008, the Filmed Entertainment segment generated revenues of $11.398 billion (23% of the Company s overall revenues), $1.228 billion in Operating Income before Depreciation and Amortization and $823 million in Operating Income.

The Filmed Entertainment segment has diversified sources of revenues within its film and television businesses, including an extensive film library and a global distribution infrastructure, which have helped it to deliver consistent long-term operating performance. To increase operational efficiencies and maximize performance within the Filmed Entertainment segment, the Company reorganized the New Line business in 2008 to be operated as a unit of Warner Bros. while maintaining separate development, production and other operations. During 2008, the Company incurred restructuring charges primarily related to involuntary employee terminations in connection with the reorganization. Beginning in the first quarter of 2009, Warner Bros. is undertaking a significant restructuring, primarily consisting of headcount reductions and the outsourcing of certain functions to an external service provider, and expects to incur restructuring charges ranging from $75 million to $100 million during 2009.

Warner Bros. continues to be an industry leader in the television business. During the 2008-2009 broadcast season, Warner Bros. is producing approximately 20 primetime series, with at least one series airing on each of the five broadcast networks (including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *ER* and *Smallville*), as well as original series for several cable networks (including *The Closer* and *Nip/Tuck*).

As of February 19, 2009, the Screen Actors Guild (SAG), which covers performers in feature films and filmed television programs, and the producers of such content, including the Company s Filmed Entertainment and Networks segments, have yet to reach an agreement on contracts that expired on June 30, 2008. The Company has delayed certain productions to avoid costly shutdowns due to the potential of a SAG strike, and is currently unable to estimate the impact of such delays, if any. Further, in the event an agreement is not reached or the SAG goes on strike, it could cause continued delays in the production of feature films and television programs, as well as higher costs resulting either from the strike or less favorable terms contained in a future agreement.

The sale of DVDs has been one of the largest drivers of the segment s profit over the last several years. The industry and the Company experienced a decline in DVD sales in 2008 as growing consumer interest in high definition Blu-ray DVDs only partially offset softening consumer demand for standard definition DVDs. Additionally contributing to the overall decline in DVD sales are several factors, including the general economic downturn in the U.S. and many regions around the world, increasing competition for consumer discretionary time and spending, piracy and the maturation of the standard definition DVD format.

Piracy, including physical piracy as well as illegal online file-sharing, continues to be a significant issue for the filmed entertainment industry. Due to technological advances, piracy has expanded from music to movies, television programming and interactive games. The Company has taken a variety of actions to combat piracy over the last several years, including the launch of new services for consumers at competitive price points, aggressive online and customs enforcement, compressed release windows and educational campaigns, and will continue to do so, both individually and together with cross-industry groups, trade associations and strategic partners.

As discussed in Part I, Item 1. Business Filmed Entertainment, of this report, the Company enters into co-financing arrangements with other companies as a way of securing funding for its films and mitigating risk. During 2008, one of the Company s largest co-financing partners informed the Company that difficulties in the credit markets had led to a delay in securing the financing necessary to fund the partner s 50% share (approximately $120 million) of the production costs on four films released during the second half of 2008. As a result, the Company has accounted for these four films in the accompanying consolidated financial statements as if they were wholly owned. The Company is unsure whether this co-financing partner will ultimately secure the funding for

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amounts due on these four 2008 productions or the funding it had committed for films slated for release in 2009, and the difficulties in the credit market may also reduce the Company s ability to attract other financial partners to co-finance its films. These or similar difficulties relating to co-financing arrangements may continue in 2009 and in future periods. As a result, the Company may have to provide more funding for film production costs than it has in the past and may have to take on additional risk with respect to films the risks of which it would have otherwise sought to mitigate with a co-financing arrangement.

Networks. Time Warner s Networks segment comprises Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (HBO). In 2008, the Networks segment generated revenues of $11.154 billion (22% of the Company s overall revenues), $3.487 billion in Operating Income before Depreciation and Amortization and $3.118 billion in Operating Income.

The Turner networks including such recognized brands as TNT, TBS, CNN, Cartoon Network, truTV and HLN (formerly CNN Headline News) are among the leaders in advertising-supported cable TV networks. For seven consecutive years, more primetime households have watched advertising-supported cable TV networks than the national broadcast networks. The Turner networks generate revenues principally from receipt of monthly subscriber fees paid by cable system operators, satellite distribution services, telephone companies and other distributors and from the sale of advertising. Key contributors to Turner s success are its continued investments in high-quality programming focused on sports, original and syndicated series, news, network movie premieres and animation leading to strong ratings and Subscription and Advertising revenue growth, as well as strong brands and operating efficiencies.

HBO operates the HBO and Cinemax multichannel premium pay television programming services, with the HBO service ranking as the nation s most widely distributed premium pay television service. HBO generates revenues principally from monthly subscriber fees from cable system operators, satellite distribution services, telephone companies and other distributors. An additional source of revenues is the sale of its original programming, including *The Sopranos*, *Sex and the City*, *Rome* and *Entourage*.

During 2008, the results of the Networks segment benefited from the segment s recent international expansion efforts, including Turner s fourth-quarter 2007 acquisition of seven pay networks operating principally in Latin America and HBO s acquisitions of additional interests in HBO Asia and HBO South Asia during the fourth quarter of 2007 and the first quarter of 2008. During 2008, these acquired businesses contributed incremental revenues and Operating Income before Depreciation and Amortization of $137 million and $15 million, respectively. On December 19, 2008, HBO acquired an additional interest in and began consolidating the operating results of the HBO Latin America Group, consisting of HBO Brasil, HBO Olé and HBO Latin America Production Services (collectively, HBO LAG). The Company anticipates that international expansion will continue to be an area of focus at the Networks segment for the foreseeable future.

Publishing. Time Warner s Publishing segment consists principally of magazine publishing and related websites as well as a number of direct-marketing and direct-selling businesses. In 2008, the Publishing segment generated revenues of $4.608 billion (10% of the Company s overall revenues) and had $6.416 billion in Operating Loss before Depreciation and Amortization and $6.624 billion in Operating Loss, both of which included asset impairments of $7.195 billion, primarily related to reductions in the carrying values of goodwill and identifiable intangible assets. In addition, in the fourth quarter of 2008, the Publishing segment incurred restructuring charges in connection with a significant reorganization of its operations.

As of December 31, 2008, Time Inc. published 23 magazines in the U.S., including *People*, *Sports Illustrated*, *Time*, *InStyle*, *Real Simple*, *Southern Living* and *Fortune*, and over 90 magazines outside the U.S., primarily through IPC Media (IPC) in the U.K. and Grupo Editorial Expansión (GEE) in Mexico. The Publishing segment generates revenues primarily from advertising (including advertising on digital properties), magazine subscriptions and newsstand sales. Time Inc. also owns the magazine subscription marketer, Synapse Group, Inc. (Synapse), and in August 2008 purchased the school and youth group fundraising company QSP, Inc. and its Canadian affiliate,

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Quality Service Programs Inc. (collectively, QSP). Advertising sales at the Publishing segment, particularly print advertising sales, continue to be significantly affected by the current economic environment as evidenced by their decline during 2008. Time Inc. continues to invest in developing digital content, including the expansion of the *CNNMoney*, *People*, and *Sports Illustrated* digital properties as well as the expansion of digital properties owned by IPC and GEE. For the year ended December 31, 2008, online Advertising revenues were 10% of Time Inc. s total Advertising revenues, compared to 7% for the year ended December 31, 2007. Time Inc. s direct-selling division, Southern Living At Home, which is held for sale, sells home decor products through independent consultants at parties hosted in people s homes throughout the U.S.

Recent Developments

TWC Separation from Time Warner and Reverse Stock Split of Time Warner Common Stock

On May 20, 2008, the Company and its subsidiaries WCI, Historic TW and ATC entered into the Separation Agreement with TWC and its subsidiaries TWE and TW NY. Pursuant to the Separation Agreement, (i) Time Warner will complete certain internal restructuring transactions, (ii) Historic TW, a wholly-owned subsidiary of Time Warner, will transfer its 12.43% interest in TW NY to TWC in exchange for 80 million newly issued shares of TWC Class A Common Stock (the TW NY Exchange), (iii) all TWC Class A Common Stock and TWC Class B Common Stock then held by Historic TW will be distributed to Time Warner, (iv) TWC will declare and pay a special cash dividend (the Special Dividend) of $10.855 billion ($10.27 per share of TWC Common Stock) to be distributed pro rata to all holders of TWC Class A Common Stock and TWC Class B Common Stock, resulting in the receipt by Time Warner of approximately $9.25 billion from the dividend prior to the Distribution (as defined below), (v) TWC will file with the Secretary of State of the State of Delaware an amended and restated certificate of incorporation, pursuant to which, among other things, each outstanding share of TWC Class A Common Stock and TWC Class B Common Stock will automatically be converted into one share of common stock, par value $0.01 per share (the TWC Common Stock), and (vi) Time Warner had the option to distribute all the issued and outstanding shares of TWC Common Stock then held by Time Warner to its stockholders in one of the following manners: as (a) a pro rata dividend in a spin-off, (b) an exchange offer in a split-off or (c) a combination thereof (the Distribution) ((i) to (vi) collectively, the TWC Separation Transactions). On February 18, 2009, the Company notified TWC of Time Warner s election to effect the Distribution in the form of a spin-off.

Upon consummation of the TWC Separation Transactions, Time Warner s stockholders and/or former stockholders will hold approximately 85.2% of the issued and outstanding TWC Common Stock, and TWC s stockholders other than Time Warner will hold approximately 14.8% of the issued and outstanding TWC Common Stock.

The Separation Agreement contains customary covenants, and consummation of the TWC Separation Transactions is subject to customary closing conditions, including customary regulatory reviews and local franchise approvals, the receipt of a favorable ruling from the Internal Revenue Service that the TWC Separation Transactions will generally qualify as tax-free for Time Warner and Time Warner s stockholders, the receipt of certain tax opinions and the entry into the 2008 Cable Bridge Facility and the Supplemental Credit Agreement (each as defined below under 2008 Cable Bond Offerings and Credit Facilities). As of February 12, 2009, all regulatory and other necessary governmental reviews of the TWC Separation Transactions have been satisfactorily completed. Time Warner and TWC expect the TWC Separation Transactions to be consummated in the first quarter of 2009. See Item 1A, Risk Factors, in Part I of this report, for a discussion of risk factors relating to the separation of TWC from the Company.

In connection with the TWC Separation Transactions, at a special stockholder meeting held on January 16, 2009, the Company obtained stockholder approval to implement, at the discretion of the Company s Board of Directors, a reverse stock split of the Company s common stock prior to December 31, 2009 at a ratio of either 1-for-2 or 1-for-3.

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In addition, in connection with the TWC Separation Transactions, and as provided for in the Company s equity plans, the number of stock options, restricted stock units (RSUs) and target performance stock units (PSUs) outstanding at the separation and the exercise prices of such stock options will be adjusted to maintain the fair value of those awards. The changes in the number of equity awards and the exercise prices will be determined by comparing the fair value of such awards immediately prior to the TWC Separation Transactions to the fair value of such awards immediately after the TWC Separation Transactions. In performing this analysis, the only assumptions that would change relate to the Time Warner stock price and the employee s exercise price. The modifications to the outstanding equity awards will be made pursuant to existing antidilution provisions in the Company s equity plans.

Under the terms of Time Warner s equity plans and related award agreements, as a result of the TWC Separation Transactions, TWC employees who hold Time Warner equity awards will be treated as if their employment with Time Warner had been terminated without cause at the time of the separation. For most TWC employees, this treatment will result in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSUs. TWC plans to grant make-up TWC equity awards or make cash payments to TWC employees that are generally intended to offset any loss of economic value in Time Warner equity awards as a result of the separation.

Finally, in connection with the Special Dividend, and as provided for in TWC s equity plans and related award agreements, the number and the exercise prices of outstanding TWC stock options will be adjusted to maintain the fair value of those awards. The changes in the number of shares subject to options and the exercise prices will be determined by comparing the fair value of such awards immediately prior to the Special Dividend to the fair value of such awards immediately after the Special Dividend. The modifications to the outstanding equity awards will be made pursuant to existing antidilution provisions in TWC s equity plans and related award agreements.

2008 Cable Bond Offerings and Credit Facilities

On June 19, 2008, TWC issued $5.0 billion in aggregate principal amount of senior unsecured notes and debentures, and on November 18, 2008, TWC issued $2.0 billion in aggregate principal amount of senior unsecured notes in two separate public offerings registered under the Securities Act of 1933, as amended (the 2008 Cable Bond Offerings). TWC expects to use the net proceeds from the 2008 Cable Bond Offerings to finance, in part, the Special Dividend. If the TWC Separation Transactions are not consummated and the Special Dividend is not paid, TWC will use the net proceeds for general corporate purposes, including repayment of indebtedness. Additionally, to finance, in part, the Special Dividend, on June 30, 2008, TWC entered into a credit agreement with certain financial institutions for a senior unsecured term loan facility originally in an aggregate principal amount of $9.0 billion with an initial maturity date that is 364 days after the borrowing date (the 2008 Cable Bridge Facility). TWC may elect to extend the maturity date of the loans outstanding under the 2008 Cable Bridge Facility for an additional year. As a result of the 2008 Cable Bond Offerings, the amount of the commitments of the lenders under the 2008 Cable Bridge Facility was reduced to $2.070 billion. As discussed in Financial Condition and Liquidity, the Company does not expect that Lehman Brothers Commercial Bank will fund its $138 million in commitments under the 2008 Cable Bridge Facility as a result of the bankruptcy of Lehman Brothers Holdings Inc., and, therefore, the Company has included only $1.932 billion of commitments under the 2008 Cable Bridge Facility in its total unused committed capacity as of December 31, 2008. TWC may not borrow any amounts under the 2008 Cable Bridge Facility unless and until the Special Dividend is declared. On December 10, 2008, Time Warner (as lender) and TWC (as borrower) entered into a credit agreement for a two-year $1.535 billion senior unsecured supplemental term loan facility (the Supplemental

Credit Agreement). TWC may borrow under the Supplemental Credit Agreement only to repay amounts outstanding at the final maturity of the 2008 Cable Bridge Facility, if any. See Financial Condition and Liquidity and Note 7 to the accompanying consolidated financial statements for further details regarding the 2008 Cable Bond Offerings, the 2008 Cable Bridge Facility and the Supplemental Credit Agreement.

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TWC Investment in Clearwire

In November 2008, TWC, Intel Corporation, Google, Comcast Corporation (together with its subsidiaries, Comcast) and Bright House Networks, LLC collectively invested $3.2 billion in Clearwire Corporation, a wireless broadband communications company (Clearwire Corp), and one of its operating subsidiaries (Clearwire LLC, and, collectively with Clearwire Corp, Clearwire). TWC invested $550 million for membership interests in Clearwire LLC and received voting and board of director nomination rights in Clearwire Corp. Clearwire LLC was formed by the combination of Sprint Nextel Corporation s (Sprint) and Clearwire Corp s respective wireless broadband businesses and is focused on deploying the first nationwide fourth-generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with the transaction, TWC entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint s second-generation and third-generation network and a wholesale agreement with Clearwire that will allow TWC to offer wireless services utilizing Clearwire s mobile broadband wireless network. TWC allocated $20 million of its $550 million investment in Clearwire LLC to TWC s rights under these agreements, which TWC believes represents the fair value of favorable pricing provisions contained in the agreements. Such assets are included in other assets in the accompanying consolidated balance sheet as of December 31, 2008 and will be amortized over the estimated lives of the agreements. TWC s investment in Clearwire LLC is being accounted for under the equity method of accounting. During the fourth quarter of 2008, TWC recorded a noncash pretax impairment of $367 million on its investment in Clearwire LLC as a result of a significant decline in the estimated fair value of Clearwire, reflecting the Clearwire Corp stock price decline from May 2008, when TWC agreed to make its investment. The Company expects that Clearwire will incur losses in its early periods of operation. See Note 3 to the accompanying consolidated financial statements.

HBO Acquisitions

On December 27, 2007 and January 2, 2008, the Company, through its Networks segment, purchased additional interests in HBO Asia and HBO South Asia (collectively, HBO Asia) and on December 19, 2008 purchased an additional interest in HBO LAG. The additional interests purchased in each of these three multi-channel pay-television programming services ranged in size from approximately 20% to 30%, and the aggregate purchase price was approximately $275 million, net of cash acquired. As a result of purchasing the additional interests, the Company became the primary beneficiary of each of these variable interest entities and began consolidating the results of HBO Asia and HBO LAG as of the approximate dates the respective transactions occurred. See Notes 3 and 4 to the accompanying consolidated financial statements.

Litigation Related to the Sale of the Atlanta Hawks and Thrashers Franchises (the Winter Sports Teams)

On October 8, 2008, a trial commenced in Georgia state court in connection with a complaint that had been filed in June 2005 by David McDavid and certain related entities (collectively, McDavid) against Turner and the Company relating to an alleged oral agreement between plaintiffs and Turner for the sale of the Atlanta Hawks and Thrashers sports franchises and certain operating rights to the Philips Arena. The trial against Turner concluded on December 2, 2008, and, on December 9, 2008, the jury announced its verdict in favor of McDavid on plaintiffs breach of contract and promissory estoppel claims, awarding damages on those claims of $281 million and $35 million, respectively. Pursuant to the court s direction that McDavid choose one of the two claim awards, McDavid elected the $281 million award. On January 12, 2009, Turner filed a motion to overturn the jury verdict or, in the alternative, for a new trial. The Company intends to defend against this lawsuit vigorously. As of December 31, 2008, the Company has recorded a reserve relating to the case of $281 million. See Note 3 to the accompanying consolidated financial statements.

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Bebo Acquisition

On May 14, 2008, the Company, through its AOL segment, completed the acquisition of Bebo, a leading global social media network, for $860 million, net of cash acquired, $8 million of which was paid by the Company in the first quarter of 2009. The operating results of Bebo did not significantly impact the Company s consolidated financial results for the year ended December 31, 2008. See Note 3 to the accompanying consolidated financial statements.

Buy.at Acquisition

On February 5, 2008, the Company, through its AOL segment, completed the acquisition of Perfiliate Limited (buy.at), which provides performance-based e-commerce marketing services to advertisers, for $125 million in cash, net of cash acquired. The operating results of buy.at did not significantly impact the Company s consolidated financial results for the year ended December 31, 2008. See Note 3 to the accompanying consolidated financial statements.

Impairment Testing of Goodwill and Identifiable Intangible Assets

In connection with the annual impairment analyses, which were performed during the fourth quarter of 2008, the Company recorded asset impairments of $24.168 billion. The asset impairments recorded reduced the carrying values of goodwill at the AOL and Publishing segments by $2.207 billion and $6.007 billion, respectively, the carrying values of certain tradenames at the Publishing segment by $1.132 billion, including $614 million of finite-lived intangible assets, and the carrying values of cable franchise rights at the Cable segment by $14.822 billion. See Notes 1 and 2 to the accompanying consolidated financial statements.

RESULTS OF OPERATIONS

Recent Accounting Standards

See Note 1 to the accompanying consolidated financial statements for a discussion of recent accounting standards.

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Significant Transactions and Other Items Affecting Comparability

As more fully described herein and in the related notes to the accompanying consolidated financial statements, the comparability of Time Warner s results from continuing operations has been affected by significant transactions and certain other items in each period as follows (millions):

	Years Ended December 31,		
	2008	**2007**	**2006**
Amounts related to securities litigation and government investigations	$ (21)	$ (171)	$ (705)
Asset impairments	(24,309)	(36)	(213)
Gain (loss) on disposal of assets, net	(16)	689	791
Impact on Operating Income (Loss)	(24,346)	482	(127)
Investment gains (losses), net	(426)	211	1,048
Costs related to the separation of TWC	(217)		
Share of equity investment gain on disposal of assets	30		
Minority interest impacts on certain of the above items	2,386	(58)	(38)
Pretax impact	(22,573)	635	883
Income tax impact	5,597	(340)	(573)
Other tax items affecting comparability	(6)	131	1,384
After-tax impact	$ (16,982)	$ 426	$ 1,694

In addition to the items affecting comparability above, the Company incurred merger-related, restructuring and shutdown costs of $359 million, $262 million and $400 million during the years ended December 31, 2008, 2007 and 2006, respectively. For further discussions of merger-related, restructuring and shutdown costs, refer to the Consolidated Results and Business Segment Results discussions.

Amounts Related to Securities Litigation

The Company recognized legal reserves as well as legal and other professional fees related to the defense of various securities lawsuits, totaling $21 million, $180 million and $762 million in 2008, 2007 and 2006, respectively. In addition, the Company recognized related insurance recoveries of $9 million and $57 million in 2007 and 2006, respectively.

Asset Impairments

During the year ended December 31, 2008, the Company recorded noncash impairments related to goodwill and identifiable intangible assets of $14.822 billion, $7.139 billion and $2.207 billion at the Cable, Publishing and AOL segments, respectively. The Company also recorded noncash impairments of $22 million related to asset writedowns in connection with facility consolidations at the AOL segment, $45 million related to certain non-core cable systems at the Cable segment, $18 million related to GameTap, an online video game business, at the Networks segment and $30 million related to a sub-lease with a tenant that filed for bankruptcy in September 2008, $21 million related to Southern Living At Home, which is held for sale, and $5 million related to certain other asset write-offs at the Publishing segment. See Notes 1 and 2 to the accompanying consolidated financial statements.

During the year ended December 31, 2007, the Company recorded noncash impairments of $2 million at the AOL segment related to asset write-offs in connection with facility closures and a $34 million noncash impairment at the Networks segment related to the impairment of the Courtroom Television Network LLC (Court TV) tradename as a result of rebranding the Court TV network name to truTV.

During the year ended December 31, 2006, the Company recorded a noncash impairment of $200 million at the Networks segment to reduce the carrying value of The WB Network s goodwill. In September 2006, the stand-alone

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operations of The WB Network ceased and the business was contributed into The CW Television Network (The CW). In addition, the Company recorded a $13 million noncash impairment at the AOL segment related to asset writedowns and the closure of several facilities.

Gain (Loss) on Disposal of Assets, Net

For the year ended December 31, 2008, the Company recorded a $13 million loss on the sale of certain non-core cable systems at the Cable segment and a $3 million loss on the sale of GameTap at the Networks segment.

For the year ended December 31, 2007, the Company recorded a $16 million gain related to the sale of a building, a net pretax gain of $668 million on the sale of AOL s German access business and a net $1 million reduction to the gain on the sale of AOL s U.K. access business at the AOL segment and a $6 million gain on the sale of four non-strategic magazine titles at the Publishing segment.

For the year ended December 31, 2006, the Company recorded a $769 million gain on the sales of AOL s French and U.K. access businesses and a $2 million gain from the resolution of a previously contingent gain related to the 2004 sale of Netscape Security Solutions (NSS) at the AOL segment and a gain of $20 million at the Corporate segment related to the sale of two aircraft.

Investment Gains (Losses), Net

For the year ended December 31, 2008, the Company recognized net losses of $426 million primarily related to a $367 million impairment of the Company s investment in Clearwire LLC, a $38 million impairment of the Company s investment in Eidos plc (formerly SCi Entertainment Group plc) (Eidos), and $10 million of losses resulting from market fluctuations in equity derivative instruments. See Note 4 to the accompanying consolidated financial statements.

For the year ended December 31, 2007, the Company recognized net gains of $211 million primarily related to the sale of investments, including a $56 million gain on the sale of the Company s investment in Oxygen Media Corporation, a $100 million gain on the Company s sale of its 50% interest in Bookspan and a $146 million gain at the Cable segment on TWC s deemed sale of its 50% interest in the pool of assets consisting of the Houston cable systems (the Houston Pool) in connection with the distribution of the assets of Texas and Kansas City Cable Partners, L.P. (TKCCP) to TWC and Comcast (the TKCCP Gain), partially offset by a $73 million impairment of the Company s investment in The CW and a $57 million impairment of the Company s investment in Eidos. For the year ended December 31, 2007, investment gains, net also included $2 million of gains resulting from market fluctuations in equity derivative instruments.

For the year ended December 31, 2006, the Company recognized net gains of $1.048 billion primarily related to the sale of investments, including an $800 million gain on the sale of the Company s investment in Time Warner Telecom Inc. (Time Warner Telecom), a $157 million gain on the sale of the Company s investment in the Warner Village Theme Parks (the Theme Parks) and a $51 million gain on the sale of the Company s investment in Canal Satellite Digital. For the year ended December 31, 2006, investment gains, net also included $10 million of gains resulting from market fluctuations in equity derivative instruments.

Costs Related to the Separation of TWC

During the year ended December 31, 2008, the Company incurred pretax costs related to the separation of TWC of $217 million, including direct transaction costs (e.g., legal and professional fees) of $29 million (which have been reflected in other income (loss), net in the accompanying consolidated statement of operations), and financing costs incurred in anticipation of the TWC Separation Transactions of $188 million (which have been reflected in interest expense, net in the accompanying consolidated statement of operations). For the year ended December 31, 2008, financing costs included $143 million in net interest expense on the $7.0 billion principal amount of debt

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securities issued in the 2008 Cable Bond Offerings (after considering the impact of the use of a portion of the net proceeds of such offerings to repay variable-rate debt with lower interest rates and the investment of the remainder in various short-term investments) and $45 million of debt issuance costs, primarily related to the portion of the upfront loan fees for the 2008 Cable Bridge Facility that was expensed due to the reduction of commitments under such facility as a result of the 2008 Cable Bond Offerings. The Company expects to incur additional direct transaction costs and financing costs related to the separation of TWC.

Share of Equity Investment Gain on Disposal of Assets

For the year ended December 31, 2008, the Company recognized its $30 million share of a pretax gain on the sale of a Central European documentary channel of an equity method investee.

Minority Interest Impacts

For the year ended December 31, 2008, expense of $2.386 billion was attributed to minority interests associated with items affecting comparability, which primarily reflects the respective minority owners shares of impairments related to goodwill and identifiable intangible assets, the costs related to the separation of TWC and the impairment of certain non-core cable systems.

For the year ended December 31, 2007, income of $58 million was attributed to minority interests associated with items affecting comparability, which primarily reflects the respective minority owners shares of the gains on TWC s deemed sale of its interest in the Houston Pool and on the sale of AOL s German access business.

For the year ended December 31, 2006, income of $38 million was attributed to minority interest associated with items affecting comparability, which primarily reflects Google s share of the gains on the sales of AOL s French and U.K. access businesses.

Income Tax Impact and Other Tax Items Affecting Comparability

The income tax impact reflects the estimated tax or tax benefit associated with each item affecting comparability. Such estimated taxes or tax benefits vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain gains. The Company s tax provision also includes certain other items affecting comparability, including, for the year ended December 31, 2007, tax benefits of $125 million related to the realization of tax attribute carryforwards and, for the year ended December 31, 2006, tax benefits of $1.134 billion related to the realization of tax attribute carryforwards and $234 million related primarily to tax reserves associated with shareholder litigation.

2008 vs. 2007

Consolidated Results

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations.

Revenues. The components of revenues are as follows (millions):

	Years Ended December 31, 2008	2007	% Change
Subscription	$ 25,786	$ 24,904	4%
Advertising	8,742	8,799	(1%)
Content	11,432	11,708	(2%)
Other	1,024	1,071	(4%)
Total revenues	$ 46,984	$ 46,482	1%

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The increase in Subscription revenues for the year ended December 31, 2008 was primarily related to increases at the Cable and Networks segments, offset partially by a decline at the AOL segment. The increase at the Cable segment was primarily driven by the continued growth of digital video subscriptions and video price increases, as well as growth in high-speed data and Digital Phone subscribers. The increase at the Networks segment was due primarily to higher subscription rates at both Turner and HBO and, to a lesser extent, an increase in the number of subscribers for Turner s networks, as well as the impact of international expansion. The decline in Subscription revenues at the AOL segment resulted primarily from a decrease in the number of domestic AOL brand subscribers and the sale of AOL s German access business in the first quarter of 2007, which resulted in a decrease of approximately $90 million for the year ended December 31, 2008.

The decrease in Advertising revenues for the year ended December 31, 2008 was primarily due to declines at the Publishing and AOL segments, partially offset by growth at the Networks segment. The decrease at the Publishing segment was due to declines in domestic print Advertising revenues, international print Advertising revenues, including the impact of foreign exchange rates at IPC, and custom publishing revenues, as well as the impacts of the 2007 closures of *LIFE* and *Business 2.0* magazines and the sale of four non-strategic magazine titles in the third quarter of 2007, partly offset by growth in online revenues. The decrease at the AOL segment was primarily due to declines in display advertising, partially offset by an increase in paid search advertising. The increase in Advertising revenues at the Networks segment was driven primarily by Turner s domestic entertainment and news networks.

The decrease in Content revenues for the year ended December 31, 2008 was principally related to a decline at the Filmed Entertainment segment, mainly due to decreases in both television and theatrical product revenues, partially offset by the impact of the acquisition of TT Games Limited (TT Games) in the fourth quarter of 2007.

Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. For 2008 and 2007, costs of revenues totaled $27.289 billion and $27.426 billion, respectively, and, as a percentage of revenues, were 58% and 59%, respectively. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 5% to $10.163 billion in 2008 from $9.653 billion in 2007. The increase in selling, general and administrative expenses is primarily related to increases at the Networks, Filmed Entertainment and Cable segments, partially offset by declines at the AOL and Publishing segments. The segment variations are discussed in detail in Business Segment Results.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which increased to $3.806 billion in 2008 from $3.738 billion in 2007, primarily related to an increase at the Cable segment, partially offset by a decline at the AOL segment. The increase at the Cable segment was primarily associated with purchases of customer premise equipment, scalable infrastructure and line extensions occurring during or subsequent to 2007. The decline at the AOL segment was primarily due to a reduction in network assets due to subscriber declines.

Amortization Expense. Amortization expense increased 16% to $784 million in 2008 from $674 million in 2007, related to increases at the AOL, Networks and Filmed Entertainment segments, primarily due to recent business acquisitions.

Amounts Related to Securities Litigation. The Company recognized legal reserves as well as legal and other professional fees related to the defense of various securities lawsuits totaling $21 million and $180 million in 2008 and 2007, respectively. In addition, the Company recognized related insurance recoveries of $9 million in 2007.

Merger-related, Restructuring and Shutdown Costs. During the year ended December 31, 2008, the Company incurred restructuring costs of $359 million, primarily related to various employee terminations and other exit activities, including $17 million at the AOL segment, $15 million at the Cable segment, $142 million at the Filmed Entertainment segment, $176 million at the Publishing segment and $12 million at the Corporate

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segment, partially offset by a reversal of $3 million at the Networks segment. The total number of employees terminated across the segments in 2008 was approximately 2,800.

During the year ended December 31, 2007, the Company incurred restructuring costs of $262 million, primarily related to various employee terminations and other exit activities, including $125 million at the AOL segment, $13 million at the Cable segment, $37 million at the Networks segment, $67 million at the Publishing segment and $10 million at the Corporate segment. The total number of employees terminated across the segments in 2007 was approximately 4,400. In addition, the Cable segment also expensed $10 million of non-capitalizable merger-related and restructuring costs associated with the 2006 transactions with Adelphia Communications Corporation (Adelphia) and Comcast (the Adelphia/Comcast Transactions) (Note 12).

Operating Income (Loss). Operating Loss was $15.957 billion in 2008 compared to Operating Income of $8.949 billion in 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $24.346 billion of expense, net and $482 million of income, net for 2008 and 2007, respectively, Operating Income (Loss) decreased $78 million, primarily reflecting declines at the Publishing, AOL and Filmed Entertainment segments, partially offset by growth at the Cable and Networks segments and decreased expenses at the Corporate segment. The segment variations are discussed under Business Segment Results.

Interest Expense, Net. Interest expense, net decreased to $2.250 billion in 2008 from $2.299 billion in 2007. The decrease in interest expense is primarily due to lower average interest rates on net debt, partially offset by $45 million of debt issuance costs primarily related to the portion of the upfront loan fees for the 2008 Cable Bridge Facility that was expensed at the Cable segment due to the reduction of commitments under such facility as a result of the 2008 Cable Bond Offerings. Included in interest expense, net for 2008 was $143 million in net interest expense on the $7.0 billion principal amount of debt securities issued in the 2008 Cable Bond Offerings (after considering the impact of the use of a portion of the net proceeds of such offerings to repay variable-rate debt with lower interest rates and the investment of the remainder in various short-term investments).

Other Income (Loss), Net. Other income (loss), net detail is shown in the table below (millions):

	Years Ended December 31, 2008	Years Ended December 31, 2007
Investment gains (losses), net	$ (426)	$ 211
Income (loss) from equity investees, net	34	(14)
Other	(24)	(52)
Other income (loss), net	$ (416)	$ 145

The changes in investment gains (losses), net are discussed under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of investment gains (losses), net, other income, net increased mainly due to higher income from equity method investees for the year ended December 31, 2008 primarily due to the Company s recognition of its $30 million share of a pretax gain on the sale of a Central European documentary channel of an equity method investee and a decrease in other losses primarily as a result of the favorable impact of foreign exchange rates.

Minority Interest Income (Expense), Net. Time Warner had $1.974 billion of minority interest income, net in 2008 compared to $408 million of minority interest expense, net in 2007. The change related primarily to the minority owners shares of the noncash impairments related to goodwill and identifiable intangible assets, the costs related to the separation of TWC, the impairment of certain non-core cable systems and the absence in the first quarter of 2008 of the respective minority owners shares of the gain on the sale of AOL s German access business and the TKCCP Gain, both of which occurred during the first quarter of 2007.

Income Tax Benefit (Provision). Income tax benefit from continuing operations was $3.247 billion in 2008 compared to an expense of $2.336 billion in 2007. The Company s effective tax rate for continuing operations was a

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benefit of 20% for the year ended December 31, 2008 compared to an expense of 37% for year ended December 31, 2007. The change is primarily attributable to the portion of the goodwill impairments that do not generate a tax benefit.

Income (Loss) from Continuing Operations. Loss from continuing operations was $13.402 billion in 2008 compared to income of $4.051 billion in 2007. Basic and diluted loss per common share from continuing operations were both $3.74 in 2008 compared to basic and diluted income per common share from continuing operations of $1.09 and $1.08, respectively, in 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $16.982 million of expense and $426 million of income, net in 2008 and 2007, respectively, income from continuing operations decreased by $45 million, primarily reflecting lower Operating Income (Loss), as noted above.

Discontinued Operations, Net of Tax. The financial results for the year ended December 31, 2007 included the impact of treating certain businesses sold, which included Tegic Communications, Inc. (Tegic), Wildseed LLC (Wildseed), the Parenting Group, most of the Time4 Media magazine titles, *The Progressive Farmer* magazine, Leisure Arts, Inc. (Leisure Arts) and the Atlanta Braves baseball franchise (the Braves), as discontinued operations. For additional information, see Note 3 to the accompanying consolidated financial statements.

Net Income (Loss) and Net Income (Loss) Per Common Share. Net loss was $13.402 billion in 2008 compared to net income of $4.387 billion in 2007. Basic and diluted net loss per common share were both $3.74 in 2008 compared to basic and diluted net income per common share $1.18 and $1.17, respectively, in 2007.

Business Segment Results

AOL. Revenues, Operating Income (Loss) before Depreciation and Amortization and Operating Income (Loss) of the AOL segment for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	2007	% Change
Revenues:			
Subscription	$ 1,929	$ 2,788	(31%)
Advertising	2,096	2,231	(6%)
Other	140	162	(14%)
Total revenues	4,165	5,181	(20%)
Costs of revenues[(a)]	(1,973)	(2,289)	(14%)
Selling, general and administrative[(a)]	(617)	(931)	(34%)
Gain on disposal of consolidated businesses		667	(100%)
Gain on disposal of assets		16	(100%)
Asset impairments	(2,229)	(2)	NM
Restructuring costs	(17)	(125)	(86%)

Operating Income (Loss) before Depreciation and Amortization	(671)	2,517	NM
Depreciation	(310)	(408)	(24%)
Amortization	(166)	(96)	73%
Operating Income (Loss)	$ (1,147)	$ 2,013	NM

(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

The decline in Subscription revenues was primarily due to a decrease in the number of domestic AOL brand subscribers and the sale of AOL s German access business in the first quarter of 2007, which resulted in a decrease of approximately $90 million for the year ended December 31, 2008.

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The number of domestic AOL brand subscribers was 6.9 million, 7.5 million and 9.3 million as of December 31, 2008, September 30, 2008 and December 31, 2007, respectively. The average revenue per domestic AOL brand subscriber (ARPU) was $18.38 and $18.66 for the years ended December 31, 2008 and 2007, respectively. AOL includes in its subscriber numbers individuals, households and entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL service. Domestic AOL brand subscribers include subscribers participating in introductory free-trial periods and subscribers that are not paying any, or are paying reduced, monthly fees through member service and retention programs, which together represent 2% or less of AOL s total subscribers as of December 31, 2008 and 2007. Individuals who have registered for the free AOL service, including subscribers who have migrated from paid subscription plans, are not included in the AOL brand subscriber numbers presented above.

The continued decline in domestic subscribers is the result of a number of factors, including the effects of AOL s strategy, which has resulted in the migration of subscribers to the free AOL services, declining registrations for the paid service in response to AOL s significantly reduced marketing efforts and increased competition from broadband access providers. The decrease in ARPU for the year ended December 31, 2008 compared to the year ended December 31, 2007 was due primarily to a shift in the subscriber mix to lower-priced plans and a decrease in premium services revenues, partially offset by an increase in the percentage of revenue-generating customers and price increases for lower-priced plans.

Advertising services include display advertising (which includes certain types of impression-based and performance-driven advertising) and paid-search advertising, both domestically and internationally, which are provided on both the AOL Network and the Third Party Network. The components of Advertising revenues for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	**2007**	**% Change**
AOL Network:			
Display	$ 751	$ 919	(18%)
Paid-search	699	657	6%
Total AOL Network	1,450	1,576	(8%)
Third Party Network	646	655	(1%)
Total Advertising revenues	$ 2,096	$ 2,231	(6%)

The decrease in display Advertising revenues generated on the AOL Network was primarily due to weak economic conditions resulting in lower demand from a number of advertiser categories, the challenges of integrating recently acquired businesses (including certain sales execution and system integration issues), increased volume of inventory monetized through lower priced sales channels and pricing declines in certain inventory segments. In addition, display Advertising revenues generated on the AOL Network for the year ended December 31, 2007 included a $19 million benefit recognized in the first quarter of 2007 related to a change in an accounting estimate as a result of more timely system data. The increase in paid-search Advertising revenues on the AOL Network, which are generated primarily through AOL s strategic relationship with Google, was attributable primarily to broader distribution through the AOL Network and higher revenues per search query on certain AOL Network properties.

The decrease in Advertising revenues on the Third Party Network was primarily due to a decrease of $189 million due to a change in the relationship with a major customer of Platform-A Inc., partly offset by increased revenues of $131 million attributable to recent business acquisitions and other advertising growth of $49 million. The Company anticipates a continued decline in Advertising revenues from this customer in 2009. The Company generated $17 million of revenues from this customer in the first quarter of 2008.

Total Advertising revenues for the three months ended December 31, 2008 were flat compared to the three months ended September 30, 2008, reflecting a decrease in search and display Advertising revenues at AOL Europe,

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due in part to the impact of foreign exchange rates, offset primarily by an increase in domestic display Advertising revenue on the AOL Network due to seasonality.

The Company expects Advertising revenues at the AOL segment in the first quarter of 2009 to be less than those generated during the first quarter of 2008, primarily reflecting weak economic conditions.

Costs of revenues decreased 14%, and, as a percentage of revenues, were 47% and 44% in 2008 and 2007, respectively. Excluding an approximate $70 million decrease attributable to the sales of AOL s European access businesses, costs of revenues declined due primarily to decreases in network-related expenses, personnel-related costs including incentive pay, royalties and customer service expenses, primarily associated with the closures and sales of certain customer support call centers, partially offset by an increase in TAC. TAC consists of the costs of acquiring third-party online advertising inventory and costs incurred in connection with distributing AOL s free products or services or otherwise directing traffic to the AOL Network. TAC increased 14% to $687 million in 2008 from $604 million in 2007, due primarily to a new product distribution agreement.

Selling, general and administrative expenses decreased 34% to $617 million in 2008, of which approximately $30 million was attributable to the sales of AOL s European access businesses. The remaining decrease in selling, general and administrative expenses reflects a significant reduction in direct marketing costs of approximately $120 million, primarily due to reduced subscriber acquisition marketing as part of AOL s strategy, and other cost savings, primarily related to reduced headcount and other personnel-related costs including incentive pay. Selling, general and administrative expenses for 2008 also included $22 million of external costs related to the process of separating AOL s Access Services and Global Web Services businesses.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the 2008 results included a $2.207 billion noncash impairment to reduce the carrying value of goodwill and a $22 million noncash impairment related to asset writedowns in connection with facility consolidations. The 2007 results included a net pretax gain of $668 million on the sale of AOL s German access business, a net $1 million reduction to the gain on the sale of AOL s U.K. access business, a gain of $16 million related to the sale of a building and a $2 million noncash asset impairment related to asset write-offs in connection with facility closures. In addition, the 2008 results included net restructuring charges of $17 million primarily related to involuntary employee terminations and facility closures and the 2007 results included net restructuring charges of $125 million, reflecting $140 million of restructuring charges, primarily related to involuntary employee terminations, asset write-offs and facility closures, which were partially offset by the reversal of $15 million of restructuring charges that were no longer needed due to changes in estimates. Beginning in the first quarter of 2009, AOL is undertaking a significant restructuring, primarily of its Global Web Services business, and expects to incur restructuring charges ranging from $125 million to $150 million primarily in the first half of 2009.

As discussed above, Operating Loss before Depreciation and Amortization in 2008 was negatively impacted by $2.229 billion of asset impairments and prior year gains on the disposal of consolidated businesses and assets of $667 million and $16 million, respectively. Excluding these items, Operating Income before Depreciation and Amortization decreased due primarily to a decline in revenues, partially offset by lower costs of revenues and selling, general and administrative expenses. Also excluding these items, the decrease in Operating Income was due primarily to the decrease in Operating Income before Depreciation and Amortization, as discussed above, as well as an increase in amortization expense associated with finite-lived intangible assets related to AOL s recent business acquisitions, partially offset by a decrease in depreciation expense as a result of a reduction in network assets due to subscriber declines.

The Company anticipates that, excluding the effect of asset impairments, Operating Income before Depreciation and Amortization and Operating Income at the AOL segment during 2009 will be less than that generated during 2008, primarily resulting from continuing declines in Subscription revenues as well as the impact of the planned restructuring activities.

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Cable. Revenues, Operating Income (Loss) before Depreciation and Amortization and Operating Income (Loss) of the Cable segment for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	**2007**	**% Change**
Revenues:			
Subscription	$ 16,302	$ 15,088	8%
Advertising	898	867	4%
Total revenues	17,200	15,955	8%
Costs of revenues[a]	(8,145)	(7,542)	8%
Selling, general and administrative[a]	(2,854)	(2,648)	8%
Loss on disposal of consolidated business	(13)		NM
Asset impairments	(14,867)		NM
Merger-related and restructuring costs	(15)	(23)	(35%)
Operating Income (Loss) before Depreciation and Amortization	(8,694)	5,742	NM
Depreciation	(2,826)	(2,704)	5%
Amortization	(262)	(272)	(4%)
Operating Income (Loss)	$ (11,782)	$ 2,766	NM

[a] Costs of revenues and selling, general and administrative expenses exclude depreciation.

Revenues, including the components of Subscription revenues, are as follows for the years ended December 31, 2008 and 2007 (millions):

	Years Ended December 31,		
	2008	**2007**	**% Change**
Subscription revenues:			
Video	$ 10,524	$ 10,165	4%
High-speed data	4,159	3,730	12%
Voice[a]	1,619	1,193	36%
Total Subscription revenues	16,302	15,088	8%
Advertising revenues	898	867	4%

Total revenues	$ 17,200	$ 15,955	8%

[(a)] For the year ended December 31, 2007, voice revenues include $34 million of revenues associated with subscribers who received traditional, circuit-switched telephone service.

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Selected subscriber-related statistics as of December 31, 2008 and 2007 are as follows (thousands):

	As of December 31,		
	2008	**2007**	**% Change**
Basic video[(a)]	13,069	13,251	(1%)
Digital video[(b)]	8,627	8,022	8%
Residential high-speed data[(c)(d)]	8,444	7,620	11%
Commercial high-speed data[(c)(d)]	283	280	1%
Residential Digital Phone[(d)(e)]	3,747	2,890	30%
Commercial Digital Phone[(d)(e)]	30	5	NM
Revenue generating units[(f)]	34,200	32,077	7%
Customer relationships[(g)]	14,582	14,626	
Double play[(h)]	4,794	4,703	2%
Triple play[(i)]	3,099	2,363	31%

(a) Basic video subscriber numbers reflect billable subscribers who receive at least basic video service.

(b) Digital video subscriber numbers reflect billable subscribers who receive any level of video service at their dwelling or commercial establishment via digital transmissions.

(c) High-speed data subscriber numbers reflect billable subscribers who receive TWC s Road Runner high-speed data service or any of the other high-speed data services offered by TWC.

(d) The determination of whether a high-speed data or Digital Phone subscriber is categorized as commercial or residential is generally based upon the type of service provided to that subscriber. For example, if TWC provides a commercial service, the subscriber is classified as commercial.

(e) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service. Residential Digital Phone subscriber numbers as of December 31, 2007 exclude 9,000 subscribers who received traditional, circuit-switched telephone service. During the first half of 2008, TWC completed the process of discontinuing the provision of circuit-switched telephone service in accordance with regulatory requirements. As a result, during 2008, Digital Phone was the only voice service offered by TWC.

(f) Revenue generating units represent the total of all basic video, digital video, high-speed data and voice (including circuit-switched telephone service, as applicable) subscribers.

(g) Customer relationships represent the number of subscribers who receive at least one level of service, encompassing video, high-speed data and voice services, without regard to the number of services purchased. For example, a subscriber who purchases only high-speed data service and no video service will count as one customer relationship, and a subscriber who purchases both video and high-speed data services will also count as only one customer relationship.

(h) Double play subscriber numbers reflect customers who subscribe to two of TWC s primary services (video, high-speed data and voice).

(i) Triple play subscriber numbers reflect customers who subscribe to all three of TWC s primary services.

Subscription revenues increased, primarily driven by the continued growth of digital video subscriptions and video price increases, as well as growth in high-speed data and Digital Phone subscribers. Digital video revenues, which include revenues from digital tiers, digital pay channels, pay-per-view, video-on-demand, subscription-video-on-demand and digital video recorder services, represented 24% and 23% of video revenues in 2008 and 2007, respectively. Advertising revenues increased primarily due to an increase in political advertising revenues, partially offset by a decline in Advertising revenues from national, regional and local businesses. The Company expects that Advertising revenues will decline in 2009 due to a decline in political advertising revenues and continued weakness in Advertising revenues from national, regional and local businesses.

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The components of costs of revenues for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	**2007**	**% Change**
Costs of revenues:			
Video programming	$ 3,753	$ 3,534	6%
Employee	2,338	2,164	8%
High-speed data	146	164	(11%)
Voice	552	455	21%
Video franchise fees	459	437	5%
Other direct operating costs	897	788	14%
Total costs of revenues	$ 8,145	$ 7,542	8%

Costs of revenues increased 8%, and, as a percentage of revenues, were 47% in both 2008 and 2007. Video programming costs increased primarily due to contractual rate increases and an increase in the percentage of basic video subscribers who also subscribe to expanded tiers of video services. The Company expects video programming costs to increase in 2009 at a rate greater than that experienced in 2008, reflecting programming rate increases on existing services, costs associated with retransmission consent agreements, subscriber growth and the expansion of service offerings. Employee costs increased primarily due to higher headcount resulting from the continued growth of digital video, high-speed data and Digital Phone services, as well as salary increases. High-speed data costs decreased primarily due to a decrease in per-subscriber connectivity costs, partially offset by growth in subscribers and usage per subscriber. Voice costs increased primarily due to growth in Digital Phone subscribers, partially offset by a decline in per-subscriber connectivity costs due to volume discounts received in 2008. Other direct operating costs increased primarily due to increases in certain other costs associated with the continued growth of digital video, high-speed data and Digital Phone services.

The increase in selling, general and administrative expenses was primarily attributable to higher employee costs primarily due to headcount and salary increases, as well as higher marketing costs primarily resulting from intensified marketing efforts. Selling, general and administrative expenses for the year ended December 31, 2008 also included a benefit of approximately $16 million due to changes in estimates of previously established casualty insurance accruals.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the 2008 results included a $14.822 billion noncash impairment of cable franchise rights, a $45 million noncash impairment of certain non-core cable systems and a $13 million loss on the sale of these non-core cable systems. In addition, the results for 2008 and 2007 included other restructuring costs of $15 million and $13 million, respectively, and during 2007, TWC expensed $10 million of non-capitalizable merger-related costs associated with the Adelphia/Comcast Transactions. Beginning in the first quarter of 2009, TWC is undertaking a significant restructuring, primarily consisting of headcount reductions, and expects to incur restructuring charges ranging from $50 million to $100 million during 2009.

As discussed above, Operating Loss before Depreciation and Amortization in 2008 was negatively impacted by $14.867 billion of asset impairments. Excluding the asset impairments, Operating Income before Depreciation and Amortization increased principally as a result of revenue growth (particularly in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses. Also excluding the asset impairments, Operating Income increased primarily due to the increase in Operating Income before Depreciation and Amortization, partially offset by an increase in depreciation expense, primarily associated with purchases of customer premise equipment, scalable infrastructure and line extensions occurring during or subsequent to 2007.

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Filmed Entertainment. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Filmed Entertainment segment for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	2007	% Change
Revenues:			
Subscription	$ 39	$ 30	30%
Advertising	88	48	83%
Content	11,030	11,355	(3%)
Other	241	249	(3%)
Total revenues	11,398	11,682	(2%)
Costs of revenues[a]	(8,161)	(8,856)	(8%)
Selling, general and administrative[a]	(1,867)	(1,611)	16%
Restructuring costs	(142)		NM
Operating Income before Depreciation and Amortization	1,228	1,215	1%
Depreciation	(167)	(153)	9%
Amortization	(238)	(217)	10%
Operating Income	$ 823	$ 845	(3%)

[a] Costs of revenues and selling, general and administrative expenses exclude depreciation.

Content revenues primarily include theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television). The components of Content revenues for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	2007	% Change
Theatrical product:			
Theatrical film	$ 1,861	$ 2,131	(13%)
Home video and electronic delivery	3,320	3,483	(5%)
Television licensing	1,574	1,451	8%
Consumer products and other	191	166	15%
Total theatrical product	6,946	7,231	(4%)

Television product:			
Television licensing	2,274	2,691	(15%)
Home video and electronic delivery	814	832	(2%)
Consumer products and other	224	240	(7%)
Total television product	3,312	3,763	(12%)
Other	772	361	114%
Total Content revenues	$ 11,030	$ 11,355	(3%)

The decline in theatrical film revenues was due primarily to difficult comparisons to the prior year. Revenues for 2008 included *The Dark Knight*, *10,000 B.C.*, *Sex and the City: The Movie*, *Get Smart* and *Journey to the Center of the Earth*, while revenues for 2007 included *Harry Potter and the Order of the Phoenix*, *I Am Legend*, *300* and *Ocean s Thirteen*.

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Theatrical product revenues from home video and electronic delivery decreased due primarily to difficult comparisons to the prior year. Revenues for 2008 included *The Dark Knight*, *I Am Legend*, *10,000 B.C.*, *The Bucket List* and *Sex and the City: The Movie*, while revenues for 2007 included *Harry Potter and the Order of the Phoenix*, *300*, *Happy Feet*, *The Departed*, *Hairspray* and *Rush Hour 3*. Also contributing to the decline in theatrical product revenues from home video and electronic delivery was a decrease in the rate at which consumers are buying DVDs, reflecting, in part, deteriorating worldwide economic conditions during the last half of 2008. Theatrical product revenues from television licensing increased due primarily to the timing and number of availabilities.

Television product licensing fees decreased primarily as a result of the impact in 2007 of the initial off-network availabilities of *Two and a Half Men, Cold Case* and *The George Lopez Show*, as well as the impact in 2008 of the Writers Guild of America (East and West) strike, which was settled in February 2008. This decrease was partially offset by the 2008 off-network license fees from *Seinfeld*. The decrease in television product revenues from home video and electronic delivery primarily reflects a decline in catalog revenue which more than offsets revenue from new releases, including *The Closer*, *Gossip Girl*, *One Tree Hill*, *Terminator: The Sarah Connor Chronicles* and *Two and a Half Men*.

The increase in other Content revenues was due primarily to the impact of the acquisition of TT Games in the fourth quarter of 2007, which resulted in revenues from the 2008 releases of *LEGO Indiana Jones* and *LEGO Batman*, as well as the expansion of the distribution of interactive video games.

The decrease in costs of revenues resulted primarily from lower theatrical advertising and print costs due to the timing, quantity and mix of films released as well as lower film costs ($4.741 billion in 2008 compared to $4.931 billion in 2007). Included in film costs are net pre-release theatrical film valuation adjustments, which decreased to $84 million in 2008 from $240 million in 2007. In addition, during the year ended December 31, 2008, the Company recognized approximately $53 million in participation expense related to current claims on films released in prior periods. Costs of revenues as a percentage of revenues decreased to 72% in 2008 from 76% in 2007, reflecting the quantity and mix of products released.

The increase in selling, general and administrative expenses was primarily the result of higher employee costs, which includes additional headcount to support the expansion of games distribution, digital platforms and other initiatives, partially offset by cost reductions realized in connection with the operational reorganization of the New Line business. The increase also reflects higher distribution costs attributable to the increase in games revenues, as well as a $30 million bad debt charge for potential credit losses related to several customers that have recently filed for bankruptcy.

The 2008 results included restructuring charges of $142 million primarily related to involuntary employee terminations in connection with the operational reorganization of the New Line business. Beginning in the first quarter of 2009, Warner Bros. is undertaking a significant restructuring, primarily consisting of headcount reductions and the outsourcing of certain functions to an external service provider, and expects to incur restructuring charges ranging from $75 million to $100 million during 2009.

Operating Income before Depreciation and Amortization and Operating Income increased primarily due to lower costs of revenues, partly offset by a decrease in revenues, higher selling, general and administrative expenses and higher restructuring charges.

The Company anticipates Operating Income before Depreciation and Amortization and Operating Income at the Filmed Entertainment segment will decline in the first quarter of 2009 compared to the comparable period in 2008 due to difficult home video comparisons, primarily resulting from a reduction in the number of theatrical home videos released and a decline in the rate at which consumers are purchasing DVDs.

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Networks. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Networks segment for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31, 2008	2007	% Change
Revenues:			
Subscription	$ 6,835	$ 6,258	9%
Advertising	3,359	3,058	10%
Content	900	909	(1%)
Other	60	45	33%
Total revenues	11,154	10,270	9%
Costs of revenues[a]	(5,316)	(5,014)	6%
Selling, general and administrative[a]	(2,333)	(1,849)	26%
Loss on disposal of consolidated business	(3)		NM
Asset impairments	(18)	(34)	(47%)
Restructuring costs	3	(37)	(108%)
Operating Income before Depreciation and Amortization	3,487	3,336	5%
Depreciation	(326)	(303)	8%
Amortization	(43)	(18)	139%
Operating Income	$ 3,118	$ 3,015	3%

[a] Costs of revenues and selling, general and administrative expenses exclude depreciation.

The increase in Subscription revenues was due primarily to higher subscription rates at both Turner and HBO and, to a lesser extent, an increase in the number of subscribers for Turner s networks, as well as the impact of international expansion.

The increase in Advertising revenues was driven primarily by Turner s domestic entertainment and news networks, reflecting mainly higher CPMs (advertising rates per thousand viewers) and audience delivery, as well as Turner s international networks, reflecting primarily an increase in the number of units sold. The Company anticipates that achieving Advertising revenue growth in the first quarter 2009 at the Networks segment will be challenging, due to the difficult economic environment.

The decrease in Content revenues primarily reflects lower syndication revenues associated with HBO s *Everybody Loves Raymond* as well as lower ancillary sales of HBO s original programming, partly offset by higher licensing and merchandising revenues at Turner.

Costs of revenues increased due primarily to increases in programming costs and election-related newsgathering costs, offset in part by lower content distribution costs. Programming costs increased 8% to $3.861 billion in 2008 from $3.575 billion in 2007 primarily due to costs associated with international expansion, an increase in sports programming costs at Turner, particularly related to NBA programming, and higher original and licensed programming costs. Programming costs for the years ended December 31, 2008 and 2007 also included $38 million and $6 million, respectively, of charges related to the decision to not proceed with certain original programming. Costs of revenues as a percentage of revenues were 48% in 2008 compared to 49% in 2007.

The increase in selling, general and administrative expenses reflected a $281 million charge as a result of a trial court judgment against Turner in December 2008 related to the 2004 sale of the Winter Sports Teams. The remainder of the increase in selling, general and administrative expenses reflected, in part, higher marketing expenses and increased costs related to international expansion.

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As previously noted under Significant Transactions and Other Items Affecting Comparability, the 2008 results included a $3 million loss on the sale of GameTap, an online video game business, and an $18 million noncash impairment of GameTap. The 2007 results included a $34 million noncash impairment of the Court TV tradename as a result of rebranding the network s name to truTV, effective January 1, 2008. In addition, the 2007 results included a charge of $37 million related to senior management changes at HBO, $3 million of which was reversed in 2008 due to changes in estimates.

Operating Income before Depreciation and Amortization increased primarily due to an increase in revenues, a decline in restructuring costs and the absence of the tradename impairment, partially offset by increases in selling, general and administrative expenses, which included the $281 million trial court judgment against Turner, costs of revenues and the impairment of GameTap. Operating Income increased due primarily to the increase in Operating Income before Depreciation and Amortization described above, offset in part by increased depreciation and amortization expenses related to the impact of international expansion.

Publishing. Revenues, Operating Income (Loss) before Depreciation and Amortization and Operating Income (Loss) of the Publishing segment for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	**2007**	**% Change**
Revenues:			
Subscription	$ 1,523	$ 1,551	(2%)
Advertising	2,419	2,698	(10%)
Content	63	53	19%
Other	603	653	(8%)
Total revenues	4,608	4,955	(7%)
Costs of revenues[a]	(1,813)	(1,885)	(4%)
Selling, general and administrative[a]	(1,840)	(1,905)	(3%)
Gain on sale of assets		6	(100%)
Asset impairments	(7,195)		NM
Restructuring costs	(176)	(67)	163%
Operating Income (Loss) before Depreciation and Amortization	(6,416)	1,104	NM
Depreciation	(133)	(126)	6%
Amortization	(75)	(71)	6%
Operating Income (Loss)	$ (6,624)	$ 907	NM

(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

Subscription revenues declined primarily due to decreases at IPC, resulting principally from the impact of foreign exchange rates, lower revenues from domestic subscription sales and the impact of the sale of four non-strategic magazine titles in the third quarter of 2007 (the 2007 magazine sales), partly offset by higher revenues from newsstand sales for certain domestic magazine titles driven by price increases.

Advertising revenues decreased due primarily to declines in domestic print Advertising revenues, international print Advertising revenues, including the impact of foreign exchange rates at IPC, and custom publishing revenues, as well as the impacts of the 2007 closures of *LIFE* and *Business 2.0* magazines (the 2007 magazine closures) and the 2007 magazine sales, partly offset by growth in online revenues, led by contributions from *People.com, CNNMoney.com* and *Time.com*. The Company anticipates that Advertising revenues at the Publishing segment for the first quarter of 2009 will decline compared to the first quarter of 2008, reflecting primarily the impact of the current economic environment.

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Other revenues decreased due primarily to decreases at Synapse, Southern Living At Home and Oxmoor House, partially offset by the impact of the acquisition of QSP.

Costs of revenues decreased 4% in 2008 and, as a percentage of revenues, were 39% in 2008 and 38% in 2007. Costs of revenues for the magazine publishing business include manufacturing costs (paper, printing and distribution) and editorial-related costs, which together decreased 4% to $1.558 billion in 2008, primarily due to cost savings initiatives and the impacts of the 2007 magazine closures and the 2007 magazine sales. Paper costs savings realized primarily as a result of lower volumes were partially offset by higher paper prices. The decrease in costs of revenues at the magazine publishing business, as well as a decrease in costs at the non-magazine businesses associated with lower volumes, were offset by increased costs associated with investments in certain digital properties, including incremental editorial-related costs, as well as operating costs associated with the acquisition of QSP.

Selling, general and administrative expenses decreased primarily due to cost savings initiatives, the impacts of the 2007 magazine closures and 2007 magazine sales and a decrease in promotion-related spending at the non-magazine businesses, partially offset by costs associated with investments in digital properties and costs associated with the acquisition of QSP, as well as an increase of $35 million in bad debt reserves.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the 2008 results included a $7.139 billion noncash impairment to reduce the carrying value of goodwill and identifiable intangible assets, a $30 million noncash asset impairment related to the sub-lease with a tenant that filed for bankruptcy in September 2008, a $21 million noncash impairment of Southern Living At Home, which is held for sale, and a $5 million noncash impairment related to certain other asset write-offs. The 2007 results included a $6 million gain on the 2007 magazine sales. In addition, the 2008 results included restructuring costs of $176 million primarily consisting of $119 million of severance and other costs associated with a significant reorganization of the Publishing segment s operations and $57 million related to the sub-lease with a tenant that filed for bankruptcy in September 2008. The 2007 results included restructuring costs of $67 million, primarily consisting of severance associated with efforts to streamline operations and costs related to the shutdown of *LIFE* magazine in the first quarter of 2007.

As discussed above, Operating Loss before Depreciation and Amortization in 2008 was negatively impacted by $7.195 billion of asset impairments. Excluding the asset impairments, Operating Income before Depreciation and Amortization decreased primarily due to a decline in revenues, partially offset by decreases in selling, general and administrative expenses and costs of revenues. Also excluding the asset impairments, Operating Income decreased due primarily to the decline in Operating Income before Depreciation and Amortization discussed above, and, an increase in depreciation expense due primarily to the completion of construction on IPC s new U.K. headquarters during the second quarter of 2007.

The Company anticipates that Operating Income before Depreciation and Amortization and Operating Income at the Publishing segment for the first quarter of 2009 will be less than that achieved during the first quarter of 2008, primarily resulting from the expected declines in Advertising revenues.

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Corporate. Operating Loss before Depreciation and Amortization and Operating Loss of the Corporate segment for the years ended December 31, 2008 and 2007 are as follows (millions):

	Years Ended December 31,		
	2008	**2007**	**% Change**
Amounts related to securities litigation and government investigations	$ (21)	$ (171)	(88%)
Selling, general and administrative[a]	(303)	(369)	(18%)
Restructuring costs	(12)	(10)	20%
Operating Loss before Depreciation and Amortization	(336)	(550)	(39%)
Depreciation	(44)	(44)	
Operating Loss	$ (380)	$ (594)	(36%)

[a] Selling, general and administrative expenses exclude depreciation.

As previously noted, the Company recognized legal reserves as well as legal and other professional fees related to the defense of various securities lawsuits, totaling $21 million in 2008 and $180 million in 2007. In addition, the Company recognized related insurance recoveries of $9 million in 2007. Although legal fees are expected to continue to be incurred in future periods, primarily related to ongoing proceedings with respect to certain former employees of the Company, they are not anticipated to be material.

The 2008 and 2007 results included $12 million and $10 million of restructuring costs, respectively, due primarily to involuntary employee terminations as a result of the Company s cost savings initiatives at the Corporate segment. These initiatives resulted in annual savings of more than $50 million.

Excluding the items noted above, Operating Loss before Depreciation and Amortization and Operating Loss decreased due primarily to lower corporate costs, related primarily to the cost savings initiatives.

2007 vs. 2006

Consolidated Results

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations.

Revenues. The components of revenues are as follows (millions):

Years Ended December 31,

	2007	2006	% Change
Subscription	$ 24,904	$ 23,651	5%
Advertising	8,799	8,283	6%
Content	11,708	10,670	10%
Other	1,071	1,086	(1%)
Total revenues	$ 46,482	$ 43,690	6%

The increase in Subscription revenues for the year ended December 31, 2007 was primarily related to increases at the Cable and Networks segments, offset partially by a decline at the AOL segment. The increase at the Cable segment was driven by the impact of the systems acquired in and retained after the Adelphia/Comcast Transactions (the Acquired Systems), the consolidation of the results of certain cable systems located in Kansas City, south and west Texas and New Mexico (the Kansas City Pool), the continued penetration of digital video services, video price increases and growth in high-speed data and Digital Phone subscribers. The increase at the Networks segment was due primarily to higher subscription rates at both Turner and HBO and, to a lesser extent, an increase in the number of subscribers at Turner. The decline in Subscription revenues at the AOL segment resulted from the sales of

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AOL s European access businesses in the fourth quarter of 2006 and first quarter of 2007, as well as decreases in the number of AOL brand domestic subscribers.

The increase in Advertising revenues for the year ended December 31, 2007 was primarily due to growth at the AOL and Cable segments, offset partially by a decline at the Networks segment. The increase at the AOL segment was due to growth in Advertising revenues generated on both the AOL Network and the Third Party Network. The increase at the Cable segment was primarily attributable to the impact of the Acquired Systems and, to a lesser extent, the consolidation of the Kansas City Pool. The decline at the Networks segment was primarily driven by the impact of the shutdown of The WB Network on September 17, 2006, partially offset by higher Advertising revenues primarily at Turner s domestic entertainment networks, mainly due to sports programming and, to a lesser extent, higher Advertising revenues at the news networks.

The increase in Content revenues for the year ended December 31, 2007 was primarily related to growth at the Filmed Entertainment segment. The increase at the Filmed Entertainment segment was primarily driven by an increase in theatrical product revenues.

Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. For 2007 and 2006, costs of revenues totaled $27.426 billion and $24.876 billion, respectively, and, as a percentage of revenues, were 59% and 57%, respectively. The increase in costs of revenues (inclusive of depreciation expense) as a percentage of revenues was primarily attributable to lower margins at the Cable segment, primarily related to the Acquired Systems. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 7% to $9.653 billion in 2007 from $10.397 billion in 2006. The decrease in selling, general and administrative expenses related primarily to a significant decline at the AOL segment, substantially due to reduced subscriber acquisition marketing as part of AOL s strategy, partially offset by an increase at the Cable segment primarily related to the impact of the Acquired Systems and the consolidation of the Kansas City Pool. The segment variations are discussed in detail in Business Segment Results.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which increased to $3.738 billion in 2007 from $2.963 billion in 2006, primarily related to an increase at the Cable segment, reflecting the impact of the Acquired Systems, the consolidation of the Kansas City Pool and demand-driven increases in recent years of purchases of customer premise equipment.

Amortization Expense. Amortization expense increased 15% to $674 million in 2007 from $587 million in 2006, primarily related to increases at the Cable segment, which were driven by the amortization of intangible assets related to customer relationships associated with the Acquired Systems, partially offset by a decrease due to the absence after the first quarter of 2007 of amortization expense associated with customer relationships recorded in connection with the restructuring of TWE in 2003, which were fully amortized at the end of the first quarter of 2007.

Amounts Related to Securities Litigation. The Company recognized legal reserves as well as legal and other professional fees related to the defense of various shareholder lawsuits, totaling $180 million for the year ended

December 31, 2007 and $762 million for the year ended December 31, 2006. In addition, the Company recognized related insurance recoveries of $9 million for the year ended December 31, 2007 and $57 million for the year ended December 31, 2006.

Merger-related, Restructuring and Shutdown Costs. During the year ended December 31, 2007, the Company incurred restructuring costs of $262 million, primarily related to various employee terminations and other exit activities, including $125 million at the AOL segment, $13 million at the Cable segment, $37 million at the Networks segment, $67 million at the Publishing segment and $10 million at the Corporate segment. The total number of employees terminated across the segments in 2007 was approximately 4,400. In addition, the Cable

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segment also expensed $10 million of non-capitalizable merger-related and restructuring costs associated with the Adelphia/Comcast Transactions.

During the year ended December 31, 2006, the Company incurred restructuring costs of $295 million, primarily related to various employee terminations and other exit activities, including $222 million at the AOL segment, $18 million at the Cable segment, $5 million at the Filmed Entertainment segment, $45 million at the Publishing segment and $5 million at the Corporate segment. The total number of employees terminated across the segments in 2006 was approximately 5,600. In addition, during the year ended December 31, 2006, the Cable segment expensed $38 million of non-capitalizable merger-related and restructuring costs associated with the acquisition by Time Warner New York Cable LLC and Comcast of substantially all of the cable assets of Adelphia (the Adelphia Acquisition). The results for the year ended December 31, 2006 also include shutdown costs of $114 million at The WB Network in connection with the agreement between Warner Bros. and CBS to form the new fully-distributed national broadcast network, The CW. Included in the shutdown costs for the year ended December 31, 2006 are charges related to terminating intercompany programming arrangements with other Time Warner divisions, of which $47 million has been eliminated in consolidation, resulting in a net pretax charge of $67 million (Note 12).

Operating Income. Operating Income increased to $8.949 billion in 2007 from $7.303 billion in 2006. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $482 million of income, net and $127 million of expense, net for 2007 and 2006, respectively, Operating Income increased $1.037 billion, primarily reflecting growth across all of the segments. The segment variations are discussed under Business Segment Results.

Interest Expense, Net. Interest expense, net, increased to $2.299 billion in 2007 from $1.674 billion in 2006. The increase in interest expense, net is primarily due to higher average outstanding balances of borrowings as a result of the Company s stock repurchase program and the Adelphia/Comcast Transactions and lower interest income related primarily to a smaller amount of short-term investments.

Other Income, Net. Other income, net, detail is shown in the table below (millions):

	Years Ended December 31,	
	2007	**2006**
Investment gains, net	$ 211	$ 1,048
Income (loss) from equity investees, net	(14)	109
Other	(52)	(30)
Other income, net	$ 145	$ 1,127

The changes in investment gains, net are discussed under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of investment gains, other income, net, decreased primarily due to losses from equity-method investees, net and higher foreign exchange losses. For the year ended December 31, 2007, the change in income (loss) from equity investees primarily reflects the absence of equity income during these periods due to the

Company no longer treating TKCCP as an equity-method investment.

Minority Interest Expense, Net. Time Warner had $408 million of minority interest expense, net in 2007 compared to $375 million in 2006. The increase related primarily to the impact of the 5% minority interest in AOL issued to Google in the second quarter of 2006 and the gain recognized by AOL on the sale of its German access business in the first quarter of 2007, partially offset by lower minority interest expense related to the Cable segment due in part to the change in the ownership structure at the Cable segment. Comcast held an effective 21% minority interest in TWC until the closing of the Adelphia/Comcast Transactions on July 31, 2006, upon which Comcast s interest in TWC was redeemed and Adelphia received an approximate 16% minority interest in TWC.

Income Tax Provision. Income tax expense from continuing operations was $2.336 billion in 2007 compared to $1.308 billion in 2006. The Company s effective tax rate for continuing operations was 37% for the year ended

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December 31, 2007 compared to 20% for year ended December 31, 2006. The increase is primarily attributable to the lack of certain tax attribute carryforwards which were recognized in the third and fourth quarters of 2006. The income tax provision for the year ended December 31, 2007 also reflects a charge of $47 million relating to an adjustment to tax benefits recognized in prior periods associated with certain foreign source income, partially offset by a tax benefit of $30 million to recognize prior period domestic research and development tax credits.

Income from Continuing Operations. Income from continuing operations was $4.051 billion in 2007 compared to $5.073 billion in 2006. Basic and diluted income per common share from continuing operations was $1.09 and $1.08, respectively, in 2007 compared to $1.21 and $1.20, respectively, in 2006. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $426 million and $1.694 billion of income, net in 2007 and 2006, respectively, income from continuing operations increased by $246 million, primarily reflecting higher Operating Income, as noted above, partially offset by (i) the dilutive effect of the Adelphia/Comcast Transactions, in which the estimated incremental Operating Income from the Acquired Systems was more than offset by higher interest expense resulting from the Adelphia/Comcast Transactions, (ii) increased interest expense, due in part to the impact of the Company s common stock repurchase programs, which resulted in higher debt levels and (iii) lower other income, net, as noted above. Basic and diluted income per common share from continuing operations in 2007 and 2006 reflect the favorable impact of repurchases of shares under the Company s stock repurchase programs.

Discontinued Operations, Net of Tax. The financial results for the years ended December 31, 2007 and 2006 included the impact of treating certain businesses sold, which included Tegic, Wildseed, the Parenting Group, most of the Time4 Media magazine titles, *The Progressive Farmer* magazine, Leisure Arts and the Braves, as discontinued operations. The financial results for the year ended December 31, 2006 also included the impact of treating the operations of the systems transferred to Comcast in connection with the Adelphia/Comcast Transactions (collectively, the Transferred Systems), the Turner South network (Turner South) and Time Warner Book Group as discontinued operations.

Cumulative Effect of Accounting Change, Net of Tax. The Company recorded a benefit of $25 million, net of tax, as the cumulative effect of a change in accounting principle upon the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 123 (revised 2004), *Share-Based Payment*, in 2006, to recognize the effect of estimating the number of awards granted prior to January 1, 2006 that are not ultimately expected to vest.

Net Income and Net Income Per Common Share. Net income was $4.387 billion in 2007 compared to $6.552 billion in 2006. Basic and diluted net income per common share was $1.18 and $1.17, respectively, in 2007 compared to $1.57 and $1.55, respectively, in 2006. Net income per common share in 2007 and 2006 reflects the favorable impact of repurchases of shares under the Company s stock repurchase programs.

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Business Segment Results

AOL. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the AOL segment for the years ended December 31, 2007 and 2006 are as follows (millions):

	Years Ended December 31,		
	2007	**2006**	**% Change**
Revenues:			
Subscription	$ 2,788	$ 5,784	(52%)
Advertising	2,231	1,886	18%
Other	162	116	40%
Total revenues	5,181	7,786	(33%)
Costs of revenues[a]	(2,289)	(3,653)	(37%)
Selling, general and administrative[a]	(931)	(2,141)	(57%)
Gain on disposal of consolidated businesses	667	771	(13%)
Gain on disposal of assets	16		NM
Asset impairments	(2)	(13)	(85%)
Restructuring costs	(125)	(222)	(44%)
Operating Income before Depreciation and Amortization	2,517	2,528	
Depreciation	(408)	(501)	(19%)
Amortization	(96)	(133)	(28%)
Operating Income	$ 2,013	$ 1,894	6%

[a] Costs of revenues and selling, general and administrative expenses exclude depreciation.

On February 28, 2007, the Company completed the sale of AOL s German access business to Telecom Italia S.p.A. for $850 million in cash, resulting in a net pretax gain of $668 million. In connection with this sale, the Company entered into a separate agreement to provide ongoing web services, including content, e-mail and other online tools and services, to Telecom Italia S.p.A. As a result of the historical interdependency of AOL s European access and audience businesses, the historical cash flows and operations of the access and audience businesses were not clearly distinguishable. Accordingly, AOL s German access business and its other European access businesses, which were sold in 2006, have not been reflected as discontinued operations in the accompanying consolidated financial statements.

The decline in Subscription revenues was due to the sales of AOL s European access businesses in the fourth quarter of 2006 and first quarter of 2007 (as a result of which Subscription revenues at AOL Europe declined by approximately $1.470 billion in 2007), as well as decreases in the number of AOL brand domestic subscribers.

The number of domestic AOL brand subscribers was 9.3 million, 10.1 million and 13.2 million as of December 31, 2007, September 30, 2007 and December 31, 2006, respectively. ARPU was $18.66 and $19.18 for the years ended December 31, 2007 and 2006, respectively. AOL includes in its subscriber numbers individuals, households and entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL service. Subscribers to the AOL brand Internet access service include subscribers participating in introductory free-trial periods and subscribers that are not paying any, or paying reduced, monthly fees through member service and retention programs. Total AOL brand subscribers include free-trial and retention members of 2% as of December 31, 2007, 3% as of September 30, 2007 and 6% as of December 31, 2006. Individuals who have registered for the free AOL service, including subscribers who have migrated from paid subscription plans, are not included in the AOL brand subscriber numbers presented above.

The continued decline in domestic subscribers is the result of a number of factors, including the effects of AOL s strategy, which has resulted in the migration of subscribers to the free AOL service offering, declining

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registrations for the paid service in response to AOL s significantly reduced marketing and competition from broadband access providers. The decrease in ARPU for the year ended December 31, 2007 compared to the year ended December 31, 2006 was due primarily to a shift in the subscriber mix to lower-priced subscriber price plans, partially offset by an increase in the percentage of revenue generating customers.

Advertising services include display advertising (which includes certain types of impression-based and performance-driven advertising) and paid-search advertising, both domestically and internationally, which are provided on both the AOL Network and the Third Party Network. Total Advertising revenues improved for the year ended December 31, 2007 compared to the year ended December 31, 2006 due to increased Advertising revenues generated on both the AOL Network and the Third Party Network as follows (millions):

	Years Ended December 31,		
	2007	2006	% Change
AOL Network:			
Display	$ 919	$ 814	13%
Paid-search	657	591	11%
Total AOL Network	1,576	1,405	12%
Third Party Network	655	481	36%
Total Advertising revenues	$ 2,231	$ 1,886	18%

The increases in AOL Network display Advertising revenues were primarily attributable to increased sold inventory, offset partially by pricing declines and shifts in the mix of inventory sold to lower-priced inventory. In addition, AOL Network display Advertising revenues for the year ended December 31, 2007 included a benefit of $19 million related to a change in an accounting estimate resulting from more timely system data. The increases in AOL Network paid-search Advertising revenues, which are generated primarily through AOL s strategic relationship with Google, were attributable primarily to higher revenues per search query on certain AOL Network properties.

The increase in Advertising revenues on the Third Party Network is primarily attributable to the growth in sales of advertising run on the Third Party Network generated by Platform-A Inc. and, to a lesser extent, the effect of acquisitions in 2007, which contributed revenues of $27 million. Platform-A Inc. revenues benefited from the expansion of a relationship with a major customer in the second quarter of 2006. The revenues associated with this relationship increased $58 million to $215 million in 2007 compared to 2006. The contract with this customer was amended during the fourth quarter of 2007. AOL did not experience a significant decline in its Advertising revenues from this relationship during the fourth quarter of 2007 as a result of this amendment. Since January 1, 2008, this customer has been under no obligation to continue to do business with Platform-A Inc.

Total Advertising revenues for the three months ended December 31, 2007 increased $80 million from the three months ended September 30, 2007, benefiting from increases in display Advertising revenues generated on the AOL Network and in sales of advertising run on the Third Party Network, both due in part to seasonality. Additionally, the increase in Advertising revenues on the Third Party Network resulted from growth primarily generated by Platform-A Inc., as well as from the acquisitions of Third Screen Media LLC (TSM), TACODA LLC (Tacoda) and Quigo Technologies LLC (Quigo), which together contributed revenues of $5 million and $21 million in the third and fourth quarters of 2007, respectively.

Other revenues increased for the year ended December 31, 2007, primarily due to revenues from the agreements to provide transition support services to the purchasers of the German, U.K. and French access businesses, which ran through various dates in 2008, partly offset by a decline in revenues from modem sales at AOL Europe due to the sales of the European access businesses.

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Costs of revenues decreased 37%, and, as a percentage of revenues, were 44% and 47% in 2007 and 2006, respectively. For 2007, approximately $1.000 billion of the decrease in costs of revenues was attributable to the sales of AOL s European access businesses. The remaining decrease in 2007 was attributable to lower network-related expenses and lower customer service expenses associated with the closure of customer support call centers, partially offset by increases in TAC associated with the growth of advertising run on the Third Party Network. Network-related expenses decreased 76% to $275 million in 2007 from $1.163 billion in 2006, of which approximately $670 million was attributable to the sales of AOL s European access businesses. The remaining decline in network-related expenses during 2007 was principally attributable to lower usage of AOL s dial-up network associated with the declining AOL brand domestic dial-up subscriber base, improved pricing and network utilization and decreased levels of long-term fixed commitments. TAC associated with the advertising run on the Third Party Network increased to $485 million in 2007 from $344 million in 2006, primarily related to increased Advertising revenues on the Third Party Network.

Selling, general and administrative expenses decreased 57% to $931 million in 2007, of which approximately $350 million was attributable to the sales of AOL s European access businesses. The remaining decrease reflects a significant reduction in direct marketing costs of approximately $590 million primarily due to reduced subscriber acquisition marketing as part of AOL s strategy, and other cost savings.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the 2007 results included a net pretax gain of $668 million on the sale of AOL s German access business, a net $1 million reduction to the gain on the sale of AOL s U.K. access business, a gain of $16 million related to the sale of a building and a noncash asset impairment charge of $2 million related to asset write-offs in connection with facility closures. The 2006 results included a $769 million gain on the sales of AOL s French and U.K. access businesses, a $2 million gain from the resolution of a previously contingent gain related to the 2004 sale of NSS, a $13 million noncash asset impairment related to asset writedowns and the closure of several facilities primarily as a result of AOL s strategy. In addition, the 2007 results included restructuring charges of $140 million (including a $98 million charge in the fourth quarter of 2007) primarily related to involuntary employee terminations, asset write-offs and facility closures, partially offset by the reversal of $15 million of restructuring charges that were no longer needed due to changes in estimates during the year ended December 31, 2007. The 2006 results included $222 million in restructuring charges, primarily related to employee terminations, contract terminations, asset write-offs and facility closures.

Operating Income before Depreciation and Amortization remained essentially flat due primarily to lower Subscription revenues, offset by lower costs of revenues, selling, general and administrative expenses and restructuring costs and higher Advertising revenues. Operating Income increased due primarily to a decrease in depreciation expense as a result of a decline in network assets due to subscriber declines.

Cable. On July 31, 2006, the Company completed the Adelphia/Comcast Transactions and began consolidating the results of the Acquired Systems. Additionally, on January 1, 2007, the Company began consolidating the results of the Kansas City Pool. Accordingly, the operating results for 2007 include the results for the systems TWC owned before and retained after the Adelphia/Comcast Transactions (the Legacy Systems), the Acquired Systems and the Kansas City Pool for the full twelve-month period, and the operating results for 2006 include the results of the Legacy Systems for the full twelve-month period and the Acquired Systems for only the five months following the closing of the Adelphia/Comcast Transactions and do not include the consolidation of the results of the Kansas City Pool. The impact of the incremental seven months of revenues and expenses of the Acquired Systems on the results for 2007 is referred to as the impact of the Acquired Systems in

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this report. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Cable segment for the years ended December 31, 2007 and 2006 are as follows (millions):

	Years Ended December 31,		
	2007	2006	% Change
Revenues:			
Subscription	$ 15,088	$ 11,103	36%
Advertising	867	664	31%
Total revenues	15,955	11,767	36%
Costs of revenues[a]	(7,542)	(5,356)	41%
Selling, general and administrative[a]	(2,648)	(2,126)	