TIME WARNER INC.
Form 10-Q
August 06, 2008

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the quarterly period ended June 30, 2008 or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from ________________ to________________

Commission file number 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Description of Class	**Shares Outstanding as of July 29, 2008**
Common Stock $.01 par value	3,582,821,909

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INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of Time Warner Inc. s (Time Warner or the Company) 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 and six months ended June 30, 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 financial condition as of June 30, 2008 and cash flows for the six months ended June 30, 2008.

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 the Company s Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K), as well as Item 1A, Risk Factors, in Part II of this report, for a discussion of the risk factors applicable to the Company.

TIME WARNER INC.
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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*, *Get Smart*, *Sex and the City*, *I Am Legend*, *10,000 B.C.* and *Harry Potter and the Order of the Phoenix*, as well as television series, including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *The Closer* and *ER*. During the six months ended June 30, 2008, the Company generated revenues of $22.972 billion (up 4% from $22.164 billion in 2007), Operating Income of $3.893 billion (down 13% from $4.476 billion in 2007), Net Income of $1.563 billion (down 31% from $2.270 billion in 2007) and Cash Provided by Operations of $4.932 billion (up 58% from $3.119 billion in 2007). As discussed more fully in Business Segment Results, the six months ended June 30, 2007 included the impact of an approximate $670 million gain on the sale of AOL s German access business.

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 before depreciation of tangible assets and amortization of intangible assets (Operating Income before Depreciation and Amortization). Operating Income 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 before Depreciation and Amortization should be considered in addition to Operating Income, 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 before Depreciation and Amortization and Operating Income. For additional information regarding Time Warner s business segments, refer to Note 10, Segment Information.

AOL. AOL LLC (together with its subsidiaries, AOL) operates a Global Web Services business that provides online advertising services 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 and free client software and services for Internet consumers. In addition, through its Access Services business, AOL operates one of the largest Internet access subscription services in the United States. As of June 30, 2008, AOL had 8.1 million AOL brand Internet access subscribers in the U.S., which does not include registrations for the free AOL service. For the six months ended June 30, 2008, AOL generated revenues of $2.185 billion (9% of the Company s overall revenues), $755 million in Operating Income before Depreciation and Amortization and $514 million in Operating Income.

AOL s strategy is to continue to transition from a business that has relied heavily on Subscription revenues from dial-up subscribers to one that attracts and engages more Internet users and takes advantage of the recent as well as anticipated growth in online advertising by 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 costs in its Access Services business. On February 6, 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. The Company anticipates that it will be in a position to operate AOL s Access Services and Global Web Services businesses separately in 2009.

Within its Global Web Services business, in 2007 AOL formed a business group called Platform-A, which includes AOL s business of selling advertising on the AOL Network and the Third Party Network and licensing advertising serving technology to third-party websites. Platform-A sells advertising that uses optimization and targeting

technologies to deliver more effective advertising and to reach specific audiences across the AOL Network and the Third Party Network. Advertising services on the Third Party Network are primarily provided by Platform-A Inc. (formerly Advertising.com, Inc.) and its subsidiaries, including TACODA LLC, Quigo Technologies LLC, ADTECH AG, Third Screen Media LLC, Advertising.com LLC and Perfiliate Limited (buy.at), each of which is a wholly-owned subsidiary of AOL.

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During the first six months of 2008, Advertising revenues on the AOL Network were negatively impacted by certain factors and trends, including shifts in the mix of sold inventory to lower-priced inventory, lower revenues from certain advertiser categories, the increasing usage by online advertisers of third-party advertising networks and declines in the price of advertising inventory. Additionally, AOL s Advertising revenues were negatively impacted by the challenges of integrating recently acquired businesses under Platform-A, including the realignment to create one integrated Platform-A sales force, which resulted in certain sales execution issues during the first half of the year. The increasing usage of third-party advertising networks has had a positive impact on AOL s Third Party Network Advertising revenues. However, 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 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 before Depreciation and Amortization attributable to AOL s advertising activities.

During the first six months of 2008, the Company has experienced a significant decline in revenues from a major customer of Platform-A Inc. as a result of the customer s acquisition of a business believed to perform online advertising services that are similar to those provided by Platform-A Inc., and the Company anticipates that such revenues will continue to decline for the remainder of 2008 compared to the similar period in 2007. Revenues from this relationship decreased to $22 million for the six months ended June 30, 2008 from $104 million for the six months ended June 30, 2007. For the full year 2007, AOL earned Advertising revenues from this relationship of $215 million.

AOL s Publishing business group, a component of the Global Web Services business, develops and operates the products and programming functions associated with the AOL Network. The AOL Network consists of a variety of websites, related applications and services, including those accessed via the AOL and low-cost Internet access services. Specifically, the AOL Network includes owned and operated websites, applications and services such as *AOL.com*, international versions of the AOL portal, e-mail, AIM, MapQuest, Moviefone, ICQ and Truveo (a video search engine). The AOL Network also includes *TMZ.com*, a joint venture with Telepictures Productions, Inc. (a subsidiary of Warner Bros. Entertainment Inc.), as well as other co-branded websites owned by third parties for which certain criteria have been met, including that the Internet traffic has been assigned to AOL. In addition, during the second quarter of 2008, AOL completed the acquisition of Bebo, Inc. (Bebo), a leading global social media network. During the second half of 2008, AOL intends to continue to focus on cross-promoting its content on the AOL Network, which now includes Bebo s original programming, and provide Bebo users with certain products, such as mail and instant messaging.

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. Since July 1, 2008, Google has had the right to require AOL to register Google s 5% equity interest for sale in an initial public offering. If Google exercises this right, Time Warner will have the right 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 cannot predict whether Google will request the Company to register its 5% equity interest in AOL or, if requested, whether the Company would exercise its option to purchase Google s interest at its then appraised value.

AOL s Access Services business offers an online subscription service to consumers that includes dial-up Internet access. AOL continued to experience declines in the first six months of 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 1.3 million for the six months ended June 30, 2008 compared to a decline of 2.3 million for the six months ended June 30, 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. 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.

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Cable. Time Warner s cable business, Time Warner Cable Inc. and 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 June 30, 2008, TWC served approximately 14.7 million customers who subscribed to one or more of its video, high-speed data and voice services. For the six months ended June 30, 2008, TWC generated revenues of $8.458 billion (37% of the Company s overall revenues), $2.927 billion in Operating Income before Depreciation and Amortization and $1.374 billion in Operating Income.

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 June 30, 2008, 51% of TWC s customers subscribed to two or more of its primary services, including 19% 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. Recently, TWC has begun selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. In addition, TWC earns revenues by selling advertising time to national, regional and local businesses.

Video is TWC s largest service in terms of revenues generated and, as of June 30, 2008, TWC had approximately 13.3 million basic video subscribers. 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. As of June 30, 2008, TWC had approximately 8.5 million digital video subscribers, which represented approximately 64% of its basic video subscribers. 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 contractual rate increases, subscriber growth and the expansion of service offerings. 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 June 30, 2008, TWC had approximately 8.1 million residential high-speed data subscribers. TWC expects continued strong growth in residential high-speed data subscribers and revenues during 2008; 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 well-penetrated. TWC also offers commercial high-speed data services and had 287,000 commercial high-speed data subscribers as of June 30, 2008.

Approximately 3.4 million residential subscribers received Digital Phone service, TWC s IP-based telephony voice service, as of June 30, 2008. TWC expects strong increases in Digital Phone subscribers and revenues for the foreseeable future. TWC also rolled out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses during 2007 in the majority of its systems and has nearly completed the roll-out in the remainder of its systems during the first half of 2008. As of June 30, 2008, TWC had 16,000 commercial Digital Phone subscribers.

Some of TWC s principal competitors, direct broadcast satellite operators and incumbent local telephone companies in particular, either offer or are making significant capital investments that will allow them to offer services that provide features and functions comparable to the video, high-speed data and/or voice services offered by TWC. These services are also offered in bundles similar to TWC s and, in certain cases, such offerings include wireless service. The availability of these bundled service offerings has intensified competition, and TWC expects that competition will continue to intensify in the future as these offerings become more prevalent. TWC plans to continue to enhance its services with innovative offerings, which TWC believes will distinguish its services from those of its competitors.

Time Warner owns approximately 84% of the common stock of TWC (representing a 90.6% voting interest), and also 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). For the six months ended June 30, 2008, the Filmed Entertainment segment generated revenues of $5.404 billion (22% of the Company s overall revenues), $476 million in Operating Income before Depreciation and Amortization and $277 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 has helped it to deliver consistent long-term performance. As announced in the first quarter of 2008, in an effort to increase operational efficiencies and maximize performance within the Filmed Entertainment segment, the Company has reorganized the New Line business to be operated as a unit of Warner Bros. while maintaining separate development, production and other operations. During the first six months of 2008, the Company incurred restructuring charges related to planned involuntary employee terminations in connection with the reorganization. The Company expects to incur additional restructuring charges related to the reorganization during the remainder of 2008.

Warner Bros. continues to be an industry leader in the television business. For the 2007-2008 broadcast season, Warner Bros. produced more than 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*).

In February 2008, the Writers Guild of America (East and West) (the WGA) reached an agreement with the film and television studios, ending an industry-wide work stoppage that began on November 5, 2007. The strike caused cancellations and delays in the production of Warner Bros. television programs and feature films and hampered the development of new television series. Although the Company has experienced a short-term reduction in operating results attributable to these cancellations and delays, it does not anticipate that the strike will have a significant long-term impact.

The sale of DVDs has been one of the largest drivers of the segment s profit over the last several years, and its extensive library of theatrical and television titles positions it to continue to benefit from sales of home video product to consumers. However, the industry and the Company have experienced a leveling of DVD sales due to several factors, including increasing competition for consumer discretionary spending, piracy, the maturation of the standard definition DVD format and the fragmentation of consumer leisure time. In the first quarter of 2008, the home video industry settled on the Blu-ray format as the single high-definition technology. The shift to a single format may lead to increased consumer purchases of high-definition players and DVDs.

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 and television programming. 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.

Networks. Time Warner s Networks segment comprises Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (HBO). For the six months ended June 30, 2008, the Networks segment generated revenues of $5.485 billion (22% of the Company s overall revenues), $1.800 billion in Operating Income before Depreciation and Amortization and $1.623 billion in Operating Income.

The Turner networks including such recognized brands as TNT, TBS, CNN, Cartoon Network, truTV and Headline News are among the leaders in advertising-supported cable TV networks. For six consecutive years, more primetime households have watched advertising-supported cable TV networks than the national broadcast networks. The Turner networks generate revenues principally from the sale of advertising and from receipt of monthly subscriber fees paid by cable system operators, satellite distribution services and other distributors. 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 Advertising and Subscription revenue growth, as well as strong brands and operating efficiency.

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HBO operates the HBO and Cinemax multichannel 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 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 the first half of 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. 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. The segment generated revenues of $2.221 billion (10% of the Company s overall revenues), $414 million in Operating Income before Depreciation and Amortization and $311 million in Operating Income for the six months ended June 30, 2008.

As of June 30, 2008, Time Inc. published over 120 magazines worldwide, including *People*, *Sports Illustrated*, *InStyle*, *Southern Living*, *Real Simple*, *Time*, *Cooking Light*, *Entertainment Weekly* and *What s on TV*. Time Inc. generates revenues primarily from advertising (including advertising on digital properties), magazine subscriptions and newsstand sales. The Company owns IPC Media (IPC), one of the largest consumer magazine companies in the U.K., and the magazine subscription marketer, Synapse Group, Inc. The Company s Publishing segment has experienced a continued decline in print advertising sales due to the uncertain economy and the ongoing shift of advertising expenditures to digital media, which is expected to continue. Time Inc. continues to invest in developing digital content, including the launches of *Health.com* and the *MyHomeIdeas.com* network and the expansion of *Sports Illustrated* s, *People* s and *InStyle* s digital properties as well as the expansion of digital properties owned by IPC and the acquisition of various websites, to advance the Publishing segment s digital initiatives. For both the three and six months ended June 30, 2008, online Advertising revenues were 9% of Time Inc. s total Advertising revenues, compared to 6% for both the three and six months ended June 30, 2007. Time Inc. s direct-selling division, Southern Living At Home, 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

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 immediately 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 will distribute all the issued and outstanding shares of TWC Common Stock then held by Time Warner to its stockholders 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). Time Warner has not yet made a decision as to the form of the Distribution.

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

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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 Facility (each as defined below under 2008 Cable Bond Offering and Additional Financing Commitments). Time Warner and TWC expect the TWC Separation Transactions to be consummated by the end of 2008 or in early 2009. See Item 1A, Risk Factors, in Part II of this report for a discussion of risk factors relating to the separation of TWC from the Company.

2008 Cable Bond Offering and Additional Financing Commitments

On June 19, 2008, TWC issued $5.0 billion in aggregate principal amount of senior unsecured notes and debentures in a public offering registered under the Securities Act of 1933, as amended (the 2008 Cable Bond Offering). TWC expects to use the net proceeds of $4.963 billion from this issuance 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 from the issuance of the debt securities 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 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). As a result of the 2008 Cable Bond Offering, immediately after the credit agreement was executed, the amount of the commitments under the 2008 Cable Bridge Facility was reduced to $4.040 billion. TWC may elect to extend the maturity date of the loans outstanding under the 2008 Cable Bridge Facility for an additional year. TWC may not borrow any amounts under the 2008 Cable Bridge Facility unless and until the Special Dividend is declared in connection with the TWC Separation Transactions. In May 2008, Time Warner (as lender) committed to lend TWC (as borrower) up to an aggregate principal amount of $3.5 billion under a two-year senior unsecured supplemental term loan facility (the Supplemental Facility). As a result of the 2008 Cable Bond Offering, Time Warner s original commitment under the Supplemental Facility was reduced to $2.520 billion. TWC may borrow under the Supplemental Facility at the final maturity of the 2008 Cable Bridge Facility to repay amounts then outstanding under the 2008 Cable Bridge Facility. See Financial Condition and Liquidity and Note 5 to the accompanying consolidated financial statements for further details regarding the 2008 Cable Bond Offering, the 2008 Cable Bridge Facility and the Supplemental Facility.

Sprint/Clearwire Joint Venture

In May 2008, TWC, Intel Corporation, Google, Comcast Corporation (together with its subsidiaries, Comcast) and Bright House Networks LLC entered into agreements to collectively invest $3.2 billion in a wireless communications joint venture (the Sprint/Clearwire Joint Venture), which is expected to be formed by Sprint Nextel Corporation (Sprint) and Clearwire Corporation (Clearwire). TWC s share of such investment is expected to be approximately $550 million, which it expects to fund with cash on hand at TWC, borrowings under TWC s $6.0 billion senior unsecured five-year revolving credit facility (the Cable Revolving Facility), TWC s commercial paper program or a combination thereof. Once formed, the Sprint/Clearwire Joint Venture will be focused on deploying the first nationwide fourth generation wireless network to provide mobile broadband services to wholesale and retail customers. In connection with its investment in the Sprint/Clearwire Joint Venture, TWC has entered into a wholesale agreement with Sprint that allows TWC to offer wireless services utilizing Sprint s 2G/3G network. Upon closing, TWC also expects to enter into a wholesale agreement with the Sprint/Clearwire Joint Venture that would allow TWC to offer wireless services utilizing the Sprint/Clearwire Joint Venture s broadband wireless network. The closing of these transactions, which is expected to occur by the end of the first half of 2009, is subject to customary regulatory review and approvals. There can be no assurance that the formation of the Sprint/Clearwire Joint Venture will be completed, or, if completed, that the Sprint/Clearwire Joint Venture would successfully deploy a nationwide mobile broadband network. If completed, TWC s investment in the Sprint/Clearwire Joint Venture would be accounted for under the equity method of

accounting and the Company expects that the Sprint/Clearwire Joint Venture would incur losses in its early periods of operation.

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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 $857 million, net of cash acquired, $8 million of which will be paid by the Company in the first quarter of 2009. The Bebo acquisition did not significantly impact the Company s consolidated financial results for the six months ended June 30, 2008 (Note 2).

Buy.at Acquisition

On February 5, 2008, the Company, through its AOL segment, completed the acquisition of buy.at, which provides performance-based e-commerce marketing services to advertisers, for $125 million in cash, net of cash acquired. The buy.at acquisition did not significantly impact the Company s consolidated financial results for the six months ended June 30, 2008 (Note 2).

RESULTS OF OPERATIONS

Recent Accounting Standards

See Note 1 to the accompanying consolidated financial statements for a discussion of the accounting standards adopted during the six months ended June 30, 2008 and recent accounting standards not yet adopted.

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 certain significant transactions and other items in each period as follows (millions):

	Three Months Ended		Six Months Ended	
	6/30/08	**6/30/07**	**6/30/08**	**6/30/07**
Amounts related to securities litigation and government investigations	$ (4)	$ (4)	$ (8)	$ (167)
Asset impairments	(63)	(34)	(63)	(35)
Gain (loss) on disposal of assets, net		(1)		669
Impact on Operating Income (Loss)	(67)	(39)	(71)	467
Investment gains (losses), net	12	111	(15)	274
Costs related to the separation of TWC	(51)		(54)	
Minority interest impact	16		16	(57)
Pretax impact	(90)	72	(124)	684
Income tax impact	35	(31)	37	(321)
Other tax items affecting comparability		77	1	80
After-tax impact	$ (55)	$ 118	$ (86)	$ 443

In addition to the items affecting comparability above, the Company incurred merger-related, restructuring and shutdown costs of $6 million and $148 million during the three and six months ended June 30, 2008, respectively, and $33 million and $101 million during the three and six months ended June 30, 2007, 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 shareholder lawsuits, totaling $4 million and $8 million for the three and six months ended June 30, 2008, respectively, and $5 million and $176 million for the three and six months ended June 30, 2007, respectively. In addition, the Company recognized related insurance recoveries of $1 million and $9 million for the three and six months ended June 30, 2007, respectively.

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Asset Impairments

During the three and six months ended June 30, 2008, the Company recorded a $45 million noncash impairment of certain non-core cable systems held for sale at the Cable segment and an $18 million noncash impairment of GameTap at the Networks segment as a result of Turner s decision to sell its on-line video game business. During the three and six months ended June 30, 2007, the Company recorded a $34 million noncash impairment of the Court TV tradename at the Networks segment as a result of rebranding the network s name to truTV, effective January 1, 2008. During the six months ended June 30, 2007, the Company recorded a $1 million noncash asset impairment at the AOL segment related to asset write-offs in connection with facility closures primarily as a result of AOL s revised strategy.

Gains on Disposal of Assets, Net

For the three and six months ended June 30, 2007, the Company recorded a net $1 million reduction to the gains on the sales of AOL s German and U.K. access businesses, and for the six months ended June 30, 2007 the Company recorded a gain of approximately $670 million on the sale of AOL s German access business.

Investment Gains (Losses), Net

For the three months ended June 30, 2008, the Company recognized $12 million of miscellaneous investment gains. For the six months ended June 30, 2008, the Company recognized a $26 million impairment of the Company s investment in SCi Entertainment Group plc and $10 million of losses resulting from market fluctuations in equity derivative instruments, offset by other miscellaneous investment gains.

For the three and six months ended June 30, 2007, the Company recognized net gains of $111 million and $274 million, respectively, primarily related to the sale of investments, including a $100 million gain on the Company s sale in April 2007 of its 50% interest in Bookspan, and for the six months ended June 30, 2007, 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 in connection with the distribution of the assets of Texas and Kansas City Cable Partners, L.P. (the TKCCP Gain). For the three and six months ended June 30, 2007, investment gains, net also included a $2 million loss and a $4 million gain, respectively, which resulted from market fluctuations in equity derivative instruments.

Costs related to the Separation of TWC

During the three and six months ended June 30, 2008, the Company incurred costs related to the separation of TWC of $51 million and $54 million, respectively, including direct transaction costs (e.g., legal and professional fees) of $14 million and $17 million, respectively (which have been reflected in other income, net on the Company s consolidated statement of operations), and financing costs of $37 million for both periods. For the three and six months ended June 30, 2008, financing costs included $6 million in net interest expense (after considering the interest income received on the proceeds of the 2008 Cable Bond Offering) on the $5.0 billion of debt securities issued in the 2008 Cable Bond Offering and $31 million of debt issuance costs related to the portion of the upfront loan fees for the 2008 Cable Bridge Facility that were expensed during the second quarter of 2008 due to the reduction of the commitments under such facility as a result of the 2008 Cable Bond Offering. The Company expects to incur additional costs relating to the separation of TWC during the remainder of 2008 associated with additional financing and direct transaction costs.

Minority Interest Impact

For the three and six months ended June 30, 2008, expense of $16 million was attributed to the minority owners shares of the impairment of certain non-core cable systems held for sale and the costs related to the separation of TWC.

For the six months ended June 30, 2007, income of $57 million was attributed to minority interests, which primarily reflects the respective minority owners shares of the gain on the sale of AOL s German access business and the TKCCP Gain.

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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 may also include certain other items affecting comparability. For the three and six months ended June 30, 2007, these items included $77 million and $80 million, respectively, of tax benefits related primarily to the realization of tax attribute carryforwards and changes in certain state tax laws.

Three and Six Months Ended June 30, 2008 Compared to Three and Six Months Ended June 30, 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):

	Three Months Ended			Six Months Ended		
	6/30/08	6/30/07	% Change	6/30/08	6/30/07	% Change
Subscription	$ 6,462	$ 6,229	4%	$ 12,822	$ 12,468	3%
Advertising	2,311	2,268	2%	4,335	4,200	3%
Content	2,563	2,243	14%	5,371	5,022	7%
Other	219	240	(9%)	444	474	(6%)
Total revenues	$ 11,555	$ 10,980	5%	$ 22,972	$ 22,164	4%

The increase in Subscription revenues for the three and six months ended June 30, 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 services and video price increases, partially offset by a decrease in pay-per-view event revenues, 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 acquisitions. The decline in Subscription revenues at the AOL segment resulted primarily from a decrease in the number of domestic AOL brand Internet access subscribers and for the six months ended June 30, 2008, also reflected the sale of AOL s German access business in the first quarter of 2007, which resulted in a decrease of approximately $90 million for six months ended June 30, 2008.

The increase in Advertising revenues for the three and six months ended June 30, 2008 was primarily due to growth at the Networks segment, which was driven primarily by Turner s domestic entertainment and news networks.

The increase in Content revenues for the three and six months ended June 30, 2008 was principally related to growth at the Filmed Entertainment segment, 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 the three months ended June 30, 2008 and 2007, costs of revenues totaled $6.870 billion and $6.417 billion, respectively, and, as a percentage of revenues, were 59% and 58%, respectively. For the six months ended June 30, 2008 and 2007, costs of revenues totaled $13.533 billion and $12.913 billion, respectively, and, as a percentage of revenues, were 59% and 58%, respectively. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended June 30, 2008, selling, general and administrative expenses increased 3% to $2.472 billion in 2008 from $2.397 billion in 2007. For the six months ended

June 30, 2008, selling, general and administrative expenses increased 3% to $4.950 billion in 2008 from $4.806 billion in 2007. The increase in selling, general and administrative expenses for the three and six months ended June 30, 2008 primarily related to increases at the Cable, Filmed Entertainment and Networks segments, partially offset by declines at the AOL and Publishing segments. The segment variations are discussed in detail in Business Segment Results.

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Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which increased to $969 million and $1.917 billion for the three and six months ended June 30, 2008, respectively, from $928 million and $1.829 billion for the three and six months ended June 30, 2007, respectively. The increase in depreciation expense for the three and six months ended June 30, 2008 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 (each of which is primarily driven by customer demand) occurring during or subsequent to the comparable period in 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 to $194 million and $377 million for the three and six months ended June 30, 2008, respectively, from $158 million and $335 million for the three and six months ended June 30, 2007, respectively. The increase in amortization expense for the three months ended June 30, 2008 primarily related to an increase at the AOL segment due to the amortization of finite-lived intangible assets related to AOL s recent business acquisitions. For the six months ended June 30, 2008, this increase was partially offset by a decline at the Cable segment, primarily due to the absence of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of TWE, which were fully amortized as of 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 $4 million and $8 million for the three and six months ended June 30, 2008, respectively, and $5 million and $176 million for the three and six months ended June 30, 2007, respectively. In addition, the Company recognized related insurance recoveries of $1 million and $9 million for the three and six months ended June 30, 2007, respectively.

Merger-related, Restructuring and Shutdown Costs. The Company incurred restructuring costs for the three and six months ended June 30, 2008 of $6 million and $148 million, respectively, primarily related to various employee terminations and other exit activities, including $4 million and $13 million, respectively, at the AOL segment for the three and six months ended June 30, 2008, $5 million and $15 million, respectively, at the Publishing segment for the three and six months ended June 30, 2008, and $7 million at the Corporate segment for the six months ended June 30, 2008. In addition, the results for the six months included net restructuring charges of $113 million, including a $3 million reversal for the three months ended June 30, 2008, at the Filmed Entertainment segment.

The Company incurred restructuring costs for the three and six months ended June 30, 2007 of $30 million and $94 million, respectively, primarily related to various employee terminations and other exit activities, including $4 million and $27 million, respectively, at the AOL segment for the three and six months ended June 30, 2007, $3 million and $9 million, respectively, at the Cable segment for the three and six months ended June 30, 2007, $16 million at the Networks segment for the three and six months ended June 30, 2007 and $7 million and $42 million, respectively, at the Publishing segment for the three and six months ended June 30, 2007. In addition, for the three and six months ended June 30, 2007, the Cable segment also expensed $3 million and $7 million, respectively, of non-capitalizable merger-related and restructuring costs associated with the 2006 transactions with Adelphia Communications Corporation and Comcast (the Adelphia/Comcast Transactions) (Note 9).

Operating Income. Operating Income increased to $1.946 billion for the three months ended June 30, 2008 from $1.936 billion for the three months ended June 30, 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $67 million and $39 million of expense, net for the three months ended June 30, 2008 and 2007, respectively, Operating Income increased $38 million, primarily reflecting increases at the Networks, Cable and Filmed Entertainment segments, partially offset by declines at the AOL and Publishing segments.

Operating Income decreased to $3.893 billion for the six months ended June 30, 2008 from $4.476 billion for the six months ended June 30, 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $71 million of expense, net and $467 million of income, net for the six months

ended June 30, 2008 and 2007, respectively, Operating Income decreased $45 million, primarily reflecting declines at the AOL and Filmed Entertainment segments, partially offset by increases at the Networks, Cable and Publishing segments.

The segment variations are discussed under Business Segment Results.

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Interest Expense, Net. Interest expense, net, decreased to $550 million and $1.096 billion for the three and six months ended June 30, 2008, respectively, from $574 million and $1.125 billion for the three and six months ended June 30, 2007, respectively. The decrease in interest expense, net is primarily due to lower average interest rates on borrowings, partially offset by a higher average outstanding balance of borrowings and amortization of $31 million of debt issuance costs related to a portion of the upfront loan fees for the 2008 Cable Bridge Facility that were expensed at the Cable segment due to the reduction of commitments under such facility as a result of the 2008 Cable Bond Offering.

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

	Three Months Ended		Six Months Ended	
	6/30/08	6/30/07	6/30/08	6/30/07
Investment gains (losses), net	$ 12	$ 111	$ (15)	$ 274
Income (loss) from equity method investees		9	(8)	(3)
Other	(17)	(12)	(30)	(38)
Other income (loss), net	$ (5)	$ 108	$ (53)	$ 233

The changes in investment gains (losses), net are discussed under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of investment gains, other income, net decreased primarily due to higher foreign exchange losses for the three months ended June 30, 2008.

Minority Interest Expense, Net. Time Warner had $87 million and $170 million of minority interest expense, net for the three and six months ended June 30, 2008, respectively, compared to $91 million and $221 million for the three and six months ended June 30, 2007, respectively. The decrease for the three and six months ended June 30, 2008 related primarily to the minority owners shares of the impairment of certain non-core cable systems held for sale and the costs related to the separation of TWC, partially offset by larger profits recorded by the Cable segment during 2008. In addition, the decrease for the six months ended June 30, 2008 reflects 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 Provision. Income tax expense from continuing operations was $509 million for the three months ended June 30, 2008 compared to $434 million for the three months ended June 30, 2007 and was $1.008 billion for the six months ended June 30, 2008 compared to $1.231 billion for the six months ended June 30, 2007. The Company s effective tax rate for continuing operations was 39% for both the three and six months ended June 30, 2008 compared to 31% and 37% for the three and six months ended June 30, 2007, respectively. The increases are primarily attributable to tax attribute carryforwards recognized during the three and six months ended June 30, 2007, partially offset by nondeductible goodwill associated with the sale of AOL s German access business during the six months ended June 30, 2007.

Income from Continuing Operations. Income from continuing operations was $795 million for the three months ended June 30, 2008 compared to $945 million for the three months ended June 30, 2007. Basic and diluted net income per share from continuing operations were both $0.22 in 2008 compared to $0.25 for both in 2007. Basic and diluted income per common share from continuing operations for the three months ended June 30, 2008 reflect the favorable impact of repurchases of shares under the Company s stock repurchase programs. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $55 million of expense, net and $118 million of income, net for the three months ended June 30, 2008 and 2007, respectively, income from continuing operations increased by $23 million, primarily reflecting higher Operating Income, as noted above, partially offset by lower Other income (loss), net, as noted above.

Income from continuing operations was $1.566 billion for the six months ended June 30, 2008 compared to $2.132 billion for the six months ended June 30, 2007. Basic and diluted net income per share from continuing operations were $0.44 and $0.43, respectively, in 2008 compared to $0.56 and $0.55, respectively, in 2007. Basic and diluted income per common share from continuing operations for the six months ended June 30, 2008 reflect the favorable impact of repurchases of shares under the Company s stock repurchase programs. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $86 million of expense, net and $443 million of income, net for the six months ended June 30, 2008 and 2007, respectively, income from continuing operations

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decreased by $37 million, primarily reflecting lower Operating Income, as noted above, and lower Other income (loss), net, as noted above.

Discontinued Operations, Net of Tax. The financial results for the three and six months ended June 30, 2007 included the impact of treating certain businesses sold, which included Tegic Communications, Inc., Wildseed LLC, the Parenting Group, most of the Time4 Media magazine titles, *The Progressive Farmer* magazine, Leisure Arts, Inc. and the Atlanta Braves baseball franchise, as discontinued operations. For additional information, see Note 2 to the accompanying consolidated financial statements.

Net Income and Net Income Per Common Share. Net income was $792 million for the three months ended June 30, 2008 compared to $1.067 billion for the three months ended June 30, 2007. Basic and diluted net income per common share were both $0.22 in 2008 compared to $0.28 for both in 2007. Net income was $1.563 billion for the six months ended June 30, 2008 compared to $2.270 billion for the six months ended June 30, 2007. Basic and diluted net income per common share were $0.44 and $0.43, respectively, in 2008 compared to $0.60 and $0.59, respectively, in 2007. Net income per common share for the three and six months ended June 30, 2008 reflect the favorable impact of repurchases of shares under the Company s stock repurchase programs.

Business Segment Results

AOL. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the AOL segment for the three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	6/30/07	% Change	6/30/08	6/30/07	% Change
Revenues:						
Subscription	$ 491	$ 691	(29%)	$ 1,030	$ 1,564	(34%)
Advertising	530	522	2%	1,082	1,071	1%
Other	36	40	(10%)	73	76	(4%)
Total revenues	1,057	1,253	(16%)	2,185	2,711	(19%)
Costs of revenues[a]	(530)	(539)	(2%)	(1,074)	(1,160)	(7%)
Selling, general and administrative[a]	(173)	(225)	(23%)	(343)	(497)	(31%)
Gain (loss) on disposal of consolidated businesses		(1)	(100%)		669	(100%)
Asset impairments					(1)	(100%)
Restructuring costs	(4)	(4)		(13)	(27)	(52%)

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

The decline in Subscription revenues for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 was primarily due to a decrease in the number of domestic AOL brand Internet access

subscribers. In addition, the decline for the six months ended June 30, 2008 was also due to 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 six months ended June 30, 2008.

The number of domestic AOL brand Internet access subscribers was 8.1 million, 8.7 million and 10.9 million as of June 30, 2008, March 31, 2008 and June 30, 2007, respectively. The average revenue per domestic AOL brand subscriber (ARPU) was $17.99 and $18.59 for the three months ended June 30, 2008 and 2007, respectively, and $18.14 and $18.78 for the six months ended June 30, 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. Subscribers to the AOL brand Internet access service include subscribers

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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 domestic AOL brand Internet access subscribers include free-trial and retention members of 1% as of June 30, 2008, 2% as of March 31, 2008 and 3% as of June 30, 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 Internet access 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 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 three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 was due primarily to a shift in the subscriber mix to lower-priced subscriber price plans and a decrease in premium services revenues, 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 slightly for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 due to increased Advertising revenues generated on the Third Party Network, partially offset by a decrease in Advertising revenues generated on the AOL Network, as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	6/30/07	% Change	6/30/08	6/30/07	% Change
AOL Network:						
Display	$ 191	$ 221	(14%)	$ 382	$ 453	(16%)
Paid-search	172	156	10%	345	323	7%
Total AOL Network	363	377	(4%)	727	776	(6%)
Third Party Network	167	145	15%	355	295	20%
Total Advertising revenues	$ 530	$ 522	2%	$ 1,082	$ 1,071	1%

The decrease in display Advertising revenues generated on the AOL Network for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 was primarily due to the challenges of integrating recently acquired businesses (including certain sales execution issues), shifts in the mix of inventory sold to lower-priced inventory, lower revenues from certain advertiser categories and pricing declines, as well as the discontinuation of certain advertising programs, partially offset by revenues attributable to recent business acquisitions. In addition, for the six months ended June 30, 2007, display Advertising revenues generated on the AOL Network included a $19 million benefit recognized in the first quarter of 2007 related to a change in an accounting estimate resulting from more timely system data. For the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007, 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 increase in Advertising revenues on the Third Party Network for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 was primarily due to revenues of $40 million and

$81 million attributable to recent business acquisitions for the three and six months ended June 30, 2008, respectively, and continued advertising growth of $25 million and $61 million for the three and six months ended June 30, 2008, respectively, partially offset by a decrease of $43 million and $82 million for the three and six months ended June 30, 2008, respectively, due to the change in the relationship with a major customer of Platform-A Inc. Since January 1, 2008, this customer has been under no obligation to continue to do business with Platform-A Inc., and revenues associated with this relationship were $5 million and $22 million for the three and six months ended June 30, 2008, respectively, compared to $48 million and $104 million for the three and six months ended June 30, 2007, respectively. The Company anticipates that revenues from this customer will continue to decline for the remainder of the year compared to the similar period in 2007.

Total Advertising revenues for the three months ended June 30, 2008 decreased $22 million from the three months

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ended March 31, 2008, primarily due to a decrease in sales of advertising run on the Third Party Network as a result of the change in the relationship with a major customer of Platform-A Inc., as well as lower revenues from certain advertiser categories and, to a lesser extent, declines due to seasonality.

The Company expects Advertising revenues at the AOL segment to increase during the remainder of 2008 compared to the similar period in 2007 due to expected increases on both the AOL Network, primarily paid-search, and the Third Party Network, including the impact of the Company s recent business acquisitions, partially offset by expected declines associated with the end of commitments from a major customer of Platform-A Inc., as discussed above.

For the three and six months ended June 30, 2008, costs of revenues decreased 2% and 7%, respectively, and as a percentage of revenues were 50% and 49%, respectively, compared to 43% for both the three and six months ended June 30, 2007. For the three and six months ended June 30, 2008, approximately $10 million and $70 million, respectively, of the decrease in costs of revenues were attributable to the sales of AOL s European access businesses. Excluding amounts attributable to the sales of AOL s European access businesses, for the three months ended June 30, 2008, costs of revenues were essentially flat and for the six months ended June 30, 2008, costs of revenues declined due primarily to lower network-related expenses and lower 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 37% to $179 million for the three months ended June 30, 2008 from $131 million for the three months ended June 30, 2007 and increased 37% to $370 million for the six months ended June 30, 2008 from $270 million for the six months ended June 30, 2007, due primarily to a new product distribution agreement and costs associated with growth in the Third Party Network s Advertising revenues. The Company expects TAC to continue to increase during the remainder of 2008 as compared to the similar period in 2007.

Selling, general and administrative expenses decreased 23% to $173 million and 31% to $343 million for the three and six months ended June 30, 2008, respectively. For the six months ended June 30, 2008, approximately $30 million of the decrease was attributable to the sales of AOL s European access businesses. For the three and six months ended June 30, 2008, the remaining decrease in selling, general and administrative expenses reflects a significant reduction in direct marketing costs of approximately $25 million and $65 million, respectively, primarily due to reduced subscriber acquisition marketing as part of AOL s strategy, and other cost savings, primarily related to involuntary employee terminations. In addition, selling, general and administrative expenses for the three and six months ended June 30, 2008 included $9 million and $16 million, respectively, of external costs related to the separation of AOL s Access Services and Global Web Services businesses.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the three and six months ended June 30, 2007 included a net $1 million reduction to the gains on the sales of AOL s German and U.K. access businesses, and for the six months ended June 30, 2007, included a gain of approximately $670 million on the sale of AOL s German access business. In addition, the results for three and the six months ended June 30, 2008 included net restructuring charges of $4 million and $13 million, respectively, and for the three and six months ended June 30, 2007 included net restructuring charges of $4 million and $27 million, respectively, primarily related to involuntary employee terminations and facility closures.

For the three and six months ended June 30, 2008, Operating Income before Depreciation and Amortization decreased compared to the three and six months ended June 30, 2007, due to a decline in Subscription revenues, partially offset by lower costs of revenues and selling, general and administrative expenses. In addition, for the six months ended June 30, 2008, the decrease in Operating Income before Depreciation and Amortization was due to the absence of the gain on the sale of AOL s German access business, which occurred in the first quarter of 2007. The decreases in Operating Income for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 were due primarily to the decreases in Operating Income before Depreciation and Amortization,

as discussed above, as well as an increase in amortization expense due to the amortization of 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.

In connection with AOL s strategy, including its reduction of subscriber acquisition efforts, AOL expects to experience a continued decline in its subscribers and related Subscription revenues. Accordingly, during the remainder of 2008, AOL

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expects to continue to reduce costs of revenues, including dial-up network and customer service expenses, and selling, general and administrative expenses.

Cable. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Cable segment for the three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	**6/30/07**	**% Change**	**6/30/08**	**6/30/07**	**% Change**
Revenues:						
Subscription	$ 4,065	$ 3,788	7%	$ 8,028	$ 7,450	8%
Advertising	233	226	3%	430	415	4%
Total revenues	4,298	4,014	7%	8,458	7,865	8%
Costs of revenues[(a)]	(2,018)	(1,872)	8%	(4,025)	(3,755)	7%
Selling, general and administrative[(a)]	(710)	(692)	3%	(1,461)	(1,343)	9%
Asset impairment	(45)		NM	(45)		NM
Merger-related and restructuring costs		(6)	(100%)		(16)	(100%)
Operating Income before Depreciation and Amortization	1,525	1,444	6%	2,927	2,751	6%
Depreciation	(722)	(669)	8%	(1,423)	(1,318)	8%
Amortization	(65)	(64)	2%	(130)	(143)	(9%)
Operating Income	$ 738	$ 711	4%	$ 1,374	$ 1,290	7%

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

Revenues, including the components of Subscription revenues, are as follows for the three and six months ended June 30, 2008 and 2007 (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	**6/30/07**	**% Change**	**6/30/08**	**6/30/07**	**% Change**
Subscription revenues:						
Video	$ 2,636	$ 2,579	2%	$ 5,239	$ 5,083	3%
High-speed data	1,032	924	12%	2,026	1,818	11%
Voice[(a)]	397	285	39%	763	549	39%

Total Subscription revenues	4,065	3,788	7%	8,028	7,450	8%
Advertising revenues	233	226	3%	430	415	4%
Total revenues	$ 4,298	$ 4,014	7%	$ 8,458	$ 7,865	8%

(a) For the three and six months ended June 30, 2007, voice revenues include $11 million and $25 million, respectively, of revenues associated with subscribers who received traditional, circuit-switched telephone service.

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Selected subscriber-related statistics as of June 30, 2008 and 2007 are as follows (thousands):

	As of June 30,		
	2008	**2007**	**% Change**
Basic video[a]	13,297	13,391	(1%)
Digital video[b]	8,483	7,732	10%
Residential high-speed data[c]	8,125	7,188	13%
Commercial high-speed data[c]	287	263	9%
Residential Digital Phone[d]	3,421	2,334	47%
Commercial Digital Phone[d]	16	1	NM
Revenue generating units[e]	33,629	30,983	9%
Customer relationships[f]	14,737	14,677	

(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 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) Digital Phone subscriber numbers reflect billable subscribers who receive an IP-based telephony service. Residential Digital Phone subscriber numbers as of June 30, 2007 exclude 74,000 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 has been the only voice service offered by TWC.

(e) 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.

(f) 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.

For the three and six months ended June 30, 2008, Subscription revenues increased, primarily driven by the continued growth of digital video services and video price increases, partially offset by a decrease in pay-per-view event revenues, 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% of video revenues for both the three months ended June 30, 2008 and 2007, and 24% and 23% of video revenues for the six months ended June 30, 2008 and 2007, respectively. Strong growth rates for Subscription revenues associated with high-speed data and voice services are expected to continue during the remainder of 2008.

	Three Months Ended			**Six Months Ended**		
	6/30/08	**6/30/07**	**% Change**	**6/30/08**	**6/30/07**	**% Change**
	(millions)			**(millions)**		
Costs of revenues:						

Video programming	$ 939	$ 882	6%	$ 1,868	$ 1,762	6%
Employee	571	531	8%	1,155	1,078	7%
High-speed data	37	39	(5%)	77	83	(7%)
Voice	134	111	21%	262	223	17%
Franchise fees	116	111	5%	228	220	4%
Other direct operating costs	221	198	12%	435	389	12%
Total costs of revenues	$ 2,018	$ 1,872	8%	$ 4,025	$ 3,755	7%

For the three and six months ended June 30, 2008, costs of revenues increased 8% and 7%, respectively, and, as a percentage of revenues, were 47% for both the three months ended June 30, 2008 and 2007 and 48% for both the six months ended June 30, 2008 and 2007. Video programming costs increased for the three and six months ended June 30, 2008 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. Employee costs increased for the three and six months ended June 30, 2008 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. Voice costs increased for the three and six months ended June 30, 2008 primarily due to growth in Digital Phone subscribers, partially offset by a decline in per-subscriber connectivity costs. Other direct operating costs increased for the three and six months ended June 30, 2008 primarily due to increases in certain other costs associated with the continued growth of digital video, high-speed data and Digital Phone services.

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The increase in selling, general and administrative expenses for the three and six months ended June 30, 2008 was attributable to higher marketing costs resulting from intensified marketing efforts, as well as, for the six months ended June 30, 2008, higher employee costs. Employee costs for the three and six months ended June 30, 2008 were impacted by headcount and salary increases. For the three months ended June 30, 2008, higher employee costs were offset by lower equity-based compensation expense, reflecting mainly the timing of 2008 grants, which were made during the first quarter as compared to 2007 grants, which were made in the second quarter.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the three and six months ended June 30, 2008 included a $45 million noncash impairment of certain non-core cable systems held for sale. In addition, the Cable segment expensed non-capitalizable merger-related and restructuring costs associated with the Adelphia/Comcast Transactions of $3 million and $7 million for the three and six months ended June 30, 2007, respectively. The results for the three and six months ended June 30, 2007 also included other restructuring costs of $3 million and $9 million, respectively.

Operating Income before Depreciation and Amortization increased for the three and six months ended June 30, 2008 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, as well as the impairment of certain non-core cable systems held for sale, as discussed above.

Operating Income increased for the three and six months ended June 30, 2008 primarily due to the increases in Operating Income before Depreciation and Amortization discussed above, partially offset by an increase in depreciation expense. In addition, for the six months ended June 30, 2008, the decrease in amortization expense contributed to the increase in Operating Income. For the three and six months ended June 30, 2008, the increase in depreciation expense was primarily associated with purchases of customer premise equipment, scalable infrastructure and line extensions (each of which is primarily driven by customer demand) occurring during or subsequent to the comparable period in 2007. For the six months ended June 30, 2008, the decrease in amortization expense was primarily due to the absence of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of TWE, which were fully amortized as of the end of the first quarter of 2007.

Filmed Entertainment. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Filmed Entertainment segment for the three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	**6/30/07**	**% Change**	**6/30/08**	**6/30/07**	**% Change**
Revenues:						
Subscription	$ 10	$ 7	43%	$ 20	$ 14	43%
Advertising	22	13	69%	37	18	106%
Content	2,484	2,179	14%	5,237	4,842	8%
Other	48	54	(11%)	110	122	(10%)
Total revenues	2,564	2,253	14%	5,404	4,996	8%
Costs of revenues[(a)]	(1,901)	(1,709)	11%	(3,876)	(3,717)	4%
Selling, general and administrative[(a)]	(470)	(370)	27%	(939)	(773)	21%
Restructuring costs	3		NM	(113)		NM
Operating Income before Depreciation and Amortization	196	174	13%	476	506	(6%)
Depreciation	(43)	(40)	8%	(84)	(75)	12%

Amortization	(59)	(53)	11%	(115)	(107)	7%
Operating Income	$ 94	$ 81	16%	$ 277	$ 324	(15%)

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

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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 three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	6/30/07	% Change	6/30/08	6/30/07	% Change
Theatrical product:						
Theatrical film	$ 286	$ 339	(16%)	$ 795	$ 795	
Home video and electronic delivery	766	595	29%	1,576	1,356	16%
Television licensing	421	341	23%	821	733	12%
Consumer products and other	47	32	47%	82	67	22%
Total theatrical product	1,520	1,307	16%	3,274	2,951	11%
Television product:						
Television licensing	540	579	(7%)	1,211	1,327	(9%)
Home video and electronic delivery	190	171	11%	350	311	13%
Consumer products and other	47	57	(18%)	106	112	(5%)
Total television product	777	807	(4%)	1,667	1,750	(5%)
Other	187	65	188%	296	141	110%
Total Content revenues	$ 2,484	$ 2,179	14%	$ 5,237	$ 4,842	8%

The decline in theatrical film revenues for the three months ended June 30, 2008 was due primarily to difficult comparisons to the prior year period, which included revenues from *300* and *Ocean s 13*. Revenues for the three months ended June 30, 2008 included *Sex and the City*, *Get Smart* and *Speed Racer*. For the six months ended June 30, 2008, the decline for the three months ended June 30, 2008 was offset, primarily due to the success of key releases in the first quarter of 2008, which included revenues from *10,000 B.C.* and *Fool s Gold*, as well as carryover from *I Am Legend* and *The Bucket List*. Revenues in the first quarter of 2007 included the releases of *300* and *Music & Lyrics*, as well as carryover revenues from *Blood Diamond* and *Happy Feet*. Theatrical product revenues from home video and electronic delivery increased for the three and six months ended June 30, 2008 primarily due to a greater number of significant titles in 2008, including *I Am Legend*, *The Bucket List*, *10,000 B.C.* and *Fool s Gold*, compared to 2007, which included *Happy Feet* and *The Departed*. Theatrical product revenues from television licensing increased for the three and six months ended June 30, 2008 due primarily to the timing and quantity of availabilities.

The decrease in television product licensing fees for the three and six months ended June 30, 2008 was primarily due to the impact of the WGA strike, partially offset by off-network license fees from *Seinfeld*. The increase in television product revenues from home video and electronic delivery for the three and six months ended June 30, 2008 primarily reflected the timing of releases, including the release of additional seasons of *Two and a Half Men*.

The increase in other Content revenues for the three and six months ended June 30, 2008 was due primarily to the impact of the acquisition of TT Games Limited in the fourth quarter of 2007, including revenues from the second-quarter 2008 release of *LEGO Indiana Jones*, as well as the expansion of the distribution of interactive video games.

The increase in costs of revenues for the three and six months ended June 30, 2008 resulted primarily from higher film costs ($1.074 billion and $2.226 billion for the three and six months ended June 30, 2008, respectively, compared to $943 million and $2.086 billion for the three and six months ended June 30, 2007, respectively), partially offset for the six months ended June 30, 2008 by lower theatrical advertising and print costs due to the timing, quantity and mix of films released. Included in film costs are net pre-release theatrical film valuation adjustments, which decreased to $9 million for the three months ended June 30, 2008 from $51 million for the three months ended June 30, 2007 and decreased to $18 million for the six months ended June 30, 2008 from $104 million for the six months ended June 30, 2007. In addition, during the six months ended June 30, 2008, the Company recognized approximately $40 million in participation expense, which reflects a reduction of approximately $10 million in the second quarter of 2008, related to current claims on films released in prior periods. Costs of revenues as a percentage of revenues decreased to 74% for the three months ended June 30, 2008 from 76% for the three months ended June 30, 2007, and to 72% for the six months ended June 30, 2008 from 74% for the six months ended June 30, 2007, reflecting the quantity and mix of products released.

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The increase in selling, general and administrative expenses for the three and six months ended June 30, 2008 was primarily the result of higher employee costs and higher distribution costs attributable to the increase in revenues.

The results for the six months ended June 30, 2008 included net restructuring charges of $113 million, including a $3 million reversal for the three months ended June 30, 2008, related to involuntary employee terminations in connection with the operational reorganization of the New Line business. The Company expects to incur incremental restructuring charges ranging from $20 million to $30 million during the remainder of 2008.

Operating Income before Depreciation and Amortization and Operating Income increased for the three months ended June 30, 2008 primarily due to an increase in revenues, partially offset by an increase in costs of revenues and selling, general and administrative expenses. Operating Income before Depreciation and Amortization and Operating Income for the six months ended June 30, 2008 decreased primarily due to the increase in restructuring charges and an increase in selling, general and administrative expenses, partially offset by an increase in revenues.

Networks. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Networks segment for the three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	**6/30/07**	**% Change**	**6/30/08**	**6/30/07**	**% Change**
Revenues:						
Subscription	$ 1,719	$ 1,561	10%	$ 3,414	$ 3,106	10%
Advertising	906	817	11%	1,645	1,472	12%
Content	189	212	(11%)	402	412	(2%)
Other	12	11	9%	24	21	14%
Total revenues	2,826	2,601	9%	5,485	5,011	9%
Costs of revenues[a]	(1,459)	(1,373)	6%	(2,716)	(2,440)	11%
Selling, general and administrative[a]	(507)	(466)	9%	(951)	(872)	9%
Asset impairments	(18)	(34)	(47%)	(18)	(34)	(47%)
Restructuring costs		(16)	(100%)		(16)	(100%)
Operating Income before Depreciation and Amortization	842	712	18%	1,800	1,649	9%
Depreciation	(81)	(73)	11%	(159)	(147)	8%
Amortization	(12)	(5)	140%	(18)	(8)	125%
Operating Income	$ 749	$ 634	18%	$ 1,623	$ 1,494	9%

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

The increase in Subscription revenues for the three and six months ended June 30, 2008 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 acquisitions.

The increase in Advertising revenues for the three and six months ended June 30, 2008 was driven primarily by Turner s domestic entertainment and news networks, reflecting mainly audience growth, higher CPMs (advertising rates per thousand viewers) and an increase in advertising units sold.

For the three and six months ended June 30, 2008, costs of revenues increased due primarily to increases in programming costs, as well as election-related newsgathering costs. For the three months ended June 30, 2008, programming costs increased 8% to $1.109 billion from $1.028 billion for the three months ended June 30, 2007 and for the six months ended June 30, 2008, programming costs increased 14% to $2.016 billion from $1.768 billion for the six months ended June 30, 2007. The increase in programming costs for the three and six months ended June 30, 2008 was due primarily to an increase in sports programming costs at Turner, particularly related to NBA programming, higher original programming costs at both HBO and Turner, as well as programming costs associated with international acquisitions. Programming costs for the six months ended June 30, 2008 also included a $21 million impairment related to HBO s decision to not proceed with an original series. Costs of revenues as a percentage of revenues were 52% and 50% for the three and six months ended June 30, 2008 compared to 53% and 49% for the three and six months ended June 30, 2007.

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The increase in selling, general and administrative expenses for the three and six months ended June 30, 2008 reflected, in part, higher costs related to international expansion.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the three and six months ended June 30, 2008 included an $18 million noncash impairment of GameTap as a result of Turner s decision to sell its on-line video game business and the three and six months ended June 30, 2007 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. The results for the three and six months ended June 30, 2007 also included $16 million of restructuring charges and severance related to senior management changes at HBO.

Operating Income before Depreciation and Amortization and Operating Income increased for the three and six months ended June 30, 2008 primarily due to an increase in revenues and reductions in restructuring costs and asset impairments, as discussed above, partially offset by increases in costs of revenues and selling, general and administrative expenses.

Publishing. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Publishing segment for the three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	**6/30/07**	**% Change**	**6/30/08**	**6/30/07**	**% Change**
Revenues:						
Subscription	$ 387	$ 383	1%	$ 752	$ 739	2%
Advertising	648	714	(9%)	1,198	1,268	(6%)
Content	12	13	(8%)	24	26	(8%)
Other	129	143	(10%)	247	268	(8%)
Total revenues	1,176	1,253	(6%)	2,221	2,301	(3%)
Costs of revenues[(a)]	(457)	(475)	(4%)	(881)	(911)	(3%)
Selling, general and administrative[(a)]	(445)	(469)	(5%)	(911)	(962)	(5%)
Restructuring costs	(5)	(7)	(29%)	(15)	(42)	(64%)
Operating Income before Depreciation and Amortization	269	302	(11%)	414	386	7%
Depreciation	(34)	(30)	13%	(68)	(57)	19%
Amortization	(17)	(16)	6%	(35)	(35)	
Operating Income	$ 218	$ 256	(15%)	$ 311	$ 294	6%

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

For the three and six months ended June 30, 2008, Subscription revenues increased primarily as a result of higher newsstand sales for certain domestic magazine titles and at IPC, partially offset by the impact of the sale of four non-strategic magazine titles in the third quarter of 2007 (the 2007 magazine sales).

For the three and six months ended June 30, 2008, Advertising revenues decreased due primarily to declines in domestic print Advertising revenues and declines in custom publishing revenues, as well as the impact of the 2007 closures of *LIFE* and *Business 2.0* magazines and the impact of the 2007 magazine sales, partly offset by growth in online revenues, led by contributions from *People.com, Time.com* and *CNNMoney.com*.

For the three and six months ended June 30, 2008, Other revenues decreased due primarily to decreases at Synapse and Southern Living at Home.

Costs of revenues decreased 4% for the three months ended June 30, 2008 and, as a percentage of revenues, were 39% and 38% for the three months ended June 30, 2008 and 2007, respectively. Costs of revenues decreased 3% for the six months ended June 30, 2008 and, as a percentage of revenues, were 40% for both the six months ended June 30, 2008 and 2007. Costs of revenues for the magazine publishing business include manufacturing costs (paper, printing and distribution) and editorial-related costs, which together decreased 2% to $407 million for the three months ended June 30, 2008 and decreased 2% to $780 million for the six months ended June 30, 2008, primarily due to cost savings related to the impact of

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the magazine closures in 2007 and the 2007 magazine sales, partially offset by higher paper prices, which are expected to continue for the remainder of 2008. These decreases at the magazine publishing business, as well as a decrease in costs associated with lower volumes at the non-magazine businesses, were offset by increased costs associated with investments in digital properties, including incremental editorial costs.

Selling, general and administrative expenses decreased for the three and six months ended June 30, 2008 primarily due to cost savings initiatives and the impact of magazine closures in 2007 and the 2007 magazine sales, partially offset by costs associated with investments in digital properties.

The results for the three and six months ended June 30, 2008 included $5 million and $15 million, respectively, of restructuring costs, primarily severance associated with continuing efforts to streamline operations. The results for the three and six months ended June 30, 2007 included $7 million and $42 million, respectively, of restructuring costs, primarily severance associated with efforts to streamline operations and costs related to the shutdown of *LIFE* magazine in the first quarter of 2007.

Operating Income before Depreciation and Amortization decreased for the three months ended June 30, 2008 due primarily to a decline in revenues, partially offset by decreases in costs of revenues and selling, general and administrative expenses. Operating Income decreased for the three months ended June 30, 2008 due primarily to the decline in Operating Income before Depreciation and Amortization discussed above, as well as 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. Operating Income before Depreciation and Amortization increased for the six months ended June 30, 2008 due primarily to decreases in costs of revenues and selling, general and administrative expenses as well as a decline in restructuring charges, partially offset by a decline in revenues. Operating Income increased for the six months ended June 30, 2008 due primarily to the increase in Operating Income before Depreciation and Amortization described above, partially offset by 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 both Operating Income before Depreciation and Amortization and Operating Income at the Publishing segment will decline for the remainder of 2008 compared to the similar period in the prior year, primarily due to expected declines in both domestic print Advertising revenues and Other revenues as well as paper price increases.

Corporate. Operating Loss before Depreciation and Amortization and Operating Loss of the Corporate segment for the three and six months ended June 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Six Months Ended		
	6/30/08	6/30/07	% Change	6/30/08	6/30/07	% Change
Amounts related to securities litigation and government investigations	$ (4)	$ (4)		$ (8)	$ (167)	(95%)
Selling, general and administrative[(a)]	(77)	(89)	(13%)	(169)	(194)	(13%)
Restructuring costs				(7)		NM
Operating Loss before Depreciation and Amortization	(81)	(93)	(13%)	(184)	(361)	(49%)
Depreciation	(10)	(12)	(17%)	(21)	(23)	(9%)
Operating Loss	$ (91)	$ (105)	(13%)	$ (205)	$ (384)	(47%)

(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 shareholder lawsuits, totaling $4 million and $8 million for the three and six months ended June 30, 2008, respectively, and $5 million and $176 million for the three and six months ended June 30, 2007, respectively. In addition, the Company recognized related insurance recoveries of $1 million and $9 million for the three and six months ended June 30, 2007, respectively. 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.

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The results for the six months ended June 30, 2008 included $7 million of restructuring costs, due primarily to involuntary employee terminations as a result of the Company s cost savings initiatives at the Corporate segment. The Company anticipates that these initiatives will result in annual savings of more than $50 million.

Excluding the items noted above, for the three and six months ended June 30, 2008, Operating Loss before Depreciation and Amortization and Operating Loss decreased due primarily to lower corporate costs, related primarily to the cost savings initiatives.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to Time Warner should be sufficient to fund its capital and liquidity needs for the foreseeable future, including quarterly dividend payments and the remainder of its $5 billion common stock repurchase program. Time Warner s sources of cash include cash provided by operations, cash and equivalents on hand, available borrowing capacity under its committed credit facilities and commercial paper programs and access to capital markets. Time Warner s unused committed capacity at June 30, 2008 (not including amounts at TWC) was $4.516 billion, including $1.336 billion of cash and equivalents. At the same date, TWC s unused committed capacity was $13.641 billion, including $3.849 billion of cash and equivalents and $4.040 billion under the 2008 Cable Bridge Facility, under which TWC may not borrow any amounts unless and until the Special Dividend is declared in connection with the TWC Separation Transactions. TWC expects to use $10.855 billion of its total unused committed capacity to finance the Special Dividend, $9.25 billion of which Time Warner expects to receive.

Current Financial Condition

At June 30, 2008, Time Warner had $39.735 billion of debt, $5.185 billion of cash and equivalents (net debt of $34.550 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable preferred membership units at a subsidiary and $59.374 billion of shareholders equity, compared to $37.130 billion of debt, $1.516 billion of cash and equivalents (net debt of $35.614 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable preferred membership units at a subsidiary and $58.536 billion of shareholders equity at December 31, 2007.

The following table shows the significant items contributing to the decrease in net debt from December 31, 2007 to June 30, 2008 (millions):

Balance at December 31, 2007	$ 35,614
Cash provided by operations	(4,932)
Proceeds from exercise of stock options	(73)
Capital expenditures and product development costs	2,049
Dividends paid to common stockholders	450
Repurchases of common stock	332
Investments and acquisitions, net[(a)]	1,250
Proceeds from the sale of investments[(a)]	(245)
All other, net	105
Balance at June 30, 2008[(b)(c)]	$ 34,550

(a) Refer to the Investing Activities section for further detail.

(b) Included in the net debt balance is $172 million that represents the net unamortized fair value adjustment recognized as a result of the merger of AOL and Historic TW Inc.

(c) Net debt at June 30, 2008 includes $21.936 billion at Time Warner and $12.614 billion at TWC.

Time Warner has a shelf registration statement on file with the Securities and Exchange Commission (the SEC) that allows it to offer and sell from time to time debt securities, preferred stock, common stock and/or warrants to purchase debt and equity securities. As discussed below, TWC also has a shelf registration statement on file with the SEC that allows it to offer and sell from time to time senior and subordinated debt securities and debt warrants.

As discussed in Recent Developments, as part of the TWC Separation Transactions, TWC will declare and pay 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

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$9.25 billion from the dividend immediately prior to the Distribution.

As noted under Recent Developments, TWC is a participant in the Sprint/Clearwire Joint Venture, which is expected to close by the end of the first half of 2009. TWC s share of such investment is expected to be approximately $550 million, which it expects to fund with cash on hand at TWC, borrowings under the Cable Revolving Facility, TWC s commercial paper program or a combination thereof.

On July 26, 2007, Time Warner s Board of Directors authorized a common stock repurchase program that allows the Company to purchase up to an aggregate of $5 billion of common stock. Purchases under this 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 are based on a number of factors, including price and business and market conditions. From the program s inception through August 5, 2008, the Company has repurchased approximately 154 million shares of common stock for approximately $2.8 billion, which included approximately 19 million shares of common stock purchased for approximately $299 million in the first six months of 2008, pursuant to trading programs under Rule 10b5-1 of the Exchange Act (Note 6).

On January 8, 2008, the Company entered into an agreement for a $2.0 billion three-year unsecured term loan facility with a maturity date of January 8, 2011. Substantially all of the borrowings under the facility, which was fully drawn on January 8, 2008, were used to repay existing short-term borrowings (Note 5).

Time Warner s 7.48% notes due January 15, 2008 (aggregate principal amount of $166 million) matured and were retired on January 15, 2008. On September 1, 2008, TWE s 7.25% notes due September 1, 2008 (aggregate principal amount of $600 million) will mature.

Cash Flows

Cash and equivalents increased by $3.669 billion and decreased by $659 million for the six months ended June 30, 2008 and 2007, respectively. Components of these changes are discussed below in more detail.

Operating Activities

Details of cash provided by operations are as follows (millions):

	Six Months Ended	
	6/30/08	**6/30/07**
Operating Income	$ 3,893	$ 4,476
Depreciation and amortization	2,294	2,164
Amounts related to securities litigation and government investigations:		
Net expenses	8	167
Cash payments, net of recoveries	(8)	(910)
Gain on disposal of assets, net		(669)
Noncash asset impairments	63	35
Net interest payments[(a)]	(1,055)	(1,091)
Net income taxes paid[(b)]	(331)	(327)
Noncash equity-based compensation	169	173
Net cash flows from discontinued operations[(c)]	(12)	55
Domestic pension plan contributions	(210)	(10)
Merger-related and restructuring payments, net of accruals[(d)]	46	(83)
All other, net, including working capital changes	75	(861)
Cash provided by operations	$ 4,932	$ 3,119

(a) Includes interest income received of $58 million and $44 million in 2008 and 2007, respectively.

(b) Includes income tax refunds received of $105 million and $65 million in 2008 and 2007, respectively.

(c) Reflects net income (loss) from discontinued operations of $(3) million and $138 million in 2008 and 2007, respectively, net of noncash gains and expenses and working capital-related adjustments of $9 million and $83 million in 2008 and 2007, respectively.

(d) Includes payments for merger-related and restructuring costs and payments for certain other merger-related liabilities, net of accruals.

Cash provided by operations increased to $4.932 billion in 2008 from $3.119 billion in 2007. The increase in cash provided by operations was related primarily to cash provided by working capital and a decrease in payments made in

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connection with the settlements in the securities litigation and the government investigations, partially offset by an increase in domestic pension plan contributions. The changes in components of working capital are subject to wide fluctuations based on the timing of cash transactions related to production schedules, the acquisition of programming, collection of accounts receivable and similar items. The change in working capital between periods primarily reflects higher cash collections on receivables and the timing of payments for programming production spending, accounts payable and accrued liabilities. As the majority of the Company s U.S. federal tax attribute carryforwards were utilized as of December 31, 2007, the Company expects a significant increase in U.S. federal income tax payments during 2008, including $223 million paid during the first half of the year. Partially offsetting this increase are the benefits from the Economic Stimulus Act of 2008, which provides for a special 50% depreciation deduction in 2008 for certain qualifying property. Additionally, the Company has made $200 million of discretionary cash contributions to certain domestic funded defined benefit plans for the six months ended June 30, 2008 and, subject to market conditions and other considerations, anticipates making additional discretionary cash contributions of at least $50 million during the remainder of the year.

Investing Activities

Details of cash used by investing activities are as follows (millions):

	Six Months Ended	
	6/30/08	**6/30/07**
Investments in available-for-sale securities	$ (14)	$ (89)
Investments and acquisitions, net of cash acquired:		
Bebo	(849)	
buy.at	(125)	
Third Screen Media		(104)
All other	(262)	(208)
Investment activities of discontinued operations		(26)
Capital expenditures and product development costs	(2,049)	(1,987)
Proceeds from the sale of available-for-sale securities	14	23
Proceeds from the sale of AOL s German access business		850
Proceeds from the sale of the Parenting Group and most of the Time4 Media magazine titles		220
Proceeds from the sale of the Company s 50% interest in Bookspan		145
All other investment and asset sale proceeds	231	205
Cash used by investing activities	$ (3,054)	$ (971)

Cash used by investing activities increased to $3.054 billion in 2008 from $971 million in 2007. The change in cash used by investing activities primarily reflected the decrease in proceeds from the sales of assets and an increase in investment and acquisition expenditures.

Financing Activities

Details of cash provided (used) by financing activities are as follows (millions):

	Six Months Ended	
	6/30/08	**6/30/07**
Borrowings	$ 24,599	$ 9,542

Debt repayments	(21,982)	(8,614)
Proceeds from exercise of stock options	73	420
Excess tax benefit on stock options	3	58
Principal payments on capital leases	(20)	(32)
Repurchases of common stock	(332)	(3,668)
Dividends paid	(450)	(417)
Other financing activities	(100)	(96)
Cash provided (used) by financing activities	$ 1,791	$ (2,807)

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Cash provided by financing activities was $1.791 billion in 2008 compared to cash used by financing activities of $2.807 billion in 2007. The change in cash provided (used) by financing activities was primarily due to a decline in repurchases of common stock made in connection with the Company s common stock repurchase programs, as well as an increase in net borrowings (defined as borrowings less repayments) primarily related to the 2008 Cable Bond Offering.

Outstanding Debt and Other Financing Arrangements

Outstanding Debt and Committed Financial Capacity

At June 30, 2008, Time Warner had total committed capacity, defined as maximum available borrowings under various existing debt arrangements and cash and short-term investments, of $58.095 billion, including $4.040 billion under the 2008 Cable Bridge Facility, under which TWC may not borrow any amounts unless and until the Special Dividend is declared in connection with the TWC Separation Transactions. Of this committed capacity, $18.157 billion was unused and $39.735 billion was outstanding as debt. The $18.157 billion of unused committed capacity includes $4.516 billion at Time Warner and $13.641 billion at TWC, $10.855 billion of which TWC expects to use to finance the Special Dividend. At June 30, 2008, total committed capacity, outstanding letters of credit, unamortized discount on commercial paper, outstanding debt and total unused committed capacity were as follows (millions):

	Committed Capacity[a]	Letters of Credit[b]	Unamortized Discount on Commercial Paper	Outstanding Debt[c]	Unused Committed Capacity[d][e]
Cash and equivalents	$ 5,185	$	$	$	$ 5,185
Bank credit agreements and commercial paper programs[a]	22,085	201	2	8,910	12,972
Floating-rate public debt	2,000			2,000	
Fixed-rate public debt[e]	28,523			28,523	
Other fixed-rate obligations[f]	302			302	
Total	$ 58,095	$ 201	$ 2	$ 39,735	$ 18,157

(a) The bank credit agreements, commercial paper programs and public debt of the Company rank pari passu with the senior debt of the respective obligors thereon. The Company s

maturity profile of its outstanding debt and other financing arrangements is relatively long-term, with a weighted maturity of approximately 10.6 years.

(b) Represents the portion of committed capacity reserved for outstanding and undrawn letters of credit.

(c) Represents principal amounts adjusted for premiums and discounts.

(d) Includes $13.641 billion of unused committed capacity at TWC, $10.855 billion of which TWC expects to use to finance the Special Dividend. TWC s unused committed capacity includes $4.040 billion under the 2008 Cable Bridge Facility (described below), under which TWC may not borrow any amounts

unless and until the Special Dividend is declared in connection with the TWC Separation Transactions.

(e) The Company has classified $600 million in debt of Time Warner due within the next twelve months as long-term on the accompanying consolidated balance sheet to reflect management s intent and ability to refinance the obligation on a long-term basis through the utilization of the unused committed capacity under the Company s bank credit agreements.

(f) Includes debt due within one year of $128 million, which primarily relates to capital lease obligations.

2008 Cable Bond Offering

On June 16, 2008, TWC filed a shelf registration statement on Form S-3 (the TWC Shelf Registration Statement) with the SEC that allows TWC to offer and sell from time to time senior and subordinated debt securities and debt warrants. On June 19, 2008, TWC issued $5.0 billion in aggregate principal amount of senior unsecured notes and debentures under the TWC Shelf Registration Statement in the 2008 Cable Bond Offering, consisting of $1.5 billion principal amount of 6.20% Notes due 2013 (the 2013 Notes), $2.0 billion principal amount of 6.75% Notes due 2018 (the 2018 Notes) and $1.5 billion principal amount of 7.30% Debentures due 2038 (the 2038 Debentures and, together with the 2013 Notes and the 2018 Notes, the 2008 Cable Debt Securities). TWC expects to use the net proceeds of $4.963 billion from this issuance 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 from the issuance of the 2008 Cable Debt Securities for general corporate purposes, including repayment of indebtedness. The 2008 Cable Debt Securities are guaranteed by TWE and TW NY (the Guarantors).

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2008 Cable Bridge Facility

In addition to the 2008 Cable Debt Securities described above, on June 30, 2008, TWC entered into a credit agreement (the Bridge Credit Agreement) with certain financial institutions for the $9.0 billion 2008 Cable Bridge Facility in order to finance, in part, the Special Dividend. Subject to certain limited exceptions, to the extent TWC incurs debt (other than an incurrence of debt under the Cable Revolving Facility and its existing commercial paper program), issues equity securities or completes asset sales prior to drawing on the 2008 Cable Bridge Facility, the commitments of the lenders under the 2008 Cable Bridge Facility will be reduced by an amount equal to the net cash proceeds from any such incurrence, issuance or sale. As a result of the 2008 Cable Bond Offering, immediately after the Bridge Credit Agreement was executed, the amount of the commitments under the 2008 Cable Bridge Facility was reduced to $4.040 billion. TWC may elect to extend the maturity date of the loans outstanding under the 2008 Cable Bridge Facility for an additional year. In the event TWC borrows any amounts under the 2008 Cable Bridge Facility, subject to certain limited exceptions, TWC is required to use the net cash proceeds from any subsequent incurrence of debt (other than an incurrence of debt under the Cable Revolving Facility and its existing commercial paper program), issuance of equity securities and asset sale to prepay amounts outstanding under the 2008 Cable Bridge Facility. TWC may prepay amounts outstanding under the 2008 Cable Bridge Facility at any time without penalty or premium, subject to minimum amounts. TWC may not borrow any amounts under the 2008 Cable Bridge Facility unless and until the Special Dividend is declared in connection with the TWC Separation Transactions. TWC s obligations under the 2008 Cable Bridge Facility are guaranteed by TWE and TW NY.

Supplemental Facility

In May 2008, Time Warner (as lender) committed to lend TWC (as borrower) up to an aggregate principal amount of $3.5 billion under the Supplemental Facility. TWC may borrow under the Supplemental Facility at the final maturity of the 2008 Cable Bridge Facility to repay amounts then outstanding under the 2008 Cable Bridge Facility. As a result of the 2008 Cable Bond Offering, Time Warner s original commitment under the Supplemental Facility was reduced to $2.520 billion. TWC s obligations under the Supplemental Facility will be guaranteed by TWE and TW NY.

Time Warner s commitment under the Supplemental Facility will be further reduced by (i) 50% of any additional amounts by which the commitments under the 2008 Cable Bridge Facility are further reduced by the net cash proceeds of subsequent issuances of debt or equity or certain asset sales by TWC prior to TWC s borrowing under the 2008 Cable Bridge Facility and (ii) the amount by which borrowing availability under the Cable Revolving Facility exceeds $2.0 billion on the date of borrowing under the Supplemental Facility.

Additional Information

See Note 5 to the accompanying consolidated financial statements for additional information regarding the 2008 Cable Bond Offering, the 2008 Cable Bridge Facility and the Supplemental Facility, and Note 7 to the Company s consolidated financial statements in the 2007 Form 10-K for further details regarding the Company s outstanding debt and other financing arrangements, including certain information about maturities, covenants, rating triggers and bank credit agreement leverage ratios relating to such debt and financing arrangements.

Programming Licensing Backlog

Programming licensing backlog represents the amount of future revenues not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television exhibition. Backlog was approximately $4.0 billion and $3.7 billion at June 30, 2008 and December 31, 2007, respectively. Included in these amounts is licensing of film product from the Filmed Entertainment segment to the Networks segment in the amount of $966 million and $700 million at June 30, 2008 and December 31, 2007, respectively.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, Operating Income before Depreciation and

Amortization and cash from operations. Words such as anticipates, estimates, expects, projects, intends, believes and words and terms of similar substance used in connection with any discussion of future operating or financial

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performance identify forward-looking statements. These forward-looking statements are based on management s current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect the operations, business or financial results of Time Warner or its business segments in the future and cause Time Warner s actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2007 Form 10-K, which should be read in conjunction with this report (including Item 1A, Risk Factors, in Part II of this report), and in Time Warner s other filings made from time to time with the SEC after the date of this report. In addition, Time Warner operates in highly competitive, consumer and technology-driven and rapidly changing media, entertainment, interactive services and cable businesses. These businesses are affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, the continued ability to protect intellectual property rights. Time Warner s actual results could differ materially from management s expectations because of changes in such factors.

Further, for Time Warner generally, lower than expected valuations associated with the cash flows and revenues at Time Warner s segments may result in Time Warner s inability to realize the value of recorded intangibles and goodwill at those segments. In addition, achieving the Company s financial objectives, including growth in operations, maintaining financial ratios and a strong balance sheet, could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in the 2007 Form 10-K and in Part II of this report, as well as:

- economic slowdowns;
- the impact of terrorist acts and hostilities;
- changes in the Company s plans, strategies and intentions;
- the impacts of significant acquisitions, dispositions and other similar transactions, including the planned separation of TWC from Time Warner;
- the failure to meet earnings expectations; and
- decreased liquidity in the capital markets, including any reduction in the ability to access the capital markets for debt securities or bank financings.

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Item 4. CONTROLS AND PROCEDURES

Item 4. 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.

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 June 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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TIME WARNER INC.
CONSOLIDATED BALANCE SHEET
(Unaudited; millions, except per share amounts)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and equivalents	$ 5,185	$ 1,516
Receivables, less allowances of $1,928 and $2,410	6,148	7,296
Inventories	2,013	2,105
Prepaid expenses and other current assets	773	834
Deferred income taxes	732	700
Total current assets	14,851	12,451
Noncurrent inventories and film costs	5,240	5,304
Investments, including available-for-sale securities	1,940	1,963
Property, plant and equipment, net	18,212	18,048
Intangible assets subject to amortization, net	5,088	5,167
Intangible assets not subject to amortization	47,214	47,220
Goodwill	42,534	41,749
Other assets	1,981	1,928
Total assets	$ 137,060	$ 133,830
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,217	$ 1,470
Participations payable	2,590	2,547
Royalties and programming costs payable	1,300	1,253
Deferred revenue	1,278	1,178
Debt due within one year	128	126
Other current liabilities	4,946	5,611
Current liabilities of discontinued operations	3	8
Total current liabilities	11,462	12,193
Long-term debt	39,607	37,004
Mandatorily redeemable preferred membership units issued by a subsidiary	300	300
Deferred income taxes	14,361	13,736
Deferred revenue	473	522
Other liabilities	7,048	7,217
Minority interests	4,435	4,322
Commitments and contingencies (Note 11)		
Shareholders equity		
	49	49

Time Warner common stock, $0.01 par value, 4.885 and 4.877 billion shares issued and 3.582 and 3.593 billion shares outstanding		
Paid-in-capital	172,547	172,443
Treasury stock, at cost (1.303 and 1.284 billion shares)	(25,836)	(25,526)
Accumulated other comprehensive income, net	93	149
Accumulated deficit	(87,479)	(88,579)
Total shareholders equity	59,374	58,536
Total liabilities and shareholders equity	$ 137,060	$ 133,830