TIME WARNER INC.
Form 10-Q
November 05, 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 September 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 October 29, 2008**
Common Stock $.01 par value	3,587,436,253

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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 nine months ended September 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 September 30, 2008 and cash flows for the nine months ended September 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) and the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (the June 2008 Form 10-Q) for a discussion of the risk factors applicable to the Company.

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OVERVIEW

Time Warner is a leading media and entertainment company, whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are HBO, TNT, CNN, AOL, *People*, *Sports Illustrated*, *Time* and Time Warner Cable. The Company produces and distributes films through Warner Bros. and New Line Cinema, including *The Dark Knight*, *Sex and the City*, *Get Smart*, *Journey to the Center of the Earth* and the *Harry Potter* films, as well as television series, including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *The Closer* and *ER*. During the nine months ended September 30, 2008, the Company generated revenues of $34.678 billion (up 2% from $33.840 billion in 2007), Operating Income of $6.229 billion (down 6% from $6.606 billion in 2007), Net Income of $2.630 billion (down 22% from $3.356 billion in 2007) and Cash Provided by Operations of $8.094 billion (up 31% from $6.156 billion in 2007). As discussed more fully in Business Segment Results, the nine months ended September 30, 2007 included the impact of an approximate $668 million gain on the sale of AOL s German access business.

Impact of the Current Economic Environment

The recent events affecting the U.S. and international financial markets have had a significant and adverse impact on the broader global economies. These events have served to severely tighten the credit markets, increase equity market volatility and reduce future expectations for economic growth.

Despite the current economic environment, the Company believes it continues to have strong liquidity to meet its needs for the foreseeable future. At September 30, 2008, the Company had $17.997 billion of unused committed capacity, including cash and equivalents and credit facilities containing commitments from a geographically diverse group of major financial institutions, with $5.393 billion at Time Warner and $12.604 billion at Time Warner Cable Inc. (together with its subsidiaries, TWC), $10.855 billion of which TWC expects to use to finance the Special Dividend, as defined below. The only significant portion of the Company s debt that is due before December 31, 2010 is $2.000 billion of floating rate public debt that matures on November 13, 2009. While the Company believes it has sufficient total committed capacity and access to capital markets, any new borrowings in the near term outside of the Company s committed capacity would likely bear significantly higher interest rates than those on the Company s recent borrowings. See Financial Condition and Liquidity for further details regarding the Company s total committed capacity.

The current economic conditions are also having an adverse effect on the advertising performance of the Company s Publishing, AOL and Cable segments. While demand for advertising at the Networks segment has been strong, a protracted economic downturn may negatively impact that segment s Advertising revenue as well. Since the end of the third quarter of 2008, the Cable segment has seen a slowdown in growth across all revenue generating unit categories as a result of the challenging economic environment. In the event of a protracted economic downturn, the Company also faces the risk of reduced consumer discretionary spending on packaged media, including home video (e.g., DVD) and game products.

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 worldwide on both the AOL Network and third-party Internet sites, referred to as the Third Party

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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 September 30, 2008, AOL had 7.5 million AOL brand Internet access subscribers in the U.S., which does not include registrations for free AOL services. For the nine months ended September 30, 2008, AOL generated revenues of $3.197 billion (9% of the Company s overall revenues), $1.144 billion in Operating Income before Depreciation and Amortization and $782 million in Operating Income.

AOL s strategy has been 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 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 manage 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 ad serving technology to third-party websites. Platform-A offers to advertisers a range of capabilities and solutions, including optimization and targeting technologies, to deliver more effective advertising and reach specific audiences across the AOL Network and the Third Party Network. During 2007 and the early part of 2008, AOL acquired various businesses to supplement its online advertising capabilities, and these businesses contributed $110 million in Advertising revenues during the nine months ended September 30, 2008.

During the first nine months of 2008, Advertising revenues on the AOL Network were negatively affected by certain factors and trends, including increased volume of inventory monetized through lower priced sales channels, declines in the price of advertising inventory in certain inventory segments and an overall increase in marketplace competition. Additionally, AOL s Advertising revenues on both the AOL Network and the Third Party Network were negatively impacted by weakening economic conditions resulting in lower demand from certain advertiser categories as well as certain sales execution and systems integration issues, including matters relating to the integration of acquired businesses under Platform-A into a single sales force. During the early part of 2008, the increasing usage of third-party advertising networks has had a positive impact on AOL s Third Party Network Advertising revenues. 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 nine months of 2008, the Company has experienced a significant decline in Advertising revenues due in part to a decrease in business from a major customer of Platform-A Inc. (formerly Advertising.com, Inc.). The Company anticipates that revenues from this customer will continue to decline for the remainder of 2008 compared to the similar period in 2007. Revenues from this relationship decreased to $25 million for the nine months ended September 30, 2008 from $162 million for the nine months ended September 30, 2007. For the full year 2007, AOL earned Advertising revenues from this relationship of $215 million.

AOL s Publishing business group, a unit 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 that can be accessed generally via the Internet or via the AOL Internet access services. Specifically, the AOL Network includes owned and operated websites, applications and services such as *AOL.com*, e-mail, AIM, MapQuest, Moviefone, ICQ, Truveo (a video search engine) and international versions of the

AOL portal. 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

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the acquisition of Bebo, Inc. (Bebo), a leading global social media network, which AOL continues to integrate into its business.

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 nine 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 1.9 million for the nine months ended September 30, 2008 compared to a decline of 3.1 million for the nine months ended September 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.

Cable. Time Warner s cable business, TWC, is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of September 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 nine months ended September 30, 2008, TWC generated revenues of $12.798 billion (37% of the Company s overall revenues), $4.481 billion in Operating Income before Depreciation and Amortization and $2.162 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 September 30, 2008, 53% of TWC s customers subscribed to two or more of its primary services, including 20% 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. During 2007, TWC also began selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. TWC believes selling commercial services will provide additional opportunities for growth in the future. In addition, TWC earns revenues by selling advertising time to national, regional and local customers.

Video is TWC s largest service in terms of revenues generated and, as of September 30, 2008, TWC had approximately 13.3 million basic video subscribers, of which approximately 8.6 million subscribed to TWC s digital video service. Although providing video services is a competitive and highly penetrated business, TWC expects to continue to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. TWC s digital video subscribers provide a broad base of potential customers for additional services. Video programming costs represent a major component of TWC s expenses and are

expected to continue to increase, reflecting programming rate increases on existing services, costs associated with retransmission consent agreements, subscriber growth and the expansion of service offerings. 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.

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As of September 30, 2008, TWC had approximately 8.3 million residential high-speed data subscribers. TWC expects continued growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to continue to slow over time as high-speed data services become increasingly penetrated. TWC also offers commercial high-speed data services and had 295,000 commercial high-speed data subscribers as of September 30, 2008.

As of September 30, 2008, TWC had approximately 3.6 million residential Digital Phone subscribers. TWC expects increases in Digital Phone subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenues is expected to slow over time as Digital Phone services become increasingly penetrated. TWC 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 nine months of 2008. As of September 30, 2008, TWC had 23,000 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.

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 nine months ended September 30, 2008, the Filmed Entertainment segment generated revenues of $8.285 billion (22% of the Company s overall revenues), $857 million in Operating Income before Depreciation and Amortization and $552 million in Operating Income.

The Filmed Entertainment segment has diversified sources of revenues within its film and television businesses, including an extensive film library and a global distribution infrastructure, which have helped it to deliver consistent long-term performance. In an effort to increase operational efficiencies and maximize performance within the Filmed Entertainment segment, the Company reorganized the New Line business in 2008 to be operated as a unit of Warner Bros. while maintaining separate development, production and other operations. During the first nine 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. During the 2008-2009 broadcast season, Warner Bros. expects to produce approximately 20 primetime series, with at least one series airing on each of the five broadcast networks (including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *ER* and *Smallville*), as well as original series for several cable networks (including *The Closer* and *Nip/Tuck*).

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

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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 nine months ended September 30, 2008, the Networks segment generated revenues of $8.216 billion (22% of the Company s overall revenues), $2.805 billion in Operating Income before Depreciation and Amortization and $2.532 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 receipt of monthly subscriber fees paid by cable system operators, satellite distribution services, telephone companies and other distributors and from the sale of advertising. Key contributors to Turner s success are its continued investments in high-quality programming focused on sports, original and syndicated series, news, network movie premieres and animation leading to strong ratings and Subscription and Advertising revenue growth, as well as strong brands and operating efficiency.

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, telephone companies and other distributors. An additional source of revenues is the sale of its original programming, including *The Sopranos*, *Sex and the City*, *Rome* and *Entourage*.

During the first nine months 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. During the first nine months of 2008, these acquired businesses contributed approximately $113 million of revenues and $12 million of Operating Income before Depreciation and Amortization. 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 Publishing segment generated revenues of $3.339 billion (10% of the Company s overall revenues), $625 million in Operating Income before Depreciation and Amortization and $473 million in Operating Income for the nine months ended September 30, 2008. The Publishing segment is undertaking a significant reorganization primarily of its U.S. publishing operations and expects to incur restructuring charges in the fourth quarter of 2008.

As of September 30, 2008, Time Inc. published 24 magazines in the U.S., including *People*, *Sports Illustrated*, *InStyle*, *Southern Living*, *Real Simple*, *Time*, *Cooking Light* and *Entertainment Weekly*, and approximately 100 magazines outside the U.S., including magazines published through the Company s U.K. subsidiary IPC Media (IPC), in Mexico through Time Inc. s subsidiary Grupo Editorial Expansion and international editions of its U.S. magazines. The Publishing segment generates revenues primarily from advertising (including advertising on digital properties), magazine subscriptions and newsstand sales. Time Inc. also owns the magazine subscription marketer, Synapse Group, Inc., and in August 2008 purchased the school and youth group fundraising company, QSP, Inc. and its Canadian affiliate Quality Service Programs, Inc. (collectively, QSP). The Publishing segment has experienced a

continued decline in print advertising sales due to the current economic environment. Time Inc. continues to invest in developing digital content, including the launches of *Health.com* and the *MyHomeIdeas.com* network and the expansion of the *Sports Illustrated*, *People* and *InStyle* digital

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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 the three and nine months ended September 30, 2008, online Advertising revenues were 11% and 10%, respectively, of Time Inc. s total Advertising revenues, compared to 8% and 6% for the three and nine months ended September 30, 2007, respectively. The Publishing segment expects to continue to experience growth in digital advertising revenues for the remainder of 2008 as advertisers expand their presence on the Internet, although at a slower pace than that experienced during the first nine months of 2008. 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 and Reverse Stock Split

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.

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 early 2009. See Item 1A, Risk Factors, in Part II of the June 2008 Form 10-Q for a discussion of risk factors relating to the separation of TWC from the Company.

In connection with the TWC Separation Transactions, the Company is seeking stockholder approval for a reverse stock split of the Company s common stock at a ratio of either 1-for-2 or 1-for-3, as determined by the Company s Board of Directors.

In addition, in connection with the TWC Separation Transactions, and as provided for in the Company s equity plans, the Company contemplates that the number of stock options, restricted stock units (RSUs) and target performance stock units (PSUs) outstanding at the separation and the exercise prices of such stock options will be adjusted to maintain the fair value of those awards. The changes in the number of equity awards and the exercise prices will be determined by comparing the fair value of such awards immediately prior to the TWC Separation Transactions to the fair value of such awards immediately after the TWC Separation Transactions. The modifications

to the outstanding equity awards will be made pursuant to existing antidilution provisions in the Company s equity plans.

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Under the terms of Time Warner s equity plans and related award agreements, as a result of the TWC Separation Transactions, TWC employees who hold Time Warner equity awards will be treated as if their employment with Time Warner had been terminated without cause at the time of the separation. This treatment will result in the forfeiture of unvested stock options and shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) the RSU awards for those TWC employees who do not satisfy retirement-treatment eligibility provisions in the Time Warner equity plans and related award agreements. TWC plans to grant make-up TWC equity awards or make cash payments to TWC employees that are generally intended to offset any loss of economic value in Time Warner equity awards as a result of the separation.

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

2008 Cable Bond 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, the amount of the commitments of the lenders under the 2008 Cable Bridge Facility was reduced to $4.040 billion. As discussed in Financial Condition and Liquidity , the Company is not certain whether Lehman Brothers Commercial Bank will fund its $269 million in commitments under the 2008 Cable Bridge Facility as a result of the bankruptcy of Lehman Brothers Holdings Inc., and, therefore, the Company has included only $3.771 billion of commitments under the 2008 Cable Bridge Facility in its total committed capacity as of September 30, 2008. 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 anticipated 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 2008, is

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subject to certain closing conditions. 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 finance and 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. The Company expects that the Sprint/Clearwire Joint Venture would incur losses in its early periods of operation.

Bebo Acquisition

On May 14, 2008, the Company, through its AOL segment, completed the acquisition of Bebo, a leading global social media network, for $859 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 nine months ended September 30, 2008 (Note 2).

Buy.at Acquisition

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

Impairment Testing of Goodwill and Indefinite-lived Intangible Assets

As discussed in more detail in Note 1 to the Company s consolidated financial statements in the 2007 Form 10-K, goodwill and indefinite-lived intangible assets, primarily certain franchise assets, trademarks and brand names, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. Except for the TWC interim impairment test discussed below, no other interim impairment analyses of the Company s goodwill and indefinite-lived intangible assets have been required in 2008. In the fourth quarter of 2008, the Company will perform its annual impairment review of goodwill and indefinite-lived intangible assets. Because of current economic conditions and recent declines in the value of the Company s common stock, it is possible that the book values of one or more of the Company s reporting units will exceed their respective fair values, which may result in the Company recognizing a noncash impairment of goodwill and/or indefinite-lived intangible assets in the fourth quarter of 2008 that could be material.

As a result of entering into the Separation Agreement, the Company was required under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142), to test goodwill and cable franchise rights at TWC as of May 20, 2008 (the interim testing date). The impairment testing was performed on a basis consistent with the analysis performed as of December 31, 2007. In performing goodwill impairment testing, the Company determines the fair value of each reporting unit by using various valuation techniques, with the primary methods being: a discounted cash flow (DCF) analysis and a market-based approach. The Company determines the fair value of the cable franchise rights of a reporting unit using a DCF valuation analysis. A DCF valuation requires the exercise of significant judgments, including judgments about appropriate discount rates based on the assessment of risks inherent in the projected future cash flows and the amount and timing of expected future cash flows, including expected cash flows beyond the current long-term business planning period for TWC. In assessing the reasonableness of its determined fair values, the Company evaluates its results against other value indicators such as comparable company public trading values, research analyst estimates and values observed in private market transactions.

The Company s interim impairment analysis did not result in any impairment charges during the second quarter of 2008. However, the fair values of the cable franchise rights in certain of TWC s reporting units, particularly the Texas reporting unit, were at or only modestly in excess of their carrying values. Accordingly, any future declines in the estimated fair values of the cable franchise rights in one or more of such reporting units would likely result in noncash cable franchise rights impairment charges.

To illustrate the magnitude of a potential impairment charge related to changes in estimated fair value, had the fair values of each of the TWC reporting units and their respective cable franchise rights been lower by 10% as of the interim testing date, the Company would have recorded cable franchise rights impairment charges of approximately

$750 million,

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and had each of the fair values been lower by 20%, the Company would have recorded cable franchise rights impairment charges of approximately $3.7 billion. In neither of these cases would the Company have been required to record goodwill impairment charges.

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 nine months ended September 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		Nine Months Ended	
	9/30/08	9/30/07	9/30/08	9/30/07
Amounts related to securities litigation and government investigations	$ (5)	$ (2)	$ (13)	$ (169)
Asset impairments	(39)	(1)	(102)	(36)
Gain (loss) on disposal of assets, net	(3)	4	(3)	673
Impact on Operating Income (Loss)	(47)	1	(118)	468
Investment gains (losses), net	(5)	14	(20)	288
Costs related to the separation of TWC	(55)		(109)	
Share of equity investment gain on disposal of assets	30		30	
Minority interest impacts on certain of the above items	8		24	(57)
Pretax impact	(69)	15	(193)	699
Income tax impact	26	(9)	63	(330)
Other tax items affecting comparability	(6)	12	(5)	92
After-tax impact	$ (49)	$ 18	$ (135)	$ 461

In addition to the items affecting comparability above, the Company incurred merger-related, restructuring and shutdown costs of $28 million and $182 million during the three and nine months ended September 30, 2008, respectively, and $12 million and $113 million during the three and nine months ended September 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 securities lawsuits, totaling $5 million and $13 million for the three and nine months ended September 30, 2008, respectively, and $2 million and $178 million for the three and nine months ended September 30, 2007, respectively. In addition, the Company recognized related insurance recoveries of $9 million for the nine months ended September 30, 2007.

Asset Impairments

During the three and nine months ended September 30, 2008, the Company recorded a $30 million noncash asset impairment at the Publishing segment related to a sub-lease with a tenant that filed for bankruptcy in September 2008 and a $9 million noncash impairment of an office building at the AOL segment. In addition, during the nine months ended September 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, an online video game business, at the Networks segment as a result of Turner s decision to sell this business.

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During the three and nine months ended September 30, 2007, the Company recorded noncash impairments of $1 million and $2 million, respectively, at the AOL segment related to asset write-offs in connection with facility closures. In addition, during the nine months ended September 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.

Gain/(Loss) on Disposal of Assets, Net

For the three and nine months ended September 30, 2008, the Company recorded a $3 million loss on the completion of the sale of GameTap at the Networks segment.

For the three and nine months ended September 30, 2007, the Company recorded a $2 million reduction to the gain and a $668 million net pretax gain, respectively, on the sale of AOL s German access business and, for the nine months ended September 30, 2007, the Company recorded a $1 million reduction to the gain on the sale of AOL s U.K. access business. In addition, for the three and nine months ended September 30, 2007, the Company recorded a $6 million gain on the sale of four non-strategic magazine titles at the Publishing segment.

Investment Gains (Losses), Net

For the three months ended September 30, 2008, the Company recognized $5 million of miscellaneous investment losses. For the nine months ended September 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, partly offset by other net miscellaneous investment gains.

For the three and nine months ended September 30, 2007, the Company recognized net gains of $14 million and $288 million, respectively, primarily related to the sale of investments, including, for the nine months ended September 30, 2007, a $100 million gain on the Company s sale in April 2007 of its 50% interest in Bookspan and a $146 million gain at the Cable segment on TWC s deemed sale of its 50% interest in the pool of assets consisting of the Houston cable systems in connection with the distribution of the assets of Texas and Kansas City Cable Partners, L.P. (the TKCCP Gain). For the nine months ended September 30, 2007, investment gains, net also included a $4 million gain to reflect market fluctuations in equity derivative instruments.

Costs Related to the Separation of TWC

During the three and nine months ended September 30, 2008, the Company incurred pretax costs related to the separation of TWC of $55 million and $109 million, respectively, including direct transaction costs (e.g., legal and professional fees) of $5 million and $22 million, respectively (which have been reflected in other income, net on the Company s consolidated statement of operations), and financing costs of $50 million and $87 million, respectively (which have been reflected in interest expense, net on the Company s consolidated statement of operations). For the three and nine months ended September 30, 2008, financing costs included $48 million and $54 million, respectively, in net interest expense (after considering the impact of the net proceeds of the 2008 Cable Bond Offering, a portion of which was used to repay variable-rate debt with lower interest rates and the remainder of which was invested in various short-term investments) on the $5.0 billion principal amount of debt securities issued in the 2008 Cable Bond Offering and $2 million and $33 million, respectively, of debt issuance costs, primarily related to the portion of the upfront loan fees for the 2008 Cable Bridge Facility that was expensed due to the reduction of commitments under such facility as a result of the 2008 Cable Bond Offering. The Company expects to incur additional direct transaction costs and financing costs related to the separation of TWC.

Share of Equity Investment Gain on Disposal of Assets

For the three and nine months ended September 30, 2008, the Company recognized its $30 million share of a pretax gain on the sale of a Central European documentary channel of an equity method investee.

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Minority Interest Impacts

For the three and nine months ended September 30, 2008, expenses of $8 million and $24 million, respectively, were attributed to the minority owners shares of the costs related to the separation of TWC and, for the nine months ended September 20, 2008, the minority owners shares of the impairment of certain non-core cable systems held for sale.

For the nine months ended September 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.

Income Tax Impact and Other Tax Items Affecting Comparability

The income tax impact reflects the estimated tax or tax benefit associated with each item affecting comparability. Such estimated taxes or tax benefits vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain gains. The Company s tax provision also includes certain other items affecting comparability. For the three and nine months ended September 30, 2007, these items included $12 million and $92 million, respectively, of tax benefits related primarily to the realization of tax attribute carryforwards and changes in certain state tax laws.

Three and Nine Months Ended September 30, 2008 Compared to Three and Nine Months Ended September 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			Nine Months Ended		
	9/30/08	**9/30/07**	**% Change**	**9/30/08**	**9/30/07**	**% Change**
Subscription	$ 6,490	$ 6,170	5%	$ 19,312	$ 18,638	4%
Advertising	2,078	2,095	(1%)	6,413	6,295	2%
Content	2,906	3,141	(7%)	8,277	8,163	1%
Other	232	270	(14%)	676	744	(9%)
Total revenues	$ 11,706	$ 11,676		$ 34,678	$ 33,840	2%

The increase in Subscription revenues for the three and nine months ended September 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, as well as growth in high-speed data and Digital Phone subscribers. The increase at the Networks segment was due primarily to higher subscription rates at both Turner and HBO and, to a lesser extent, an increase in the number of subscribers for Turner s networks, as well as the impact of international expansion. The decline in Subscription revenues at the AOL segment resulted primarily from a decrease in the number of domestic AOL brand Internet access subscribers and, for the nine months ended September 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 nine months ended September 30, 2008.

The decrease in Advertising revenues for the three months ended September 30, 2008 was primarily due to declines at the Publishing and AOL segments, partly offset by an increase at the Networks segment. The decrease at the Publishing segment was primarily due 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, partly offset by growth in online revenues. The decrease at the AOL segment was due to a decrease in Advertising revenues generated on both the AOL Network and the Third Party Network. The increase at the Networks segment was driven by Turner s domestic and international networks. For the nine months ended September 30, 2008, the increase in Advertising revenues was primarily due to growth at the Networks segment, which was driven primarily by Turner s domestic and international networks, partly offset by a decline at the Publishing segment due to declines in domestic print Advertising revenues and declines in custom publishing revenues, as well as the impacts of the 2007 closures of *LIFE* and *Business 2.0* magazines and the sale of four

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non-strategic magazine titles in the third quarter of 2007, partly offset by growth in online revenues.

The decrease in Content revenues for the three months ended September 30, 2008 was primarily related to a decline at the Filmed Entertainment segment, mainly due to decreases in both television and theatrical product revenues, partially offset by the impact of the acquisition of TT Games Limited in the fourth quarter of 2007. The increase in Content revenues for nine months ended September 30, 2008 was principally related to growth at the Filmed Entertainment segment, primarily driven by the impact of the acquisition of TT Games Limited in the fourth quarter of 2007 and an increase in theatrical product revenues, partially offset by a decline in television 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 September 30, 2008 and 2007, costs of revenues totaled $6.664 billion and $6.961 billion, respectively, and, as a percentage of revenues, were 57% and 60%, respectively. For the nine months ended September 30, 2008 and 2007, costs of revenues totaled $20.197 billion and $19.874 billion, respectively, and, as a percentage of revenues, were 58% and 59%, respectively. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended September 30, 2008, selling, general and administrative expenses increased 1% to $2.425 billion in 2008 from $2.407 billion in 2007. For the nine months ended September 30, 2008, selling, general and administrative expenses increased 2% to $7.369 billion in 2008 from $7.213 billion in 2007. The increase in selling, general and administrative expenses for the three and nine months ended September 30, 2008 primarily related to increases at the Filmed Entertainment, Networks and Cable segments, partially offset by declines at the AOL and Publishing segments. The segment variations are discussed in detail in Business Segment Results.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which increased to $944 million and $2.861 billion for the three and nine months ended September 30, 2008, respectively, from $943 million and $2.772 billion for the three and nine months ended September 30, 2007, respectively. The increase in depreciation expense for the three and nine months ended September 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 $206 million and $583 million for the three and nine months ended September 30, 2008, respectively, from $167 million and $502 million for the three and nine months ended September 30, 2007, respectively. The increase in amortization expense for the three and nine months ended September 30, 2008 primarily related to increases at the AOL, Networks and Filmed Entertainment segments primarily due to recent business acquisitions.

Amounts Related to Securities Litigation. The Company recognized legal reserves as well as legal and other professional fees related to the defense of various securities lawsuits, totaling $5 million and $13 million for the three and nine months ended September 30, 2008, respectively, and $2 million and $178 million for the three and nine months ended September 30, 2007, respectively. In addition, the Company recognized related insurance recoveries of $9 million for the nine months ended September 30, 2007.

Merger-related, Restructuring and Shutdown Costs. The Company incurred restructuring costs for the three and nine months ended September 30, 2008 of $28 million and $182 million, respectively, primarily related to various employee terminations and other exit activities, including $2 million and $15 million, respectively, at the AOL segment for the three and nine months ended September 30, 2008, $8 million and $14 million, respectively, at the Cable segment for the three and nine months ended September 30, 2008, $17 million and $130 million, respectively, at the Filmed Entertainment segment for the three and nine months ended September 30, 2008, $1 million and $16 million, respectively, at the Publishing segment for the three and nine months ended September 30, 2008, and

$7 million at the Corporate segment for the nine months ended September 30, 2008.

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The Company incurred restructuring costs for the three and nine months ended September 30, 2007 of $9 million and $103 million, respectively, primarily related to various employee terminations and other exit activities, including $1 million and $10 million, respectively, at the Cable segment for the three and nine months ended September 30, 2007, $4 million and $20 million, respectively, at the Networks segment for the three and nine months ended September 30, 2007, $4 million and $46 million, respectively, at the Publishing segment for the three and nine months ended September 30, 2007 and $27 million at the AOL segment for the nine months ended September 30, 2007. In addition, for the three and nine months ended September 30, 2007, the Cable segment expensed $3 million and $10 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).

The Company expects to incur restructuring charges ranging from $100 million to $125 million in the fourth quarter of 2008 primarily relating to the undertaking of a significant reorganization of the Publishing segment s U.S. publishing operations.

Operating Income. Operating Income increased to $2.336 billion for the three months ended September 30, 2008 from $2.130 billion for the three months ended September 30, 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $47 million of expense, net and $1 million of income, net for the three months ended September 30, 2008 and 2007, respectively, Operating Income increased $254 million, primarily reflecting increases at the Networks, Cable and Filmed Entertainment segments, partially offset by declines at the Publishing and AOL segments.

Operating Income decreased to $6.229 billion for the nine months ended September 30, 2008 from $6.606 billion for the nine months ended September 30, 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $118 million of expense, net and $468 million of income, net for the nine months ended September 30, 2008 and 2007, respectively, Operating Income increased $209 million, primarily reflecting increases at the Networks and Cable segments, partially offset by declines at the AOL, Publishing and Filmed Entertainment segments.

The segment variations are discussed under Business Segment Results.

Interest Expense, Net. Interest expense, net, decreased to $550 million and $1.646 billion for the three and nine months ended September 30, 2008, respectively, from $589 million and $1.714 billion for the three and nine months ended September 30, 2007, respectively. The decrease in interest expense, net for the three and nine months ended September 30, 2008 is primarily due to lower average interest rates on net debt. In addition, for the nine months ended September 30, 2008, the decrease in interest expense, net was partially offset by $33 million of debt issuance costs primarily related to the portion of the upfront loan fees for the 2008 Cable Bridge Facility that was expensed at the Cable segment due to the reduction of commitments under such facility as a result of the 2008 Cable Bond Offering.

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

	Three Months Ended		Nine Months Ended	
	9/30/08	**9/30/07**	**9/30/08**	**9/30/07**
Investment gains (losses), net	$ (5)	$ 14	$ (20)	$ 288
Income (loss) from equity method investees	33	(18)	25	(21)
Other	3	2	(27)	(36)
Other income (loss), net	$ 31	$ (2)	$ (22)	$ 231

The changes in investment gains (losses), net are discussed under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of investment gains (losses), other income, net increased primarily due to higher income from equity method investees for the three and nine months ended September 30, 2008 primarily due

to the Company s recognition of its $30 million share of a pretax gain on the sale of a Central European documentary channel of an equity method investee.

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Minority Interest Expense, Net. Time Warner had $96 million and $266 million of minority interest expense, net for the three and nine months ended September 30, 2008, respectively, compared to $84 million and $305 million for the three and nine months ended September 30, 2007, respectively. The increase for the three months ended September 30, 2008 was primarily related to higher profits recorded by the Cable segment, partly offset by the costs related to the separation of TWC. The decrease for the nine months ended September 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 and the absence in the first quarter of 2008 of the respective minority owners shares of the gain on the sale of AOL s German access business and the TKCCP Gain, both of which occurred during the first quarter of 2007, partially offset by higher profits recorded by the Cable segment during 2008.

Income Tax Provision. Income tax expense from continuing operations was $655 million for the three months ended September 30, 2008 compared to $555 million for the three months ended September 30, 2007 and was $1.663 billion for the nine months ended September 30, 2008 compared to $1.786 billion for the nine months ended September 30, 2007. The Company s effective tax rate for continuing operations was 38% and 39% for the three and nine months ended September 30, 2008, respectively, compared to 38% and 37% for the three and nine months ended September 30, 2007, respectively. The increase for the nine months ended September 30, 2008 is primarily attributable to tax attribute carryforwards recognized during the nine months ended September 30, 2007.

Income from Continuing Operations. Income from continuing operations was $1.066 billion for the three months ended September 30, 2008 compared to $900 million for the three months ended September 30, 2007. Basic and diluted net income per share from continuing operations were both $0.30 in 2008 compared to $0.24 for both in 2007. Basic and diluted income per common share from continuing operations for the three months ended September 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 $49 million of expense, net and $18 million of income, net for the three months ended September 30, 2008 and 2007, respectively, income from continuing operations increased by $233 million, primarily reflecting higher Operating Income, as noted above.

Income from continuing operations was $2.632 billion for the nine months ended September 30, 2008 compared to $3.032 billion for the nine months ended September 30, 2007. Basic and diluted net income per share from continuing operations were both $0.73 in 2008 compared to $0.81 and $0.80, respectively, in 2007. Basic and diluted income per common share from continuing operations for the nine months ended September 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 $135 million of expense, net and $461 million of income, net for the nine months ended September 30, 2008 and 2007, respectively, income from continuing operations increased by $196 million, primarily reflecting higher Operating Income, as noted above.

Discontinued Operations, Net of Tax. The financial results for the three and nine months ended September 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 $1.067 billion for the three months ended September 30, 2008 compared to $1.086 billion for the three months ended September 30, 2007. Basic and diluted net income per common share were both $0.30 in 2008 compared to $0.30 and $0.29, respectively, in 2007. Net income was $2.630 billion for the nine months ended September 30, 2008 compared to $3.356 billion for the nine months ended September 30, 2007. Basic and diluted net income per common share were both $0.73 in 2008 compared to $0.89 and $0.88, respectively, in 2007. Net income per common share for the three and nine months ended September 30, 2008 reflect the favorable impact of repurchases of shares under the Company s stock repurchase programs.

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Business Segment Results

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

	Three Months Ended			Nine Months Ended		
	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
Revenues:						
Subscription	$ 470	$ 635	(26%)	$ 1,500	$ 2,199	(32%)
Advertising	507	540	(6%)	1,589	1,611	(1%)
Other	35	44	(20%)	108	120	(10%)
Total revenues	1,012	1,219	(17%)	3,197	3,930	(19%)
Costs of revenues[(a)]	(466)	(562)	(17%)	(1,540)	(1,722)	(11%)
Selling, general and administrative[(a)]	(146)	(229)	(36%)	(489)	(726)	(33%)
Gain (loss) on disposal of consolidated businesses		(2)	(100%)		667	(100%)
Asset impairments	(9)	(1)	NM	(9)	(2)	NM
Restructuring costs	(2)		NM	(15)	(27)	(44%)
Operating Income before Depreciation and Amortization	389	425	(8%)	1,144	2,120	(46%)
Depreciation	(76)	(103)	(26%)	(238)	(312)	(24%)
Amortization	(45)	(27)	67%	(124)	(69)	80%
Operating Income	$ 268	$ 295	(9%)	$ 782	$ 1,739	(55%)

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

The decline in Subscription revenues for the three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007 was primarily due to a decrease in the number of domestic AOL brand Internet access subscribers. In addition, the decline for the nine months ended September 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 nine months ended September 30, 2008.

The number of domestic AOL brand Internet access subscribers was 7.5 million, 8.1 million and 10.1 million as of September 30, 2008, June 30, 2008 and September 30, 2007, respectively. The average revenue per domestic AOL brand subscriber (ARPU) was $18.60 and $18.50 for the three months ended September 30, 2008 and 2007, respectively, and $18.29 and $18.69 for the nine months ended September 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 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 both September 30, 2008 and June 30, 2008 and 3% as of September 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 services, declining registrations for the paid service in response to AOL s significantly reduced marketing and increased competition from broadband access providers. The increase in ARPU for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was due primarily to an increase in the percentage of revenue-generating customers as well as a price increase for lower-priced subscriber price plans, partially offset by a shift in the subscriber mix to lower-priced subscriber price plans and a decrease in premium services revenues. The decrease in ARPU for the nine months ended September 30, 2008 compared to the nine months ended September 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 and the price increase for lower-priced subscriber price plans.

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Advertising services include display advertising (which includes certain types of impression-based and performance- driven advertising) and paid-search advertising, both domestically and internationally, which are provided on both the AOL Network and the Third Party Network. The components of Advertising revenues for the three and nine months ended September 30, 2008 and 2007 are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
AOL Network:						
Display	$ 181	$ 214	(15%)	$ 563	$ 667	(16%)
Paid-search	182	163	12%	527	486	8%
Total AOL Network	363	377	(4%)	1,090	1,153	(5%)
Third Party Network	144	163	(12%)	499	458	9%
Total Advertising revenues	$ 507	$ 540	(6%)	$ 1,589	$ 1,611	(1%)

The decrease in display Advertising revenues generated on the AOL Network for the three and nine months ended September 30, 2008 compared to the three and nine months ended September 30, 2007 was primarily due to lower demand from certain advertiser categories, the challenges of integrating recently acquired businesses (including certain sales execution and system integration issues), increased volume of inventory monetized through lower priced sales channels and pricing declines in certain inventory segments, partially offset by revenues attributable to recent business acquisitions. Display Advertising revenues generated on the AOL Network for the nine months ended September 30, 2007 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 nine months ended September 30, 2008 compared to the three and nine months ended September 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 decline in Advertising revenues on the Third Party Network for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was primarily due to a decrease of $55 million due to a change in the relationship with a major customer of Platform-A Inc., partly offset by increased revenues of $29 million attributable to recent business acquisitions and other advertising growth of $7 million. 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 $3 million for the three months ended September 30, 2008 compared to $58 million for the three months ended September 30, 2007. For the nine months ended September 30, 2008, Advertising revenues on the Third Party Network increased primarily due to increased revenues of $110 million attributable to recent business acquisitions and other advertising growth of $68 million, partially offset by a decrease of $137 million, due to the change in the relationship with the major customer of Platform-A Inc. Revenues associated with this relationship were $25 million for the nine months ended September 30, 2008 compared to $162 million for the nine months ended September 30, 2007. 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 September 30, 2008 decreased $23 million from the three months ended June 30, 2008, due primarily to lower demand from certain advertiser categories.

The Company expects Advertising revenues at the AOL segment to decrease during the remainder of 2008 compared to the similar period in 2007 due to expected decreases on both the AOL Network and the Third Party Network in part due to lower demand from certain advertiser categories. In addition, expected declines on the AOL Network reflect declines in display advertising, partially offset by increases in paid-search, while expected declines on the Third Party Network reflect declines associated with the end of commitments from a major customer of Platform-A Inc., as discussed above, partially offset by the impact of recent business acquisitions and other advertising growth.

For the three and nine months ended September 30, 2008, costs of revenues decreased 17% and 11%, respectively, and as a percentage of revenues were 46% and 48%, respectively, compared to 46% and 44% for the three and nine months ended September 30, 2007, respectively. For the nine months ended September 30, 2008, approximately $70 million of the

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decrease in costs of revenues was 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 and nine months ended September 30, 2008, costs of revenues declined due primarily to decreases in network-related expenses, personnel-related costs including incentive pay, royalties and customer service expenses, primarily associated with the closures and sales of certain customer support call centers, partially offset by an increase in TAC. TAC consists of the costs of acquiring third-party online advertising inventory and costs incurred in connection with distributing AOL s free products or services or otherwise directing traffic to the AOL Network. TAC increased 15% to $165 million for the three months ended September 30, 2008 from $144 million for the three months ended September 30, 2007 and increased 29% to $535 million for the nine months ended September 30, 2008 from $414 million for the nine months ended September 30, 2007, due primarily to a new product distribution agreement. In addition, the increase in TAC for the nine months ended September 30, 2008 included increased costs associated with growth in Advertising revenues on the Third Party Network.

Selling, general and administrative expenses decreased 36% to $146 million and 33% to $489 million for the three and nine months ended September 30, 2008, respectively. For the nine months ended September 30, 2008, approximately $30 million of the decrease was attributable to the sales of AOL s European access businesses. For the three and nine months ended September 30, 2008, the remaining decrease in selling, general and administrative expenses reflects a significant reduction in direct marketing costs of approximately $25 million and $90 million, respectively, primarily due to reduced subscriber acquisition marketing as part of AOL s strategy, and other cost savings, primarily related to reduced headcount and other personnel-related costs including incentive pay. Selling, general and administrative expenses for the three and nine months ended September 30, 2008 also included $6 million and $22 million, respectively, of external costs related to the separation of AOL s Access Services and Global Web Services businesses. In addition, selling, general and administrative expenses for the three and nine months ended September 30, 2007 included a $13 million charge related to a patent infringement litigation settlement.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the three and nine months ended September 30, 2008 included a $9 million noncash impairment of an office building and the results for the three and nine months ended September 30, 2007 included noncash impairments of $1 million and $2 million, respectively, related to asset write-offs in connection with facility closures. In addition, the results for the three and nine months ended September 30, 2007 included a $2 million reduction to the gain and a $668 million net pretax gain, respectively, on the sale of AOL s German access business. The results for the nine months ended September 30, 2007 also included a $1 million reduction to the gain on the sale of AOL s U.K. access business. In addition, the results for the three and nine months ended September 30, 2008 included net restructuring charges of $2 million and $15 million, respectively, and, for the nine months ended September 30, 2007, included net restructuring charges of $27 million, primarily related to involuntary employee terminations and facility closures.

For the three and nine months ended September 30, 2008, Operating Income before Depreciation and Amortization decreased compared to the three and nine months ended September 30, 2007, due primarily to a decline in revenues, partially offset by lower costs of revenues and selling, general and administrative expenses. In addition, for the nine months ended September 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 nine months ended September 30, 2008 compared to the three and nine months ended September 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 associated with finite-lived intangible assets related to AOL s recent business acquisitions, partially offset by a decrease in depreciation expense as a result of a reduction in network assets due to subscriber declines.

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 expects a continued decline in costs of revenues, including dial-up network and customer service

expenses, and selling, general and administrative expenses compared to the similar period in 2007.

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

	Three Months Ended			Nine Months Ended		
	9/30/08	**9/30/07**	**% Change**	**9/30/08**	**9/30/07**	**% Change**
Revenues:						
Subscription	$ 4,116	$ 3,780	9%	$ 12,144	$ 11,230	8%
Advertising	224	221	1%	654	636	3%
Total revenues	4,340	4,001	8%	12,798	11,866	8%
Costs of revenues[a]	(2,072)	(1,890)	10%	(6,097)	(5,645)	8%
Selling, general and administrative[a]	(706)	(679)	4%	(2,161)	(2,022)	7%
Asset impairment			NM	(45)		NM
Merger-related and restructuring costs	(8)	(4)	100%	(14)	(20)	(30%)
Operating Income before Depreciation and Amortization	1,554	1,428	9%	4,481	4,179	7%
Depreciation	(700)	(683)	2%	(2,123)	(2,001)	6%
Amortization	(66)	(64)	3%	(196)	(207)	(5%)
Operating Income	$ 788	$ 681	16%	$ 2,162	$ 1,971	10%

[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 nine months ended September 30, 2008 and 2007 (millions):

	Three Months Ended			Nine Months Ended		
	9/30/08	**9/30/07**	**% Change**	**9/30/08**	**9/30/07**	**% Change**
Subscription revenues:						
Video	$ 2,639	$ 2,530	4%	$ 7,878	$ 7,613	3%

High-speed data	1,056	942	12%	3,082	2,760	12%
Voice[a]	421	308	37%	1,184	857	38%
Total Subscription revenues	4,116	3,780	9%	12,144	11,230	8%
Advertising revenues	224	221	1%	654	636	3%
Total revenues	$ 4,340	$ 4,001	8%	$ 12,798	$ 11,866	8%

[a] For the three and nine months ended September 30, 2007, voice revenues include $8 million and $33 million, respectively, of revenues associated with subscribers who received traditional, circuit-switched telephone service.

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

	As of September 30,		
	2008	2007	% Change
Basic video[a]	13,266	13,308	
Digital video[b]	8,607	7,860	10%
Residential high-speed data[c]	8,339	7,412	13%
Commercial high-speed data[c]	295	272	8%
Residential Digital Phone[d]	3,621	2,608	39%
Commercial Digital Phone[d]	23	2	NM
Revenue generating units[e]	34,151	31,505	8%
Customer relationships[f]	14,750	14,637	1%

(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 September 30, 2007 exclude 43,000 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 nine months ended September 30, 2008, Subscription revenues increased, primarily driven by the continued growth of digital video services and video price increases, as well as growth in high-speed data and Digital Phone subscribers. Digital video revenues, which include revenues from digital tiers, digital pay channels, pay-per-view, video-on-demand, subscription-video-on-demand and digital video recorder services, represented 24% of video revenues for both the three and nine months ended September 30, 2008 compared to 23% of video revenues for both the three and nine months ended September 30, 2007. Advertising revenues increased slightly for the three and nine months ended September 30, 2008 primarily due to an increase in political advertising revenues, partially offset by a decline in Advertising revenues from national, regional and local businesses.

The components of costs of revenues for the three and nine months ended September 30, 2008 and 2007 are as follows (millions):

	Three Months Ended	Nine Months Ended

	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
Costs of revenues:						
Video programming	$ 949	$ 881	8%	$ 2,817	$ 2,643	7%
Employee	597	546	9%	1,752	1,624	8%
High-speed data	35	42	(17%)	112	125	(10%)
Voice	144	115	25%	406	338	20%
Franchise fees	116	108	7%	344	328	5%
Other direct operating costs	231	198	17%	666	587	13%
Total costs of revenues	$ 2,072	$ 1,890	10%	$ 6,097	$ 5,645	8%

For the three and nine months ended September 30, 2008, costs of revenues increased 10% and 8%, respectively, and, as a percentage of revenues, were 48% for both the three and nine months ended September 30, 2008 compared to 47% and 48% for the three and nine months ended September 30, 2007, respectively. Video programming costs increased for the three and nine months ended September 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 nine months ended September 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

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the three and nine months ended September 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 nine months ended September 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. High-speed data costs decreased for the three and nine months ended September 30, 2008 primarily due to a decrease in per-subscriber connectivity costs, partially offset by subscriber growth.

The increase in selling, general and administrative expenses for the three and nine months ended September 30, 2008 was primarily attributable to higher employee costs primarily due to headcount and salary increases, as well as higher marketing costs primarily resulting from intensified marketing efforts. Selling, general and administrative expenses for the three and nine months ended September 30, 2008 also included a benefit of approximately $13 million due to changes in estimates of previously established casualty insurance accruals.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the nine months ended September 30, 2008 included a $45 million noncash impairment of certain non-core cable systems held for sale. For the three and nine months ended September 30, 2007, the Cable segment expensed non-capitalizable merger-related and restructuring costs associated with the Adelphia/Comcast Transactions of $3 million and $10 million, respectively. In addition, the results included other restructuring costs of $8 million and $14 million for the three and nine months ended September 30, 2008, respectively, and $1 million and $10 million for the three and nine months ended September 30, 2007, respectively.

Operating Income before Depreciation and Amortization increased for the three and nine months ended September 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. Additionally, Operating Income before Depreciation and Amortization for the three and nine months ended September 30, 2008 was negatively impacted by approximately $10 million as a result of the effect of Hurricane Ike on TWC s cable systems in southeast Texas and Ohio, and Operating Income before Depreciation and Amortization for the nine months ended September 30, 2008 was also impacted by the $45 million impairment of certain non-core cable systems held for sale, as discussed above.

Operating Income increased for the three and nine months ended September 30, 2008 primarily due to the increases in Operating Income before Depreciation and Amortization discussed above, partially offset by an increase in depreciation expense. For the three and nine months ended September 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.

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

	Three Months Ended			Nine Months Ended		
	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
Revenues:						
Subscription	$ 10	$ 8	25%	$ 30	$ 22	36%
Advertising	20	12	67%	57	30	90%
Content	2,797	3,100	(10%)	8,034	7,942	1%
Other	54	58	(7%)	164	180	(9%)
Total revenues	2,881	3,178	(9%)	8,285	8,174	1%
Costs of revenues[a]	(2,015)	(2,407)	(16%)	(5,891)	(6,124)	(4%)
Selling, general and administrative[a]	(468)	(412)	14%	(1,407)	(1,185)	19%
Restructuring costs	(17)		NM	(130)		NM
Operating Income before Depreciation and Amortization	381	359	6%	857	865	(1%)
Depreciation	(42)	(37)	14%	(126)	(112)	13%
Amortization	(64)	(54)	19%	(179)	(161)	11%
Operating Income	$ 275	$ 268	3%	$ 552	$ 592	(7%)

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

Content revenues primarily include theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television). The components of Content revenues for the three and nine months ended September 30, 2008 and 2007 are as follows (millions):

Three Months Ended			Nine Months Ended		
9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change

Theatrical product:						
Theatrical film	$ 785	$ 820	(4%)	$ 1,580	$ 1,615	(2%)
Home video and electronic delivery	592	788	(25%)	2,168	2,144	1%
Television licensing	358	324	10%	1,179	1,057	12%
Consumer products and other	42	51	(18%)	124	118	5%
Total theatrical product	1,777	1,983	(10%)	5,051	4,934	2%
Television product:						
Television licensing	531	784	(32%)	1,742	2,111	(17%)
Home video and electronic delivery	207	183	13%	557	494	13%
Consumer products and other	38	64	(41%)	144	176	(18%)
Total television product	776	1,031	(25%)	2,443	2,781	(12%)
Other	244	86	184%	540	227	138%
Total Content revenues	$ 2,797	$ 3,100	(10%)	$ 8,034	$ 7,942	1%

The decline in theatrical film revenues for the three and nine months ended September 30, 2008 was due primarily to difficult comparisons for the three months ended September 30, 2008 compared to the similar period in the prior year. Revenues for the three months ended September 30, 2008 included *The Dark Knight* and *Journey to the Center of the Earth* while revenues for the three months ended September 30, 2007 included *Harry Potter and the Order of the Phoenix, Rush Hour 3* and *Hairspray*. For the nine months ended September 30, 2008, revenues also included *Sex and the City*, *10,000 B.C.*, *Get Smart* and *Speed Racer* and the prior year period also included *300* and *Ocean s 13.*

Theatrical product revenues from home video and electronic delivery decreased for the three months ended September 30, 2008 due primarily to difficult comparisons to the prior year period. Revenues for the three months ended September 30, 2008 included *Sex and the City, 10,000 B.C.* and *Speed Racer* compared to 2007, which included *300, We Are Marshall* and *TMNT.* Theatrical product revenues from home video and electronic delivery were essentially flat for the nine months ended September 30, 2008, as the decline for the three months ended September 30, 2008 was offset by the greater number

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of significant titles in the first six months of 2008, including *I Am Legend*, *10,000 B.C., The Bucket List* 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 nine months ended September 30, 2008 due primarily to the timing and number of availabilities.

The decrease in television product licensing fees for the three months ended September 30, 2008 was primarily due to the initial off-network availabilities in 2007 of *Two and a Half Men, Cold Case* and *The George Lopez Show,* with no comparable availabilities in 2008. In addition, for the nine months ended September 30, 2008, the decline included the impact of the Writers Guild of America (East and West) strike, which was settled in February 2008, 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 nine months ended September 30, 2008 primarily reflected the timing of releases, including new season releases of *The Closer*, *Gossip Girl, One Tree Hill, Terminator: The Sarah Connor Chronicles* and *Two and a Half Men*.

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

The decrease in costs of revenues for the three and nine months ended September 30, 2008 resulted primarily from lower film costs ($1.184 billion and $3.410 billion for the three and nine months ended September 30, 2008, respectively, compared to $1.454 billion and $3.540 billion for the three and nine months ended September 30, 2007, respectively) and 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 $10 million for the three months ended September 30, 2008 from $100 million for the three months ended September 30, 2007 and decreased to $28 million for the nine months ended September 30, 2008 from $204 million for the nine months ended September 30, 2007. In addition, during the nine months ended September 30, 2008, the Company recognized approximately $40 million in participation expense, related to current claims on films released in prior periods. Costs of revenues as a percentage of revenues decreased to 70% for the three months ended September 30, 2008 from 76% for the three months ended September 30, 2007, and to 71% for the nine months ended September 30, 2008 from 75% for the nine months ended September 30, 2007, reflecting the quantity and mix of products released.

The increase in selling, general and administrative expenses for the three and nine months ended September 30, 2008 was primarily the result of higher employee costs, which includes additional headcount to support the expansion of games distribution, digital platforms and other initiatives, partially offset by cost reductions realized in connection with the operational reorganization of the New Line business. The increase also reflects higher distribution costs attributable to the increase in games revenues.

The results for the three and nine months ended September 30, 2008 included restructuring charges of $17 million and $130 million, respectively, related to involuntary employee terminations in connection with the operational reorganization of the New Line business. The Company expects to incur incremental restructuring charges of approximately $5 million during the remainder of 2008.

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

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

	Three Months Ended			Nine Months Ended		
	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
Revenues:						
Subscription	$ 1,722	$ 1,566	10%	$ 5,136	$ 4,672	10%
Advertising	772	709	9%	2,417	2,181	11%
Content	224	270	(17%)	626	682	(8%)
Other	13	10	30%	37	31	19%
Total revenues	2,731	2,555	7%	8,216	7,566	9%
Costs of revenues[(a)]	(1,199)	(1,253)	(4%)	(3,915)	(3,693)	6%
Selling, general and administrative[(a)]	(524)	(468)	12%	(1,475)	(1,340)	10%
Loss on disposal of consolidated business	(3)		NM	(3)		NM
Asset impairments				(18)	(34)	(47%)
Restructuring costs		(4)	(100%)		(20)	(100%)
Operating Income before Depreciation and Amortization	1,005	830	21%	2,805	2,479	13%
Depreciation	(82)	(75)	9%	(241)	(222)	9%
Amortization	(14)	(4)	NM	(32)	(12)	167%
Operating Income	$ 909	$ 751	21%	$ 2,532	$ 2,245	13%

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

The increase in Subscription revenues for the three and nine months ended September 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 expansion.

The increase in Advertising revenues for the three and nine months ended September 30, 2008 was driven primarily by Turner s domestic networks, reflecting mainly higher CPMs (advertising rates per thousand viewers) and audience delivery, as well as Turner s international networks, reflecting primarily an increase in the number of units

sold.

The decrease in Content revenues for the three and nine months ended September 30, 2008 reflects lower ancillary sales of HBO s original programming as well as lower syndication revenues associated with HBO s *Everybody Loves Raymond*.

For the three months ended September 30, 2008, costs of revenues decreased due primarily to lower programming and content distribution costs, offset in part by higher election-related newsgathering costs. For the three months ended September 30, 2008, programming costs declined 4% to $854 million from $888 million for the three months ended September 30, 2007. The decrease in programming costs was due primarily to lower original programming costs at both HBO and Turner and lower sports programming costs at Turner, offset in part by programming costs associated with international expansion and higher licensed programming costs at both HBO and Turner.

For the nine months ended September 30, 2008, costs of revenues increased due primarily to increases in programming costs and election-related newsgathering costs, offset in part by lower content distribution costs. For the nine months ended September 30, 2008, programming costs increased 8% to $2.870 billion from $2.656 billion for the nine months ended September 30, 2007. The increase in programming costs for the nine months ended September 30, 2008 was due primarily to programming costs associated with international expansion, higher licensed programming costs and an increase in sports programming costs at Turner, particularly related to NBA programming. Programming costs for the nine months ended September 30, 2008 also included $26 million ($5 million for the three months ended September 30, 2008) of charges related to HBO s decisions to not proceed with certain original series.

Costs of revenues as a percentage of revenues were 44% and 48% for the three and nine months ended September 30, 2008, respectively, compared to 49% for both the three and nine months ended September 30, 2007.

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

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the three months ended September 30, 2008 included a $3 million loss on the sale of GameTap, an on-line video game business, and the nine months ended September 30, 2008 also included an $18 million noncash impairment of GameTap. The results for the three and nine months ended September 30, 2007 included $4 million and $20 million, respectively, of restructuring charges and severance related to senior management changes at HBO. In addition, the results for the nine months ended September 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.

Operating Income before Depreciation and Amortization increased for the three months ended September 30, 2008 primarily due to an increase in revenues, lower costs of revenue and the absence of restructuring costs, partially offset by increases in selling, general and administrative expenses. The increase in Operating Income before Depreciation and Amortization for the nine months ended September 30, 2008 was primarily due to an increase in revenues, the absence of restructuring costs and the absence of the tradename impairment, partially offset by increases in costs of revenues, selling, general and administrative expenses and the impairment of GameTap. Operating Income increased for the three and nine months ended September 30, 2008 due primarily to the increase in Operating Income before Depreciation and Amortization described above, offset in part by increased depreciation and amortization related to the impact of international expansion.

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

	Three Months Ended			Nine Months Ended		
	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
Revenues:						
Subscription	$ 382	$ 385	(1%)	$ 1,134	$ 1,124	1%
Advertising	585	636	(8%)	1,783	1,904	(6%)
Content	16	13	23%	40	39	3%
Other	135	165	(18%)	382	433	(12%)
Total revenues	1,118	1,199	(7%)	3,339	3,500	(5%)
Costs of revenues[a]	(449)	(456)	(2%)	(1,330)	(1,367)	(3%)
Selling, general and administrative[a]	(427)	(441)	(3%)	(1,338)	(1,403)	(5%)
Gain on sale of assets		6	(100%)		6	(100%)
Asset impairments	(30)		NM	(30)		NM
Restructuring costs	(1)	(4)	(75%)	(16)	(46)	(65%)
Operating Income before Depreciation and Amortization	211	304	(31%)	625	690	(9%)
Depreciation	(32)	(35)	(9%)	(100)	(92)	9%
Amortization	(17)	(18)	(6%)	(52)	(53)	(2%)
Operating Income	$ 162	$ 251	(35%)	$ 473	$ 545	(13%)

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

For the three months ended September 30, 2008, Subscription revenues decreased primarily due to decreases at IPC, resulting in part from the impact of foreign exchange rates, and lower domestic subscription sales, partly offset by higher newsstand sales for certain domestic magazine titles. For the nine months ended September 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) and lower domestic subscription sales.

For the three and nine months ended September 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 (the 2007 magazine closures), partly offset by growth in online revenues, led by contributions from *People.com, CNNMoney.com* and *Time.com*. For the nine months ended September 30, 2008,

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Advertising revenues also declined due to the impact of the 2007 magazine sales. The Company expects continued declines in print Advertising revenues for the remainder of 2008 compared to the similar period in the prior year, primarily reflecting expected continued difficult advertising market conditions as a result of the current economic environment.

For the three and nine months ended September 30, 2008, Other revenues decreased due primarily to decreases at Synapse, Southern Living At Home and Oxmoor House, partially offset by the impact of the acquisition of QSP in August 2008.

Costs of revenues decreased 2% for the three months ended September 30, 2008 and, as a percentage of revenues, were 40% and 38% for the three months ended September 30, 2008 and 2007, respectively. Costs of revenues decreased 3% for the nine months ended September 30, 2008 and, as a percentage of revenues, were 40% and 39%, respectively, for the nine months ended September 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 were essentially flat at $388 million for the three months ended September 30, 2008 and decreased 1% to $1.168 billion for the nine months ended September 30, 2008, primarily due to cost savings initiatives and the impact of the 2007 magazine closures and, for the nine months ended September 30, 2008, the 2007 magazine sales. For the three and nine months ended September 30, 2008, paper cost savings realized primarily as a result of lower volumes were offset by higher paper prices. The decrease in costs of revenues 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-related costs, as well as operating costs associated with the acquisition of QSP.

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

The results for the three and nine months ended September 30, 2008 included restructuring costs of $1 million and $16 million, respectively, primarily consisting of severance associated with continuing efforts to streamline operations. The results for the three and nine months ended September 30, 2007 included restructuring costs of $4 million and $46 million, respectively, primarily consisting of severance associated with efforts to streamline operations and costs related to the shutdown of *LIFE* magazine in the first quarter of 2007. In addition, the results for the three and nine months ended September 30, 2008, included a $30 million noncash asset impairment related to a sub-lease with a tenant that filed for bankruptcy in September 2008, and the results for the three and nine months ended September 30, 2007 included a $6 million gain on the 2007 magazine sales.

The Publishing segment is undertaking a significant reorganization primarily of its U.S. publishing operations and expects to incur restructuring charges in the fourth quarter of 2008.

Operating Income before Depreciation and Amortization decreased for the three and nine months ended September 30, 2008 due primarily to a decline in revenues and the asset impairment, discussed above, partially offset by decreases in costs of revenues, selling, general and administrative expenses and restructuring costs. Operating Income decreased for the three and nine months ended September 30, 2008 due primarily to the decline in Operating Income before Depreciation and Amortization discussed above, and, for the nine months ended September 30, 2008, 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 the restructuring charges discussed above and expected declines in print Advertising revenues.

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

	Three Months Ended			Nine Months Ended		
	9/30/08	9/30/07	% Change	9/30/08	9/30/07	% Change
Amounts related to securities litigation and government investigations	$ (5)	$ (2)	150%	$ (13)	$ (169)	(92%)
Selling, general and administrative[a]	(68)	(87)	(22%)	(237)	(281)	(16%)
Restructuring costs				(7)		NM
Operating Loss before Depreciation and Amortization	(73)	(89)	(18%)	(257)	(450)	(43%)
Depreciation	(12)	(10)	20%	(33)	(33)	
Operating Loss	$ (85)	$ (99)	(14%)	$ (290)	$ (483)	(40%)

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

As previously noted, the Company recognized legal reserves as well as legal and other professional fees related to the defense of various securities lawsuits, totaling $5 million and $13 million for the three and nine months ended September 30, 2008, respectively, and $2 million and $178 million for the three and nine months ended September 30, 2007, respectively. In addition, the Company recognized related insurance recoveries of $9 million for the nine months ended September 30, 2007. Although legal fees are expected to continue to be incurred in future periods, primarily related to ongoing proceedings with respect to certain former employees of the Company, they are not anticipated to be material.

The results for the nine months ended September 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 nine months ended September 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 September 30, 2008 (not including amounts at TWC) was $5.393 billion, including $1.265 billion of cash and equivalents. At the same date, TWC s unused committed capacity was $12.604 billion, including $3.090 billion of cash and equivalents and $3.771 billion under the 2008 Cable Bridge Facility. 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 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. See Lehman Brothers Commitments below for a discussion regarding the Company s decision to exclude funding commitments from subsidiaries of Lehman Brothers Holdings Inc. in determining the amount of its unused committed capacity.

Current Financial Condition

At September 30, 2008, Time Warner had $37.992 billion of debt, $4.355 billion of cash and equivalents (net debt of $33.637 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable preferred membership units at a subsidiary and $59.936 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.

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

Balance at December 31, 2007	$ 35,614
Cash provided by operations	(8,094)
Proceeds from exercise of stock options	(125)
Capital expenditures and product development costs	3,137
Dividends paid to common stockholders	675
Repurchases of common stock	332
Investments and acquisitions, net[a] [b]	2,247
Proceeds from the sale of investments[b]	(272)
All other, net	123
Balance at September 30, 2008[c][d]	$ 33,637

(a) Includes the Company s approximately $820 million investment in The Reserve Fund. See below for further discussion.

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

(c) Included in the net debt balance is $165 million that represents the net unamortized fair value adjustment recognized as a result of the merger of AOL and Historic TW Inc.

(d) Net debt includes

$20.979 billion at Time Warner and $12.658 billion at TWC at September 30, 2008 and $22.269 billion at Time Warner and $13.345 billion at TWC at December 31, 2007.

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

The Company has historically invested a portion of its cash on hand in money market funds, including The Reserve Fund s Primary Fund (The Reserve Fund). On the morning of September 15, 2008, the Company requested a full redemption of its approximately $820 million investment in The Reserve Fund, but the redemption request was not honored. Approximately $330 million of such investment was made by Time Warner and approximately $490 million was made by TWC. On September 22, 2008, The Reserve Fund announced that redemptions of shares were suspended pursuant to an SEC order requested by The Reserve Fund so that an orderly liquidation could be effected. On October 31, 2008, the Company received $416 million from The Reserve Fund representing its pro rata share of a partial distribution. The Company has not been informed as to when the remaining amount will be returned. However, the Company believes its remaining receivable is recoverable and will be distributed in the next twelve months as The Reserve Fund s investments mature. As a result of the status of The Reserve Fund, the Company has classified the approximately $820 million receivable from The Reserve Fund at September 30, 2008 as other current assets on the Company s consolidated balance sheet and within investments and acquisitions, net of cash acquired, on the Company s consolidated statement of cash flows.

As noted under Recent Developments, TWC is a participant in the Sprint/Clearwire Joint Venture, which is expected to close by the end of 2008. 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 November 4, 2008, the Company has repurchased approximately 154 million shares of common stock for

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approximately $2.8 billion, which included approximately 19 million shares of common stock purchased for approximately $299 million during the nine months ended September 30, 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, and TWE s 7.25% notes due September 1, 2008 (aggregate principal amount of $600 million) matured and were retired on September 1, 2008.

Cash Flows

Cash and equivalents increased by $2.839 billion and $324 million for the nine months ended September 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):

	Nine Months Ended	
	9/30/08	9/30/07
Operating Income	$ 6,229	$ 6,606
Depreciation and amortization	3,444	3,274
Amounts related to securities litigation and government investigations:		
Net expenses	13	169
Cash payments, net of recoveries	(13)	(919)
(Gain) loss on disposal of assets, net	3	(673)
Noncash asset impairments	102	36
Net interest payments[a]	(1,368)	(1,516)
Net income taxes paid[b]	(474)	(395)
Noncash equity-based compensation	232	230
Net cash flows from discontinued operations[c]	(11)	33
Domestic pension plan contributions	(291)	(13)
Merger-related and restructuring payments, net of accruals[d]	(4)	(103)
All other, net, including working capital changes	232	(573)
Cash provided by operations	$ 8,094	$ 6,156

[a] Includes interest income received of $104 million and $77 million in 2008 and 2007, respectively.

[b] Includes income tax refunds received of

$111 million and $84 million in 2008 and 2007, respectively.

(c) Reflects net income (loss) from discontinued operations of $(2) million and $324 million in 2008 and 2007, respectively, net of noncash gains and expenses and working capital-related adjustments of $(9) million and $(291) 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 $8.094 billion in 2008 from $6.156 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 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. The Company s U.S. federal income tax payments have increased by approximately $110 million during the first nine months of 2008 as compared to the prior year period. This increase was primarily due to the utilization of a majority of the Company s U.S. federal tax attribute carryforwards in 2007, partially offset by the benefits from the Economic Stimulus Act of 2008, which provides for a special 50% depreciation deduction in 2008 for certain qualifying property.

As of December 31, 2007, the Company s funded domestic defined benefit pension plans were funded by assets in a pension trust totaling $3.355 billion. Between January 1, 2008 and October 31, 2008, the Company s plan assets have experienced market losses of approximately 30%. The impact to the funded status of the defined benefit pension plans from these 2008 market losses is partially offset by contributions made during the year and increases, through October 31, 2008, in discount rates that reduce the projected benefit obligation. The Company has made $275 million of discretionary cash contributions to its funded defined benefit pension plans during the nine months ended September 30, 2008 and, subject to market conditions and other considerations, the Company expects to make

additional discretionary cash contributions during the remainder of the year ranging from $400 million to $500 million.

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Investing Activities

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

	Nine Months Ended	
	9/30/08	9/30/07
Investments in available-for-sale securities	$ (17)	$ (93)
Investments and acquisitions, net of cash acquired:		
Bebo	(851)	
buy.at	(125)	
The Reserve Fund	(820)	
TACODA		(274)
Third Screen Media		(104)
Wireless joint venture	(3)	(30)
All other	(431)	(281)
Investment activities of discontinued operations		(26)
Capital expenditures and product development costs	(3,137)	(3,100)
Proceeds from the sale of available-for-sale securities	15	33
Proceeds from the sale of AOL s German access business		850
Proceeds from the sale of Tegic		265
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	257	326
Cash used by investing activities	$ (5,112)	$ (2,069)

Cash used by investing activities increased to $5.112 billion in 2008 from $2.069 billion 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 used by financing activities are as follows (millions):

	Nine Months Ended	
	9/30/08	9/30/07
Borrowings	$ 30,922	$ 12,728
Debt repayments	(30,049)	(10,551)
Proceeds from exercise of stock options	125	484
Excess tax benefit on stock options	3	74
Principal payments on capital leases	(31)	(45)
Repurchases of common stock	(332)	(5,714)
Dividends paid	(675)	(645)
Other financing activities	(106)	(94)
Cash used by financing activities	$ (143)	$ (3,763)

Cash used by financing activities was $143 million in 2008 compared to $3.763 billion in 2007. The change in cash 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, offset by a decrease in net borrowings (defined as borrowings less repayments).

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Outstanding Debt and Other Financing Arrangements

Outstanding Debt and Committed Financial Capacity

At September 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 $56.195 billion, including $3.771 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, $17.997 billion was unused and $37.992 billion was outstanding as debt. The $17.997 billion of unused committed capacity includes $5.393 billion at Time Warner and $12.604 billion at TWC, $10.855 billion of which TWC expects to use to finance the Special Dividend. At September 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	Letters of Credit[a]	Unamortized Discount on Commercial Paper	Outstanding Debt[b]	Unused Committed Capacity[c]
Cash and equivalents	$ 4,355	$	$	$	$ 4,355
Bank credit agreements and commercial paper programs	21,617	205	1	7,769	13,642
Floating-rate public debt	2,000			2,000	
Fixed-rate public debt	27,920			27,920	
Other fixed-rate obligations[d]	303			303	
Total	$ 56,195	$ 205	$ 1	$ 37,992	$ 17,997

[a] Represents the portion of committed capacity reserved for outstanding and undrawn letters of credit.

[b] Represents principal amounts adjusted for premiums and discounts.

[c] Includes $12.604 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 $3.771 billion under the 2008 Cable Bridge Facility (described below). 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.

(d) Amount includes capital lease and other obligations.

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 10.8 years as of September 30, 2008. The Company s outstanding debt includes other fixed-rate obligations due within one year of $125 million. The Company s public debt matures as follows: $2.000 billion in the fourth quarter of 2009, $0 in 2010, $2.000 billion in 2011, $4.100 billion in 2012, $2.800 billion in 2013 and $19.031 billion thereafter. In addition, all of the $7.770 billion of outstanding debt under the Company s bank credit agreements, including those that support its commercial paper programs, matures in 2011.

The funding commitments under the Company s various bank credit agreements, including the 2008 Cable Bridge Facility, are provided by a geographically diverse group of major financial institutions based in the United States, Canada, France, Germany, Japan and the United Kingdom. The Company s bank credit agreements do not contain borrowing restrictions due to material adverse changes in the Company s business or market disruption. For a discussion of the terms of the Company s bank credit agreements, see Note 7 to the Company s consolidated financial statements included in the 2007 Form 10-K.

Lehman Brothers Commitments

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York (the Lehman Bankruptcy). Lehman Commercial Paper Inc. (LCPI), a subsidiary of Lehman, is one of the lenders under the Company s $7.0 billion senior unsecured five-year revolving credit facility (the TW Revolving Facility), with an undrawn commitment of $74 million. In addition, Lehman Brothers Commercial Bank (LBCB) and Lehman Brothers Bank, FSB (LBB), also subsidiaries of Lehman, are lenders under the 2008 Cable Bridge Facility and the Cable Revolving Facility, respectively, with undrawn commitments of $269 million and $125 million, respectively. On October 5, 2008, LCPI filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York (the LCPI Bankruptcy). After the Lehman Bankruptcy and prior to the LCPI Bankruptcy, LCPI failed to fu