TIME WARNER INC.
Form 10-Q
April 30, 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 March 31, 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 ¨
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 April 22, 2008**
Common Stock $.01 par value	3,578,335,807

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AND OTHER FINANCIAL INFORMATION

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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 months ended March 31, 2008. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2008 and cash flows for the three months ended March 31, 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) 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, CNN, AOL, *People*, *Sports Illustrated*, *Time* and Time Warner Cable. The Company produces and distributes films through Warner Bros. and New Line Cinema, including *I Am Legend*, *10,000 B.C.* and *Harry Potter and the Order of the Phoenix* as well as television series, including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *The Closer* and *ER*. During the three months ended March 31, 2008, the Company generated revenues of $11.417 billion (up 2% from $11.184 billion in 2007), Operating Income of $1.947 billion (down 23% from $2.540 billion in 2007), Net Income of $771 million (down 36% from $1.203 billion in 2007) and Cash Provided by Operations of $2.796 billion (up 100% from $1.399 billion in 2007). As discussed more fully in Business Segment Results, the three months ended March 31, 2007 included the impact of an approximate $670 million gain on the sale of AOL s German access business.

Time Warner Businesses

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

Time Warner evaluates the performance and operational strength of its business segments based on several factors, of which the primary financial measure is operating income before depreciation of tangible assets and amortization of intangible assets (Operating Income before Depreciation and Amortization). Operating Income before Depreciation and Amortization eliminates the uneven effects across all business segments of considerable amounts of noncash depreciation of tangible assets and amortization of certain intangible assets, primarily recognized in business combinations. Operating Income before Depreciation and Amortization should be considered in addition to Operating Income, as well as other measures of financial performance. Accordingly, the discussion of the results of operations for each of Time Warner s business segments includes both Operating Income before Depreciation and Amortization and Operating Income. For additional information regarding Time Warner s business segments, refer to Note 10, Segment Information.

AOL. AOL LLC (together with its subsidiaries, AOL) operates a Global Web Services business that provides online advertising services on both the AOL Network and third-party Internet sites, referred to as the Third Party Network. AOL s Global Web Services business also develops and operates the AOL Network, a leading network of web brands and free client software and services for Internet consumers. In addition, through its Access Services business, AOL operates one of the largest Internet access subscription services in the United States. As of March 31, 2008, AOL had 8.7 million AOL brand Internet access subscribers in the U.S., which does not include registrations for the free AOL service. For the three months ended March 31, 2008, AOL generated revenues of $1.128 billion (10% of the Company s overall revenues), $405 million in Operating Income before Depreciation and Amortization and $284 million in Operating Income.

AOL s strategy is to continue to transition from a business that has relied heavily on Subscription revenues from dial-up subscribers to one that attracts and engages more Internet users and takes advantage of the recent as well as anticipated growth in online advertising by providing advertising services on both the AOL Network and the Third Party Network. AOL s focus is on growing its Global Web Services business, while managing costs in this business as well as managing its declining subscriber base and costs in its Access Services business. In addition, during the first quarter of 2008, AOL entered into an agreement to acquire Bebo, Inc. (Bebo), a leading global social media network, the acquisition of which is expected to close in the second quarter of 2008. On February 6, 2008, the Company announced that it had begun separating the AOL Access and Global Web Services businesses, which should provide them with greater operational focus and increase the strategic options available for each of these businesses. The Company anticipates that key decisions regarding the separation will be made during the first half of 2008.

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

targeting technologies to deliver more effective advertising and to reach specific audiences across the AOL Network and the Third Party Network. Advertising services on the Third Party Network are primarily provided by Advertising.com, Inc. (Advertising.com), TACODA Inc. and Quigo Technologies, Inc., each of which is a wholly owned subsidiary of AOL. In addition, during the

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first quarter of 2008, AOL acquired U.K.-based Perfiliate Limited (buy.at), which provides performance-based e-commerce marketing services to advertisers.

During 2007 and the first quarter of 2008, Advertising revenues on the AOL Network were negatively impacted by certain factors and trends, including declines in the price of advertising inventory, shifts in the mix of sold inventory to lower-priced inventory and the increasing usage by online advertisers of third-party advertising networks. Additionally, during the first quarter of 2008, AOL s Advertising revenues were negatively impacted by the challenges of integrating recently acquired businesses under Platform-A, including certain sales execution issues. The increasing usage of third-party advertising networks has had a positive impact on AOL s Third Party Network Advertising revenues. However, such revenues have historically had higher traffic acquisition costs (TAC). 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.

The Company anticipates a significant decline in revenues from a major customer of Advertising.com during 2008 as a result of the customer s acquisition of a business believed to perform online advertising services that are similar to those provided by Advertising.com. For the three months ended March 31, 2008, revenues from this relationship decreased to $17 million from $56 million for the three months ended March 31, 2007. For the full year 2007, AOL earned Advertising revenues from this relationship of $215 million.

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

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. Beginning on July 1, 2008, Google will have 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.

Historically, AOL s primary product offering has been an online subscription service that includes dial-up Internet access. AOL continued to experience significant declines in the first quarter 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 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, Time Warner Cable Inc. and its subsidiaries (TWC), is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and

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Texas. As of March 31, 2008, TWC served approximately 14.7 million customers who subscribed to one or more of its video, high-speed data and voice services, representing approximately 33.0 million revenue generating units. For the three months ended March 31, 2008, TWC generated revenues of $4.160 billion (36% of the Company s overall revenues), $1.402 billion in Operating Income before Depreciation and Amortization and $636 million 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 March 31, 2008, 50% of TWC s customers subscribed to two or more of its primary services, including 18% 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 commercial networking and transport services to commercial customers. Recently, TWC has begun selling voice services to small- and medium-sized businesses as part of an increased emphasis on its commercial business. In addition, TWC earns revenues by selling advertising time to national, regional and local businesses.

Video is TWC s largest service in terms of revenues generated and, as of March 31, 2008, TWC had approximately 13.3 million basic video subscribers. Although providing video services is a competitive and highly penetrated business, TWC expects to continue to increase video revenues through the offering of advanced digital video services, as well as through price increases and digital video subscriber growth. As of March 31, 2008, TWC had approximately 8.3 million digital video subscribers, which represented approximately 62% of its basic video subscribers. TWC s digital video subscribers provide a broad base of potential customers for additional services. Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting contractual rate increases, subscriber growth and the expansion of service offerings. TWC expects that its video service margins will continue to decline over the next few years as increases in programming costs outpace growth in video revenues.

As of March 31, 2008, TWC had approximately 7.9 million residential high-speed data subscribers. TWC expects continued strong growth in residential high-speed data subscribers and revenues during 2008; however, the rate of growth of both subscribers and revenues is expected to continue to slow over time as high-speed data services become increasingly well-penetrated. TWC also offers commercial high-speed data services and had 280,000 commercial high-speed data subscribers as of March 31, 2008.

Approximately 3.2 million residential subscribers received Digital Phone service, TWC s IP-based telephony voice service, as of March 31, 2008. TWC expects strong increases in Digital Phone subscribers and revenues for the foreseeable future. TWC also rolled out Business Class Phone, a commercial Digital Phone service, to small- and medium-sized businesses during 2007 in the majority of its systems and expects to complete the roll-out in the remainder of its systems during 2008. As of March 31, 2008, TWC had 10,000 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.

The Company is in discussions with TWC s management and its board of directors regarding the Company s ownership of TWC. The Company anticipates that it will reach a decision regarding its ownership level in TWC during the first half of 2008.

Filmed Entertainment. Time Warner s Filmed Entertainment businesses, Warner Bros. Entertainment Group (Warner Bros.) and New Line Cinema Corporation (New Line), generated revenues of $2.840 billion (24% of the

Company s overall revenues), $280 million in Operating Income before Depreciation and Amortization and $183 million in Operating Income for the three months ended March 31, 2008.

One of the world s leading studios, Warner Bros. has diversified sources of revenues within its film and television businesses, including an extensive film library and a global distribution infrastructure. This diversification has helped Warner Bros. deliver consistent long-term performance. New Line is the world s oldest independent film company. Its

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primary source of revenues is the creation and distribution of theatrical motion pictures. In an effort to increase operational efficiencies and maximize performance within the Filmed Entertainment segment, on February 28, 2008, the Company announced the operational reorganization of the New Line Cinema business, under which New Line will be operated as a unit of Warner Bros. while maintaining separate development, production and other operations. During the first quarter of 2008, the Company incurred restructuring charges related to planned involuntary employee terminations in connection with the reorganization, and the Company expects to incur additional restructuring charges during the remainder of 2008.

Warner Bros. continues to be an industry leader in the television business. For the 2007-2008 broadcast season, Warner Bros. is producing more than 20 primetime series, with at least one series airing on each of the five broadcast networks (including *Two and a Half Men*, *Without a Trace*, *Cold Case*, *ER* and *Smallville*), as well as original series for cable networks (including *The Closer* and *Nip/Tuck*).

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

The sale of DVDs has been one of the largest drivers of the segment s profit over the last several years, and Warner Bros. 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 addition, the high-definition format war between the HD DVD and Blu-ray formats has slowed consumer adoption of those technologies. In January 2008, Warner Bros. announced that, starting in June 2008, it will release its content exclusively in the Blu-ray format, and the home video industry has settled on the Blu-ray format as the single high-definition technology. The shift to a single format may lead to increased consumer purchases of high-definition players and DVDs.

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

Networks. Time Warner s Networks segment comprises Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (HBO). For the three months ended March 31, 2008, the Networks segment generated revenues of $2.659 billion (21% of the Company s overall revenues), $958 million in Operating Income before Depreciation and Amortization and $874 million 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. For the three months ended March 31, 2008, TNT ranked first among advertising-supported cable networks in total-day delivery of its key demographics, Adults 18-49 and Adults 25-54, and in primetime delivery ranked second for Adults 25-54 and third for Adults 18-49. TBS ranked first among advertising-supported cable networks in primetime delivery of its key demographic, Adults 18-34.

The Turner networks generate revenues principally from the sale of advertising and from receipt of monthly subscriber fees paid by cable system operators, satellite distribution services and other distributors. Key contributors to Turner s success are its continued investments in high-quality programming focused on sports, network movie

premieres, original and syndicated series, news and animation leading to strong ratings and Advertising and Subscription 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

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

Publishing. Time Warner s Publishing segment consists principally of magazine publishing and related websites as well as a number of direct-marketing and direct-selling businesses. The segment generated revenues of $1.045 billion (9% of the Company s overall revenues), $145 million in Operating Income before Depreciation and Amortization and $93 million in Operating Income for the three months ended March 31, 2008.

As of March 31, 2008, Time Inc. published over 120 magazines worldwide, including *People*, *Sports Illustrated*, *InStyle*, *Southern Living*, *Real Simple*, *Time*, *Cooking Light*, *Entertainment Weekly* and *What s on TV*. Time Inc. generates revenues primarily from advertising (including advertising on digital properties), magazine subscriptions and newsstand sales. The Company owns IPC Media (IPC), one of the largest consumer magazine companies in the U.K., and the magazine subscription marketer, Synapse Group, Inc. The Company s Publishing segment has experienced a decline in print advertising sales due to the uncertain economy and the continuing shift of advertising expenditures to digital media. As a result, Time Inc. continues to invest in developing digital content, including the launch of the *MyHomeIdeas.com* network, the expansion of *Sports Illustrated* s, *People* s and *InStyle* s digital properties as well as the expansion of digital properties owned by IPC and the acquisition of various websites to support Time Inc. s digital initiatives. For the three months ended March 31, 2008, online Advertising revenues were 10% of Time Inc. s Advertising revenues. 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

Bebo Acquisition

On March 13, 2008, the Company, through its AOL segment, announced that AOL had entered into an agreement to acquire Bebo, a leading global social media network, for $850 million in cash. The transaction, which is subject to customary closing conditions, is expected to close in the second quarter of 2008 (Note 2).

Buy.at Acquisition

On February 5, 2008, the Company, through its AOL segment, completed the purchase of buy.at, which provides performance-based e-commerce marketing services to advertisers, for $124 million in cash, net of cash acquired. The buy.at acquisition did not significantly impact the Company s consolidated financial results for the three months ended March 31, 2008 (Note 2).

Common Stock Repurchase Program

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 April 29, 2008, the Company repurchased approximately 154 million shares of common stock for approximately $2.8 billion, which included approximately 19 million shares of common stock purchased for approximately $299 million in the first quarter of 2008, pursuant to trading programs under Rule 10b5-1 of the Exchange Act (Note 6).

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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 three months ended March 31, 2008.

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	
	3/31/08	3/31/07
Amounts related to securities litigation and government investigations	$ (4)	$ (163)
Asset impairments		(1)
Gain on disposal of assets, net		670
Impact on Operating Income (Loss)	(4)	506
Investment gains (losses), net	(27)	163
Impact on Other income (loss), net	(27)	163
Minority interest impact		(57)
Pretax impact	(31)	612
Income tax impact	2	(290)
Other tax items affecting comparability	1	3
After-tax impact	$ (28)	$ 325

In addition to the items affecting comparability above, the Company incurred merger-related, restructuring and shutdown costs of $142 million and $68 million during the three months ended March 31, 2008 and 2007, respectively. For further discussions of merger-related, restructuring and shutdown costs, refer to the Consolidated Results and Business Segment Results discussions.

Amounts Related to Securities Litigation

The Company recognized legal reserves as well as legal and other professional fees related to the defense of various shareholder lawsuits totaling $4 million and $171 million for the three months ended March 31, 2008 and 2007, respectively. In addition, the Company recognized related insurance recoveries of $8 million for the three months ended March 31, 2007.

Asset Impairments

For the three months ended March 31, 2007, the Company recorded a $1 million noncash asset impairment charge at the AOL segment related to asset write-offs in connection with facility closures.

Gains on Disposal of Assets, Net

For the three months ended March 31, 2007, the Company recorded a gain of approximately $670 million on the sale of AOL s German access business.

Investment Gains (Losses), Net

For the three months ended March 31, 2008, the Company recognized a $26 million impairment charge on the Company s investment in SCi Entertainment Group plc and $10 million of losses resulting from market fluctuations in equity derivative instruments, which were partially offset by other miscellaneous investment gains.

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For the three months ended March 31, 2007, the Company recognized net gains of $163 million primarily related to the sale of investments, including a $146 million gain 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. at the Cable segment (the TKCCP Gain). For the three months ended March 31, 2007, investment gains, net also included $6 million of gains resulting from market fluctuations in equity derivative instruments.

Minority Interest Impact

For the three months ended March 31, 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 on 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 may also include certain other items affecting comparability. For the three months ended March 31, 2008 and 2007, these items included approximately $1 million and $3 million, respectively, of tax benefits related primarily to the realization of tax attribute carryforwards.

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 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		
	3/31/08	**3/31/07**	**% Change**
Subscription	$ 6,360	$ 6,239	2%
Advertising	2,024	1,932	5%
Content	2,808	2,779	1%
Other	225	234	(4%)
Total revenues	$ 11,417	$ 11,184	2%

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

The increase in Advertising revenues for the three months ended March 31, 2008 was primarily due to growth at the Networks segment, which was primarily driven by Turner s domestic entertainment and news networks, mainly due to an increase in advertising units sold, audience growth and higher CPMs (advertising rates per thousand viewers).

The increase in Content revenues for the three months ended March 31, 2008 was primarily related to growth at the Filmed Entertainment segment, primarily driven by an increase in theatrical product revenues.

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

Costs of Revenues. For the three months ended March 31, 2008 and 2007, costs of revenues totaled $6.663 billion and

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$6.496 billion, respectively, and, as a percentage of revenues, were 58% for both periods. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended March 31, 2008 and 2007, selling, general and administrative expenses increased 3% to $2.478 billion in 2008 from $2.409 billion in 2007, primarily related to increases at the Cable, Filmed Entertainment and Networks segments, partially offset by declines at the AOL and Publishing segments. The segment variations are discussed in detail in Business Segment Results.

Included in costs of revenues and selling, general and administrative expenses is depreciation expense, which increased to $948 million for the three months ended March 31, 2008 from $901 million for the three months ended March 31, 2007, primarily related to an increase at the Cable segment, partially offset by a decline at the AOL segment. The increase at the Cable segment was primarily due to 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 first quarter of 2007. The decline at the AOL segment was primarily due to a decline in network assets due to subscriber declines.

Amortization Expense. Amortization expense increased 3% to $183 million for the three months ended March 31, 2008 from $177 million for the three months ended March 31, 2007, primarily related to an increase at the AOL segment, partially offset by a decline at the Cable segment. The increase at the AOL segment was due to the amortization of finite-lived intangible assets acquired in AOL s recent business acquisitions. The decrease at the Cable segment was primarily driven by the absence of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of Time Warner Entertainment Company, L.P. (TWE), a subsidiary of TWC, which were fully amortized at the end of the first quarter of 2007.

Amounts Related to Securities Litigation. The Company recognized legal reserves as well as legal and other professional fees related to the defense of various shareholder lawsuits totaling $4 million and $171 million for the three months ended March 31, 2008 and 2007, respectively. In addition, the Company recognized related insurance recoveries of $8 million for the three months ended March 31, 2007.

Merger-related, Restructuring and Shutdown Costs The Company incurred restructuring costs for the three months ended March 31, 2008 of $142 million, primarily related to various employee terminations and other exit activities, including $9 million at the AOL segment, $116 million at the Filmed Entertainment segment, $10 million at the Publishing segment and $7 million at the Corporate segment.

The Company incurred restructuring costs for the three months ended March 31, 2007 of $64 million, primarily related to various employee terminations and other exit activities, including $23 million at the AOL segment, $6 million at the Cable segment and $35 million at the Publishing segment. In addition, during the three months ended March 31, 2007, the Cable segment also expensed $4 million of non-capitalizable merger-related and restructuring costs associated with the 2006 transactions with Adelphia Communications Corporation and Comcast Corporation (the Adelphia/Comcast Transactions) (Note 9).

Operating Income. Operating Income decreased to $1.947 billion for the three months ended March 31, 2008 from $2.540 billion for the three months ended March 31, 2007. Excluding the items previously noted under Significant Transactions and Other Items Affecting Comparability totaling $4 million of expense and $506 million of income, net, for the three months ended March 31, 2008 and 2007, respectively, Operating Income decreased $83 million, primarily reflecting declines at the AOL and Filmed Entertainment segments, partially offset by increases at the Cable, Publishing and Networks segments. The segment variations are discussed under Business Segment Results.

Interest Expense, Net. Interest expense, net, decreased to $546 million for the three months ended March 31, 2008 from $551 million for the three months ended March 31, 2007, primarily due to lower average interest rates on borrowings, partially offset by a higher average outstanding balance of borrowings.

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

	Three Months Ended	
	3/31/08	3/31/07
Investment gains (losses), net	$ (27)	$ 163
Loss from equity-method investees	(8)	(12)
Other	(13)	(26)
Other income (loss), net	$ (48)	$ 125

The changes in investment gains (losses), net are discussed under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of investment gains, for the three months ended March 31, 2008, Other loss, net decreased primarily due to lower foreign exchange losses.

Minority Interest Expense, Net. Time Warner had $83 million of minority interest expense, net for the three months ended March 31, 2008 compared to $130 million for the three months ended March 31, 2007. The decrease related primarily to 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 on the TKCCP Gain, both which occurred during the first quarter of 2007, partially offset by larger profits recorded by the Cable segment during 2008.

Income Tax Provision. Income tax expense from continuing operations was $499 million for the three months ended March 31, 2008 compared to $797 million for the three months ended March 31, 2007. The Company s effective tax rate for continuing operations was 39% for the three months ended March 31, 2008 compared to 40% for the three months ended March 31, 2007.

Income from Continuing Operations. Income from continuing operations was $771 million for the three months ended March 31, 2008 compared to $1.187 billion for the three months ended March 31, 2007. Basic and diluted income per common share from continuing operations was $0.22 and $0.21, respectively, in 2008 compared to $0.31 and $0.30, respectively, in 2007. Basic and diluted income per common share from continuing operations for the three months ended March 31, 2008 and 2007 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 $28 million of expense and $325 million of income, net, for the three months ended March 31, 2008 and 2007, respectively, income from continuing operations decreased by $63 million, primarily reflecting lower Operating Income, as noted above, and lower Other income (loss), net, as noted above.

Discontinued Operations, Net of Tax. The financial results for the three months ended March 31, 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 $771 million for the three months ended March 31, 2008 compared to $1.203 billion for the three months ended March 31, 2007. Basic and diluted net income per common share was $0.22 and $0.21, respectively, in 2008 compared to $0.31 for each in 2007. Net income per common share for the three months ended March 31, 2008 and 2007 reflects the favorable impact of repurchases of shares under the Company s stock repurchase programs.

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Business Segment Results

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

	Three Months Ended		
	3/31/08	**3/31/07**	**% Change**
Revenues:			
Subscription	$ 539	$ 873	(38%)
Advertising	552	549	1%
Other	37	36	3%
Total revenues	1,128	1,458	(23%)
Costs of revenues[a]	(544)	(621)	(12%)
Selling, general and administrative[a]	(170)	(272)	(38%)
Gain on disposal of consolidated businesses		670	(100%)
Asset impairments		(1)	(100%)
Restructuring costs	(9)	(23)	(61%)
Operating Income before Depreciation and Amortization	405	1,211	(67%)
Depreciation	(83)	(105)	(21%)
Amortization	(38)	(22)	73%
Operating Income	$ 284	$ 1,084	(74%)

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

The decline in Subscription revenues was primarily due to a decrease in the number of AOL brand domestic subscribers and an approximate $90 million decrease related to the sale of AOL s German access business in the first quarter of 2007.

The number of AOL brand Internet access domestic subscribers was 8.7 million, 9.3 million and 12.0 million as of March 31, 2008, December 31, 2007, and March 31, 2007, respectively. The AOL brand domestic average revenue per subscriber (ARPU) was $18.29 and $18.97 for the three months ended March 31, 2008 and 2007, respectively. AOL includes in its subscriber numbers individuals, households and entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL service. Subscribers to the AOL brand Internet access service include subscribers participating in introductory free-trial periods and subscribers that are not paying any, or paying reduced, monthly fees through member service and retention programs. Total AOL brand Internet access subscribers include free-trial and retention members of 2% as of both March 31, 2008 and December 31, 2007 and 4% as of March 31, 2007. Individuals who have registered for the free AOL service, including subscribers who have migrated from paid subscription plans, are not included in the AOL brand Internet

access subscriber numbers presented above.

The continued decline in domestic subscribers is the result of a number of factors, including the effects of AOL s strategy, which has resulted in the migration of subscribers to the free AOL service offering, declining registrations for the paid service in response to AOL s significantly reduced marketing and competition from broadband access providers. The decrease in ARPU for the three months ended March 31, 2008 compared to the three months ended March 31, 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.

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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. Total Advertising revenues improved slightly for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 due to increased Advertising revenues generated on the Third Party Network, partially offset by a decrease in Advertising revenues generated on the AOL Network, as follows (millions):

	Three Months Ended		
	3/31/08	3/31/07	% Change
AOL Network:			
Display	$ 191	$ 232	(18%)
Paid-search	173	167	4%
Total AOL Network	364	399	(9%)
Third Party Network	188	150	25%
Total Advertising revenues	$ 552	$ 549	1%

The decrease in AOL Network display Advertising revenues reflected the absence of 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, the challenges of integrating recently acquired businesses (including certain sales execution issues), pricing declines and a shift in the mix of inventory sold to lower-priced inventory, as well as the discontinuation of certain advertising programs. The increase in AOL Network paid-search Advertising revenues, which are generated primarily through AOL s strategic relationship with Google, was attributable primarily to higher revenues per search query on certain AOL Network properties.

The increase in Advertising revenues on the Third Party Network was primarily attributable to the effect of business acquisitions in 2007 and the first quarter of 2008, which contributed revenues of $41 million, and continued advertising growth of $36 million, partially offset by a decrease of $39 million due to the change in the relationship with a major customer of Advertising.com. Since January 1, 2008, this customer has been under no obligation to continue to do business with Advertising.com, and the revenues associated with this relationship were $17 million for the three months ended March 31, 2008. The Company anticipates a significant decline in Advertising revenues from this customer in 2008 compared to revenues of $215 million recognized in 2007.

Total Advertising revenues for the three months ended March 31, 2008 decreased $68 million from the three months ended December 31, 2007, primarily due to decreases in display Advertising revenues generated on the AOL Network, which were due to seasonality, the challenges of integrating recently acquired businesses (including certain sales execution issues), pricing declines and shifts in the mix of sold inventory to lower-priced inventory. The decrease in total Advertising revenues was also due to declines in sales of advertising run on the Third Party Network as a result of the change in Advertising.com s relationship with a major customer beginning in the first quarter of 2008, partially offset by revenues associated with AOL s business acquisitions in 2007 and the first quarter of 2008. The revenues associated with these acquired businesses increased $20 million from the three months ended December 31, 2007.

The Company expects Advertising revenues at the AOL segment to increase during the remainder of 2008 compared to the similar period in 2007 due to expected increases on the AOL Network, primarily paid-search, and sales of advertising run on the Third Party Network due to both anticipated revenue growth generated by

Advertising.com and the Company s recent business acquisitions, partially offset by expected declines associated with the end of commitments from a major customer of Advertising.com, as discussed above. With respect to display Advertising revenues on the AOL Network, while visibility is somewhat limited, the Company anticipates that display Advertising revenues for the second quarter of 2008 will continue to be lower than the revenues generated in the second quarter of 2007 due in part to expected continued challenges of integrating recently acquired businesses.

Costs of revenues decreased 12%, and, as a percentage of revenues, were 48% for the three months ended March 31, 2008 compared to 43% for the three months ended March 31, 2007. For the three months ended March 31, 2008, approximately $60 million of the decrease in costs of revenues was attributable to the sales of AOL s European access businesses. The remaining decrease was attributable to lower network-related expenses and lower royalties and customer

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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. For the three months ended March 31, 2008, TAC increased 37% from $139 million in 2007 to $191 million in 2008 due primarily to a new product distribution agreement and costs associated with growth in the Third Party Network s Advertising revenues. The Company expects TAC to continue to increase during the remainder of 2008 as compared to the similar period in 2007.

Selling, general and administrative expenses decreased 38% to $170 million for the three months ended March 31, 2008, of which approximately $30 million was attributable to the sales of AOL s European access businesses. The remaining decrease reflects a significant reduction in direct marketing costs of approximately $40 million, primarily due to reduced subscriber acquisition marketing as part of AOL s strategy, and other cost savings, primarily related to involuntary employee terminations.

As previously noted under Significant Transactions and Other Items Affecting Comparability, the results for the three months ended March 31, 2007 included a pretax gain of approximately $670 million on the sale of AOL s German access business. In addition, the results for the three months ended March 31, 2008 and 2007 included net restructuring charges of $9 million and $23 million, respectively, primarily related to involuntary employee terminations and facility closures.

Operating Income before Depreciation and Amortization decreased due primarily to the absence of the gain on the sale of the German access business, which occurred in the first quarter of 2007, and lower Subscription revenues, partially offset by lower costs of revenues and selling, general and administrative expenses. Operating Income decreased due primarily to the decrease in Operating Income before Depreciation and Amortization, as discussed above, as well as an increase in amortization expense due to the amortization of finite-lived intangible assets related to AOL s recent business acquisitions, partially offset by a decrease in depreciation expense as a result of a decline 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 2008, AOL expects to continue to reduce costs of revenues, including dial-up network and customer service expenses, and selling, general and administrative expenses.

The Company anticipates that, excluding the impact of the gain on the sale of AOL s German access business in the first quarter of 2007, Operating Income before Depreciation and Amortization and Operating Income for the full year 2008 will be less than the amount achieved for the full year 2007 due to expected continued declines in Subscription revenues and higher TAC, partially offset by expected increases in Advertising revenues and decreases in certain other expenses.

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

	Three Months Ended		
	3/31/08	**3/31/07**	**% Change**
Revenues:			
Subscription	$ 3,963	$ 3,662	8%
Advertising	197	189	4%
Total revenues	4,160	3,851	8%
Costs of revenues[a]	(2,007)	(1,883)	7%
Selling, general and administrative[a]	(751)	(651)	15%
Merger-related and restructuring costs		(10)	(100%)

Operating Income before Depreciation and Amortization	1,402	1,307	7%
Depreciation	(701)	(649)	8%
Amortization	(65)	(79)	(18%)
Operating Income	$ 636	$ 579	10%

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

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

	Three Months Ended		
	3/31/08	3/31/07	% Change
Subscription revenues:			
Video	$ 2,603	$ 2,504	4%
High-speed data	994	894	11%
Voice[a]	366	264	39%
Total Subscription revenues	3,963	3,662	8%
Advertising revenues	197	189	4%
Total revenues	$ 4,160	$ 3,851	8%

(a) For the three months ended March 31, 2007, voice revenues also include $14 million of revenues associated with subscribers who received traditional, circuit-switched telephone service.

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

	As of March 31,		
	2008	2007	% Change
Basic video[a]	13,306	13,448	(1%)
Digital video[b]	8,283	7,548	10%
Residential high-speed data[c]	7,924	7,000	13%
Commercial high-speed data[c]	280	254	10%
Residential Digital Phone[d]	3,170	2,094	51%
Commercial Digital Phone[d]	10		NM
Revenue generating units[e]	32,973	30,437	8%
Customer relationships[f]	14,722	14,685	

(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. For the three months ended March 31, 2007, residential Digital Phone subscriber numbers exclude 93,000 subscribers who received traditional, circuit-switched telephone

service. During the first quarter of 2008, TWC substantially completed the process of discontinuing the provision of circuit-switched telephone service in accordance with regulatory requirements. As a result, as of March 31, 2008, Digital Phone was the only voice service that TWC offered.

(e) Revenue generating units represent the total of all basic video, digital video, high-speed data and voice (including Digital Phone and, for the three months ended March 31, 2007, circuit-switched telephone service) 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.

Subscription revenues increased, primarily driven by the continued growth of digital video services, video price increases and growth in high-speed data and Digital Phone subscribers. Digital video revenues, which include revenues from digital tiers, digital pay channels, pay-per-view, video-on-demand, subscription-video-on-demand and digital video recorder services, represented 24% and 22% of video revenues for the three months ended March 31, 2008 and 2007, respectively. Strong growth rates for Subscription revenues associated with high-speed data and voice services are expected to continue during the remainder of 2008.

Costs of revenues increased 7%, and, as a percentage of revenues, were 48% for the three months ended March 31, 2008 compared to 49% for the three months ended March 31, 2007. The increase in costs of revenues was primarily related to the increases in video programming, employee, voice and other direct operating costs. Video programming costs increased 6% to $929 million for the three months ended March 31, 2008 primarily due to contractual rate increases and the expansion of service offerings, partially offset by lower basic video subscribers. Employee costs increased primarily due to higher headcount resulting from the continued growth of digital video, high-speed data and Digital Phone services, as well

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as salary increases. Voice costs increased $16 million to $128 million primarily due to growth in Digital Phone subscribers, partially offset by a decline in per-subscriber connectivity costs. Other direct operating costs increased 9% to $326 million primarily due to increases in certain other costs associated with the continued growth of digital video, high-speed data and Digital Phone services.

The increase in selling, general and administrative expenses was primarily attributable to higher employee and marketing costs. Employee costs increased, due primarily to greater headcount, salary increases and higher equity-based compensation expense, reflecting mainly the timing of 2008 grants, which were made during the first quarter as compared to 2007 grants, which were made in the second quarter. Marketing costs increased as a result of intensified marketing efforts during the first quarter of 2008.

The Cable segment expensed non-capitalizable merger-related and restructuring costs associated with the Adelphia/Comcast Transactions of $4 million for the three months ended March 31, 2007. In addition, the results for the three months ended March 31, 2007 included other restructuring costs of $6 million.

Operating Income before Depreciation and Amortization increased principally as a result of revenue growth (particularly growth in high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses, as discussed above.

Operating Income increased primarily due to the increase in Operating Income before Depreciation and Amortization described above, and a decrease in amortization expense, partially offset by an increase in depreciation expense. 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 first quarter of 2007. Amortization expense decreased primarily due to the absence of amortization expense associated with customer relationships recorded in connection with the 2003 restructuring of TWE, which were fully amortized at the end of the first quarter of 2007.

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

	Three Months Ended		
	3/31/08	**3/31/07**	**% Change**
Revenues:			
Subscription	$ 10	$ 7	43%
Advertising	15	5	200%
Content	2,753	2,663	3%
Other	62	68	(9%)
Total revenues	2,840	2,743	4%
Costs of revenues[a]	(1,975)	(2,008)	(2%)
Selling, general and administrative[a]	(469)	(403)	16%
Restructuring costs	(116)		NM
Operating Income before Depreciation and Amortization	280	332	(16%)
Depreciation	(41)	(35)	17%
Amortization	(56)	(54)	4%
Operating Income	$ 183	$ 243	(25%)

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

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

	Three Months Ended		
	3/31/08	3/31/07	% Change
Theatrical product:			
Theatrical film	$ 509	$ 456	12%
Home video and electronic delivery	810	761	6%
Television licensing	400	392	2%
Consumer products and other	35	35	
Total theatrical product	1,754	1,644	7%
Television product:			
Television licensing	671	748	(10%)
Home video and electronic delivery	160	140	14%
Consumer products and other	59	55	7%
Total television product	890	943	(6%)
Other	109	76	43%
Total Content revenues	$ 2,753	$ 2,663	3%

The increase in theatrical film revenues for the three months ended March 31, 2008 was due primarily to the success of certain key releases, which compared favorably to the three months ended March 31, 2007. Revenues in the first quarter of 2008 included the releases of *10,000 B.C.* and *Fool s Gold*, as well as carryover revenues from *I Am Legend* and *The Bucket List*. Revenues in the first quarter of 2007 included the releases of *300* and *Music & Lyrics*, as well as carryover revenues from *Blood Diamond* and *Happy Feet*. Theatrical product revenues from home video and electronic delivery increased for the three months ended March 31, 2008 primarily due to a greater number of significant titles in the first quarter of 2008, including *I Am Legend*, *Michael Clayton* and *The Brave One*, compared to the first quarter of 2007, which included *Happy Feet* and *The Departed*. Theatrical product revenues from television licensing increased for the three months ended March 31, 2008 due primarily to the timing and quantity of availabilities.

The decrease in television product licensing fees was primarily due to the impact of the WGA strike, partially offset by off-network license fees from *Seinfeld*. The increase in television product revenues from home video and electronic delivery primarily reflected the timing of releases, including the release of the second season of *Two and a Half Men*.

The increase in other Content revenues was due primarily to the expansion of the distribution of interactive video games and the acquisition of TT Games Limited in the fourth quarter of 2007.

The decrease in costs of revenues resulted primarily from lower theatrical advertising and print costs due to the timing, quantity and mix of films released, partially offset by higher film costs ($1.152 billion in 2008 compared to $1.143 billion in 2007). Included in film costs are net pre-release theatrical film valuation adjustments, which decreased to $9 million for the three months ended March 31, 2008 from $53 million for the three months ended March 31, 2007. In addition, in the first quarter of 2008, the Company recognized approximately $50 million in

participation expense related to current claims on films released in prior periods. Costs of revenues as a percentage of revenues were 70% and 73% in the first quarter of 2008 and 2007, respectively, reflecting the quantity and mix of products released.

In January 2008, the Company resolved a patent dispute with one of its major vendors by licensing specific patents for future use by the vendor and for the receipt of a payment of $75 million, and the Company and the vendor also entered into various additional arrangements including an agreement for the vendor to provide certain manufacturing services to the Company through 2013 with certain exclusive rights through November 2009. The Company recognized approximately $9 million of the $75 million as a reduction of costs of revenues in the first quarter of 2008 and will recognize the remainder of the $75 million during 2008 and 2009.

The increase in selling, general and administrative expenses was primarily the result of higher employee costs and higher distribution costs attributable to the increase in revenues.

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The results for the three months ended March 31, 2008 included $116 million of restructuring charges associated with the announced operational reorganization of the New Line Cinema business, related to planned involuntary employee terminations in connection with the reorganization, and the Company expects to incur incremental restructuring charges ranging from $20 million to $30 million during the remainder of 2008.

Operating Income before Depreciation and Amortization and Operating Income decreased primarily due to the increase in restructuring charges in the first quarter of 2008 and an increase in selling, general and administrative expenses, partially offset by an increase in revenues.

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

	Three Months Ended		
	3/31/08	3/31/07	% Change
Revenues:			
Subscription	$ 1,695	$ 1,545	10%
Advertising	739	655	13%
Content	213	200	7%
Other	12	10	20%
Total revenues	2,659	2,410	10%
Costs of revenues[a]	(1,257)	(1,067)	18%
Selling, general and administrative[a]	(444)	(406)	9%
Operating Income before Depreciation and Amortization	958	937	2%
Depreciation	(78)	(74)	5%
Amortization	(6)	(3)	100%
Operating Income	$ 874	$ 860	2%

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

The increase in Subscription revenues was due primarily to higher subscription rates and acquisitions at both Turner and HBO and, to a lesser extent, an increase in the number of subscribers at Turner.

The increase in Advertising revenues was driven primarily by Turner s domestic entertainment and news networks, mainly due to an increase in advertising units sold, audience growth and higher CPMs (advertising rates per thousand viewers).

Costs of revenues increased due primarily to increases in programming costs, as well as election-related newsgathering costs. Programming costs increased 23% to $907 million for the three months ended March 31, 2008 from $740 million for the three months ended March 31, 2007 due primarily to an increase in sports programming

costs at Turner, particularly related to NBA programming, as well as higher original programming costs at both HBO and Turner. In addition, programming costs for the three months ended March 31, 2008 included an impairment of $21 million related to HBO s decision to not proceed with an original series. Costs of revenues as a percentage of revenues were 47% and 44% for the three months ended March 31, 2008 and 2007, respectively.

The increase in selling, general and administrative expenses reflected, in part, higher costs related to international expansion at Turner.

Operating Income before Depreciation and Amortization and Operating Income increased primarily due to an increase in revenues, partially offset by increases in costs of revenues and selling, general and administrative expenses.

The Company anticipates that the growth rates for Operating Income before Depreciation and Amortization and Operating Income at the Networks segment for the remainder of 2008 will be higher than those achieved in the first quarter of 2008, reflecting expected increases in both Subscription and Advertising revenues, partially offset by increased programming and newsgathering expenses.

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

	Three Months Ended		
	3/31/08	**3/31/07**	**% Change**
Revenues:			
Subscription	$ 365	$ 356	3%
Advertising	550	554	(1%)
Content	12	13	(8%)
Other	118	125	(6%)
Total revenues	1,045	1,048	
Costs of revenues[a]	(424)	(436)	(3%)
Selling, general and administrative[a]	(466)	(493)	(5%)
Restructuring costs	(10)	(35)	(71%)
Operating Income before Depreciation and Amortization	145	84	73%
Depreciation	(34)	(27)	26%
Amortization	(18)	(19)	(5%)
Operating Income	$ 93	$ 38	145%

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

Subscription revenues increased primarily as a result of higher newsstand sales for several 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.

Advertising revenues decreased due primarily to the impact of the 2007 closures of *LIFE* and *Business 2.0* magazines. Excluding the impact of the closures, Advertising revenues increased due to growth in online revenues, led by contributions from *People.com* and *CNNMoney.com*, offset in part by declines in domestic print Advertising revenues.

Other revenues decreased due primarily to decreases at Southern Living at Home.

Costs of revenues decreased 3% and, as a percentage of revenues, were 41% and 42% for the three months ended March 31, 2008 and 2007, respectively. Costs of revenues for the magazine publishing business include manufacturing costs (paper, printing and distribution) and editorial-related costs, which together decreased 3% to $373 million for the three months ended March 31, 2008, primarily due to cost savings related to the magazine closures and the impact of the sale of four non-strategic magazine titles, partially offset by higher paper costs, which are expected to increase for the remainder of 2008. These decreases at the magazine publishing business were offset by increased costs associated with investments in digital properties, including incremental editorial costs.

Selling, general and administrative expenses decreased primarily due to cost savings initiatives and magazine closures, partially offset by costs associated with investments in digital properties.

The results for the three months ended March 31, 2008 and 2007 included $10 million and $35 million, respectively, of restructuring costs, primarily severance associated with continuing efforts to streamline operations and for the three months ended March 31, 2007 also included costs related to the shutdown of *LIFE* magazine in the first quarter of 2007.

Operating Income before Depreciation and Amortization increased due primarily to decreases in costs of revenues and selling, general and administrative expenses as well as a decline in restructuring charges of $25 million. Operating Income increased due primarily to the increases in Operating Income before Depreciation and Amortization described above, partially offset by an increase in depreciation expense due primarily to the completion during the second quarter of 2007 of construction on IPC s new U.K. headquarters.

The Company anticipates that achieving growth in Operating Income before Depreciation and Amortization and Operating Income at the Publishing segment for the remainder of 2008 will be challenging, primarily due to expected declines in both domestic print Advertising revenues and Other revenues as well as paper cost increases.

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

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

	Three Months Ended		
	3/31/08	**3/31/07**	**% Change**
Amounts related to securities litigation and government investigations	$ (4)	$ (163)	(98%)
Selling, general and administrative[a]	(92)	(105)	(12%)
Restructuring costs	(7)		NM
Operating Loss before Depreciation and Amortization	(103)	(268)	(62%)
Depreciation	(11)	(11)	
Operating Loss	$ (114)	$ (279)	(59%)

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

As previously noted, the Company recognized legal reserves as well as legal and other professional fees related to the defense of various shareholder lawsuits totaling $4 million and $171 million for the three months ended March 31, 2008 and 2007, respectively. In addition, the Company recognized related insurance recoveries of $8 million for the three months ended March 31, 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 three months ended March 31, 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, Operating Loss before Depreciation and Amortization and Operating Loss decreased due primarily to lower corporate costs, related in part 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 March 31, 2008 (not including amounts available at TWC) was $4.878 billion, including $1.377 billion of cash and equivalents. At the same date, TWC s unused committed capacity was $4.226 billion, including $226 million of cash and equivalents.

Current Financial Condition

At March 31, 2008, Time Warner had $36.161 billion of debt, $1.603 billion of cash and equivalents (net debt of $34.558 billion, defined as total debt less cash and equivalents), $300 million of mandatorily redeemable preferred membership units at a subsidiary and $58.712 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.

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

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

Balance at December 31, 2007	$ 35,614
Cash provided by operations	(2,796)
Proceeds from exercise of stock options	(34)
Capital expenditures and product development costs	992
Dividends paid to common stockholders	224
Repurchases of common stock	332
Investments and acquisitions, net[a]	258
Proceeds from the sale of investments[a]	(41)
All other, net	9
Balance at March 31, 2008[b]	$ 34,558

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

(b) Included in the net debt balance is approximately $179 million that represents the net unamortized fair value adjustment recognized as a result of the merger of America Online, Inc. (now known as AOL) and Historic TW Inc.

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 noted under Recent Developments, 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 April 29, 2008, the Company has

repurchased approximately 154 million shares of common stock for approximately $2.8 billion, which included approximately 19 million shares of common stock purchased for approximately $299 million in the first quarter of 2008, pursuant to trading programs under Rule10 b5-1 of the Exchange Act (Note 6).

As noted under Recent Developments, on March 13, 2008, the Company, through its AOL segment, announced that AOL had entered into an agreement to acquire Bebo, a leading global social media network, for $850 million in cash. The transaction, which is subject to customary closing conditions, is expected to close in the second quarter of 2008.

In connection with the 2006 sale of AOL s U.K. access business, the Company expects to receive the remaining approximate $140 million owed from the buyer during the three months ending June 30, 2008.

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.

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

Cash Flows

Cash and equivalents increased by $87 million and decreased by $508 million for the three months ended March 31, 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):

	Three Months Ended	
	3/31/08	**3/31/07**
Operating Income	$ 1,947	$ 2,540
Depreciation and amortization	1,131	1,078
Amounts related to securities litigation and government investigations:		
Net expenses	4	163
Cash payments, net of recoveries	(4)	(551)
Gain on dispositions of assets		(670)
Net interest payments[a]	(412)	(442)
Net income taxes paid[b]	(62)	(98)
Noncash equity-based compensation	108	87
Net cash flows from discontinued operations[c]	(2)	75
Domestic pension plan contributions	(153)	(5)
Merger-related and restructuring payments, net of accruals[d]	74	(51)
All other, net, including working capital changes	165	(727)
Cash provided by operations	$ 2,796	$ 1,399

(a) Includes interest income received of $25 million and $19 million in 2008 and 2007, respectively.

(b) Includes income tax refunds received of $9 million and $32 million in 2008 and 2007, respectively.

(c) Reflects net income from discontinued operations of $16 million in 2007, net of noncash gains

and expenses and working capital-related adjustments of $(2) million and $59 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 $2.796 billion in 2008 compared to $1.399 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 on accounts payable and accrued liabilities. During the first quarter of 2008, there were no U.S. Federal income tax payments required. Estimated U.S. federal tax installments for both the first and second quarters of 2008 will be paid during the second quarter of 2008. As the majority of the Company s U.S. federal tax attribute carryforwards were utilized as of December 31, 2007, the Company expects a significant increase in income tax payments during the remainder of 2008. Partially offsetting this increase will be the benefits from the Economic Stimulus Act of 2008, which provides for a special 50% depreciation deduction in 2008 for certain qualifying property. Additionally, the Company anticipates making discretionary cash contributions of up to $250 million to certain domestic funded defined benefit plans in 2008, subject to market conditions and other considerations, $150 million of which has been contributed as of March 31, 2008.

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

Investing Activities

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

	Three Months Ended	
	3/31/08	**3/31/07**
Investments in available-for-sale securities	$	$ (86)
Investments and acquisitions, net of cash acquired:		
buy.at	(124)	
All other	(134)	(12)
Capital expenditures and product development costs	(992)	(914)
Proceeds from the sale of available-for-sale securities		10
Proceeds from the sale of AOL s German access business		850
Proceeds from the sale of the Parenting Group and most of the Time4 Media magazine titles		220
All other investment and asset sale proceeds	41	72
Cash provided (used) by investing activities	$ (1,209)	$ 140

Cash used by investing activities was $1.209 billion in 2008 compared to cash provided by investing activities of $140 million in 2007. The change in cash provided (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):

	Three Months Ended	
	3/31/08	**3/31/07**
Borrowings	$ 2,253	$ 2,182
Debt repayments	(3,205)	(2,112)
Proceeds from exercise of stock options	34	242
Excess tax benefit on stock options	2	30
Principal payments on capital leases	(10)	(18)
Repurchases of common stock	(332)	(2,089)
Dividends paid	(224)	(211)
Other financing activities	(18)	(71)
Cash used by financing activities	$ (1,500)	$ (2,047)

Cash used by financing activities was $1.500 billion in 2008 compared to $2.047 billion in 2007. The change in cash used by financing activities is primarily due to a decline in repurchases of common stock made in connection with the Company s common stock repurchase programs, partially offset by an increase in debt repayments.

Programming Licensing Backlog

Programming licensing backlog represents the amount of future revenues not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television exhibition. Backlog was approximately $3.5 billion and $3.7 billion at March 31, 2008 and December 31, 2007, respectively. Included in these amounts is licensing of film product from the Filmed Entertainment segment to the Networks segment in the amount of $740 million and $700 million at March 31, 2008 and December 31, 2007,

respectively.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, Operating Income before Depreciation and Amortization and cash from operations. Words such as anticipates, estimates, expects, projec intends, plans,

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

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

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

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

economic slowdowns;

the impact of terrorist acts and hostilities;

changes in the Company s plans, strategies and intentions;

the impacts of significant acquisitions, dispositions and other similar transactions, including any transaction that may result from the Company s discussions with TWC regarding its ownership structure;

the failure to meet earnings expectations; and

decreased liquidity in the capital markets, including any reduction in the ability to access the capital markets for debt securities or bank financings.

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TIME WARNER INC.
Item 4. CONTROLS AND PROCEDURES

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company s management to allow timely decisions regarding the required disclosure.

Changes in Internal Control Over Financial Reporting

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

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

	March 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and equivalents	$ 1,603	$ 1,516
Receivables, less allowances of $2,110 and $2,410	6,173	7,296
Inventories	2,076	2,105
Prepaid expenses and other current assets	842	834
Deferred income taxes	717	700
Total current assets	11,411	12,451
Noncurrent inventories and film costs	5,446	5,304
Investments, including available-for-sale securities	1,921	1,963
Property, plant and equipment, net	18,011	18,048
Intangible assets subject to amortization, net	5,043	5,167
Intangible assets not subject to amortization	47,221	47,220
Goodwill	41,817	41,749
Other assets	1,914	1,928
Total assets	$ 132,784	$ 133,830
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,088	$ 1,470
Participations payable	2,535	2,547
Royalties and programming costs payable	1,268	1,253
Deferred revenue	1,331	