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

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

Form 10-K

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

For the fiscal year ended December 31, 2008

Commission file number 001-15062

TIME WARNER INC.
(Exact name of Registrant as specified in its charter)

Delaware	**13-4099534**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

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

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

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

Title of each class	Name of each exchange on which registered

Common Stock, $.01 par value	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

As of the close of business on February 13, 2009, there were 3,587,795,646 shares of the registrant s Common Stock outstanding. The aggregate market value of the registrant s voting and non-voting common equity securities held by non-affiliates of the registrant (based upon the closing price of such shares on the New York Stock Exchange on June 30, 2008) was approximately $53.04 billion.

Documents Incorporated by Reference:

Description of document	**Part of the Form 10-K**
Portions of the definitive Proxy Statement to be used in connection with the registrant s 2009 Annual Meeting of Stockholders	Part III (Item 10 through Item 14) (Portions of Items 10 and 12 are not incorporated by reference and are provided herein)

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PART I

Item 1. *Business.*

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

AOL, consisting principally of interactive consumer and advertising services;

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

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

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

Publishing, consisting principally of magazine publishing.

At December 31, 2008, the Company had a total of approximately 87,000 employees.

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

Recent Developments

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

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

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

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

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

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

Caution Concerning Forward-Looking Statements and Risk Factors

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

Available Information and Website

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

AOL

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

AOL has transitioned from a business that has primarily focused on generating subscription revenues to one that is focused on attracting and engaging Internet consumers. Historically, AOL s primary focus had been its Internet access business. In 2006, due in part to the growth of online advertising, AOL shifted its focus to its advertising business and began offering many of its services for free. Consequently, AOL s focus is on growing its Global Web Services business, while managing costs in this business, as well as managing its declining subscriber base and related cost structure in its Access Services business. During 2008, AOL began separating its Access Services and Global Web Services businesses, which should enhance the operational focus and strategic options available for each business. As these businesses were historically highly integrated, this separation initiative has been complex. The Company anticipates that it will be in a position to manage AOL s Access Services and Global Web Services businesses separately during 2009.

Global Web Services

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

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

AOL distributes its products and services through a variety of methods, including relationships with computer manufacturers and mobile carriers, and through search engine marketing and search engine optimization. In an effort to reach a broader audience, AOL is creating versions of certain of its products and services for consumer distribution on the Internet to generate activity on the AOL Network. Additionally, AOL seeks to provide technology to third parties that allows them to incorporate AOL s content and services into their own websites and to enhance AOL s products.

AOL has expanded the AOL Network internationally and has AOL-branded and co-branded portals and websites in North and South America, Europe and the Asia Pacific region. Additionally, AOL has launched international versions of certain websites, including Asylum, Autoblog, Bebo and Engadget.

Platform-A

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

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

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

AOL s advertising technology systems are designed and managed to maintain availability and maximize performance. Platform-A uses a combination of in-house and third-party technologies to deliver advertisements across multiple networks and formats, including text, banners, rich media, video and mobile. Platform-A currently uses ad serving technology services provided by third parties such as DoubleClick, Inc., a subsidiary of Google Inc. (Google), along with Platform-A s own ad serving technologies to manage the delivery of display advertising across the AOL Network and the Third Party Network. Platform-A intends to use primarily its own ad serving technologies by the second half of 2009. Platform-A utilizes delivery systems that determine the most effective and profitable advertisements to deliver on behalf of advertisers. This is achieved through the scheduling and delivery of advertisements based on a variety of factors, including audience segmentation and targeting, contextual relevance, content matching and other related factors. AOL s businesses technology systems also feature automated tools that streamline its sales operations, including the setup and management of advertising campaigns.

MediaGlow

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

People Networks

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

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

Access Services

AOL s Access Services business offers consumers an online subscription service in the U.S. and Canada that includes dial-up Internet access for a monthly fee. As of December 31, 2008, AOL had 6.9 million AOL brand Internet access subscribers in the U.S., which does not include registrations for the free AOL service. The primary price plans offered by AOL are $25.90 and $11.99 per month, which provide varying levels of Internet access service, tools and services. In addition, AOL subsidiaries continue to provide the CompuServe and Netscape Internet access services.

Products and Technologies

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

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

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

Google Alliance

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

Competition

AOL competes for the time and attention of consumers with a wide range of Internet companies, such as Yahoo! Inc. (Yahoo!), Google, Microsoft Corporation s MSN, social networking sites such as Fox Interactive Media, Inc. s MySpace (MySpace) and Facebook, Inc. (Facebook), and traditional media companies, which are increasingly offering their own Internet products and services. The Internet is dynamic and rapidly evolving, and new and popular competitors, such as social networking sites, frequently emerge. Internationally, AOL s primary competitors are global enterprises such as Google, MSN and Yahoo!, newer entrants such as Facebook, MySpace and other social networking sites and a large number of local enterprises.

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

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

CABLE

The Company s cable business, Time Warner Cable Inc. (together with its subsidiaries, TWC), is the second-largest cable operator in the U.S., with technologically advanced, well-clustered systems located mainly in five geographic areas New York State (including New York City), the Carolinas, Ohio, southern California (including Los Angeles) and Texas. As of December 31, 2008, TWC served approximately 14.6 million customers who subscribed to one or more of its video, high-speed data and voice services. In addition to its video, high-speed data and voice services, TWC sells advertising to a variety of national, regional and local customers.

TWC is a public company subject to the requirements of the Exchange Act, and its Class A Common Stock trades on the New York Stock Exchange (NYSE) under the symbol TWC. Time Warner currently owns approximately 84% of the common stock of TWC (including approximately 83% of the outstanding TWC Class A Common Stock and all outstanding shares of TWC Class B Common Stock and representing a 90.6% voting interest), and also currently owns an indirect 12.43% non-voting equity interest in TW NY, a subsidiary of TWC. On May 20, 2008, TWC and its subsidiaries TWE and TW NY entered into the Separation Agreement with Time Warner and its subsidiaries WCI, Historic TW and ATC, the terms of which will govern TWC s legal and structural separation from Time Warner. For additional information, see Management s Discussion and Analysis of Results of Operations and Financial Condition Recent Developments.

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Products and Services

TWC offers video, high-speed data and voice services over its broadband cable systems. TWC markets its services separately and in bundled packages of multiple services and features. TWC customers who subscribe to a bundle receive a discount from the price of buying the services separately as well as the convenience of a single monthly bill. Increasingly, TWC s customers subscribe to more than one primary service. As of December 31, 2008, 54% of TWC s customers subscribed to two or more of its primary services, including 21% of its customers who subscribed to all three primary services. As part of an increased emphasis on its commercial business, TWC began selling voice services to small- and medium-sized businesses in the majority of its operating areas during 2007, and substantially completed the roll out in the remainder of its operating areas during 2008. TWC believes that providing commercial services will generate additional opportunities for growth.

Residential Video Services

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

TWC s video subscribers pay a fixed monthly fee based on the video programming tier they receive. Subscribers to specialized tiers and premium services are charged an additional monthly fee, with discounts generally available for the purchase of packages of more than one such service. The rates TWC can charge for its BST service in areas not subject to effective competition and certain video equipment, including set-top boxes, are subject to regulation under federal law. See Regulatory Matters Cable System Regulation Video Services.

Transmission Technology. TWC s video subscribers may receive service through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital technology, digital transmissions only. Customers who receive any level of video service at their dwelling or commercial establishment via digital transmissions over TWC s systems are referred to as digital video subscribers. As of December 31, 2008, 49% of TWC s homes passed, or approximately 13.1 million customers, were basic video subscribers and of those, approximately 8.6 million (or 66%) were digital video subscribers.

Digital video subscribers using a TWC-provided set-top box generally have access to an interactive program guide, Video on Demand (VOD), which is discussed below, music channels and seasonal sports packages. Digital video subscribers who receive premium services generally also receive multiplex versions of these services. Digital video subscribers will also have access to these services using a television enabled with tru2way technology, a common platform for set-top box applications, which TWC expects will be made available by third parties in mid-2009.

On-Demand Services. On-Demand services are available to digital video subscribers using a TWC-provided set-top box or, when available, a tru2way-enabled television. Available On-Demand services include a wide selection of featured movies and special events, for which separate per-use fees are generally charged, and free access to selected movies, programs and program excerpts from broadcast and cable networks, music videos, local programming and other content. In addition, premium service (e.g., HBO) subscribers receiving services via a

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digital set-top box provided by TWC generally have access to the premium service s On-Demand content without additional fees.

Enhanced TV Services. TWC is expanding the use of VOD technology to introduce additional enhancements to the video experience. For instance, Start Over allows digital video subscribers using a set-top box provided by TWC to restart select in progress programs airing on participating cable and broadcast networks directly from the relevant channel, without the ability to fast-forward through commercials. As of December 31, 2008, Start Over was available to 47%, or approximately 4.0 million, of TWC s digital video subscribers. TWC has begun rolling out other Enhanced TV features such as Look Back, which utilizes the Start Over technology to allow viewing of recently aired programs, and Quick Clips, which allows customers to view short-form content tied to the cable or broadcast network then being watched. TWC is also working to make available Catch Up, which will allow customers to view previously aired programs they have missed.

HD Television. In its more advanced divisions, as of December 31, 2008, TWC offered up to 95 channels of high-definition (HD) television, or HDTV, and expects to continue to add additional HD programming during 2009. In most divisions, HD simulcasts are provided at no additional charge, and additional charges apply only for HD channels that do not have standard-definition counterparts. In addition to its linear HD channels, TWC also offers VOD programming in HD and, on select channels, HD programming viewed using Start Over is presented in HD.

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

Residential High-speed Data Services

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

TWC s Road Runner service provides communication tools and personalized services, including e-mail, PC security, parental controls, news groups and online radio, without any additional charge. The Road Runner portal provides access to content and media from local, national and international providers and topic-specific channels, including entertainment, games, news, sports, travel, music, movie listings and shopping sites. In addition, in 2008, TWC launched the Road Runner Video Store, which permits subscribers to rent or purchase television shows and movies for online viewing.

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

Residential Voice Services

Digital Phone. TWC offered its residential Digital Phone service to nearly all of its homes passed as of December 31, 2008. Most Digital Phone customers receive unlimited local, in-state and U.S., Canada and Puerto Rico calling and a number of calling features for a fixed monthly fee. TWC also offers additional calling plans with a variety of calling options that are designed to meet customers particular needs, including a local-only calling plan, an unlimited in-state calling plan and an international calling plan. As of December 31, 2008, approximately

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

Digital Phone is delivered over the same system facilities used by TWC to provide video and high-speed data services. Under a multi-year agreement between TWC and Sprint Nextel Corporation (Sprint), Sprint assists TWC in providing Digital Phone service by routing voice traffic to and from destinations outside of TWC s network via the public switched telephone network, delivering Enhanced 911 (E911) service and assisting in local number portability and long-distance traffic carriage.

Commercial Services

TWC has provided video, high-speed data and network and transport services to commercial customers for over a decade. During 2007, TWC began selling a commercial Digital Phone service, Business Class Phone, to small- and medium-sized businesses in the majority of its operating areas and substantially completed the roll out in the remainder of its operating areas during 2008. The introduction of Business Class Phone enables TWC to offer its commercial customers a bundle of video, high-speed data and voice services and to compete against bundled services from its competitors.

Video Services. TWC offers commercial customers a full range of video programming tiers marketed under the Time Warner Cable Business Class brand. Packages are designed to meet the demands of a business environment by offering a wide variety of video services that enable businesses to entertain customers and stay abreast of news, weather and financial information. Similar to residential customers, commercial customers receive video services through analog transmissions, a combination of digital and analog transmissions or, in systems where TWC has fully deployed digital technology, digital transmissions only.

High-speed Data Services. TWC offers commercial customers a variety of high-speed data services, including Internet access, website hosting and managed security. These services are offered to a broad range of businesses and are also marketed under the Road Runner Business Class brand. Commercial subscribers pay a flat monthly fee, which differs from the fee paid by residential subscribers, based on the level of service received. As of December 31, 2008, TWC had 283,000 commercial high-speed data subscribers. In addition, TWC provides its high-speed data services to other cable operators for a fee, who in turn provide high-speed data services to their customers.

Voice Services. During 2007 TWC introduced Business Class Phone, a business-grade phone service geared to small- and medium-sized businesses. As of December 31, 2008, TWC had 30,000 Business Class Phone subscribers.

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

Advertising

TWC also generates revenues by selling advertising to a variety of national, regional and local customers. As part of the agreements under which it acquires video programming, TWC typically receives an allocation of scheduled advertising time in such programming, generally two or three minutes per hour, into which its systems can insert commercials. The clustering of TWC s systems expands the number of viewers that TWC reaches within a local designated market area, which helps its local advertising sales business to compete more effectively with broadcast and other media. In addition, TWC has a strong presence in the country s two largest advertising market areas, New York City and Los Angeles. In 2008, TWC and certain other cable operators formed a joint venture, Canoe Ventures LLC, focused on developing a common technology platform among cable operators for the delivery of advanced advertising products and services to be offered to programmers and advertisers.

Technology

Cable Systems. TWC transmits its video, high-speed data and voice signals on a hybrid fiber coaxial (HFC) network. As of December 31, 2008, virtually all of the homes passed by TWC s cable systems were served by plant

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that had been upgraded to provide at least 750 megahertz of capacity. TWC believes that its network architecture is sufficiently flexible and extensible to support its current requirements. However, in order for TWC to continue to innovate and deliver new services to its customers, as well as meet its competitive needs, TWC anticipates that it will need to use the bandwidth available to its systems over the next few years. TWC believes that this can be achieved without costly upgrades. For example, to accommodate increasing demands for greater capacity in its network, TWC is deploying a technology known as switched digital video (SDV). SDV technology expands network capacity by transmitting only those digital and HD video channels that are being watched within a given grouping of households at any given moment. Since it is generally the case that not all such channels are being watched at all times by a given group of households, SDV technology frees up capacity that can then be made available for other uses. As of December 31, 2008, approximately 60% of TWC s digital video subscribers received some portion of their video service via SDV technology, and TWC expects to continue to deploy SDV technology during 2009. For more information, see Regulatory Matters Cable System Regulation Video Services Switched Digital Video.

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

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

Video Programming

TWC carries local broadcast stations pursuant to either the Federal Communication Commission (FCC) must carry rules or a written retransmission consent agreement with the relevant station owner. Broadcasters recently made their elections for the current three-year carriage cycle, which began on January 1, 2009, and TWC has multi-year transmission consent agreements in place with most of the retransmission consent stations it carries. Cable networks and premium services are carried pursuant to written affiliation agreements. TWC generally pays a fixed monthly per-subscriber fee for such services and sometimes pays a fee for broadcast stations that elect retransmission consent. Such fees typically cover the network or the station s linear feed as well as its free On-Demand content. For more information, see Regulatory Matters Cable System Regulation Video Services Carriage of Broadcast Television Stations and Other Programming Regulation. Payments to the providers of some premium services may be based on a percentage of TWC s gross receipts from subscriptions to the services. Generally, TWC obtains rights to carry VOD movies and Pay-Per-View events and to sell and/or rent online video programming via the Road Runner Video Store through iN Demand L.L.C., a company in which TWC holds a minority interest. In some instances, TWC contracts directly with film studios for VOD carriage rights for movies. Such VOD content is generally provided to TWC under revenue-sharing arrangements.

Wireless Ventures

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

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

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

Competition

TWC faces intense competition from a variety of alternative information and entertainment delivery sources, principally from direct-to-home satellite video providers and certain telephone companies, each of which offers a broad range of services that provide features and functions comparable to those provided by TWC. The services are also offered in bundles of video, high-speed data and voice services similar to TWC s and, in certain cases, these offerings include wireless services. The availability of these bundled service offerings and of wireless offerings, whether as a single offering or as part of a bundle, has intensified competition. In addition, technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to TWC s customers from other providers and intensify the competitive environment.

Principal Competitors

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

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

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

Other Competition and Competitive Factors

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

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

Online Competition. TWC s high-speed data services face or may face competition from a variety of companies that offer other forms of online services, including low cost dial-up services over ordinary telephone lines and third-generation wireless broadband services, such as those offered by Verizon, AT&T, Sprint and T-Mobile USA, Inc., and developing technologies, such as fourth-generation wireless services, Internet service via power lines, satellite and various other wireless services (e.g., Wi-Fi).

Digital Phone Competition. TWC s Digital Phone service competes with traditional and wireless phone providers, and an increasing number of homes in the U.S. are replacing their traditional telephone service with wireless phone service. TWC also competes with national providers of IP-based telephony products, such as Vonage Holdings Corp. (Vonage), Skype and magicJack, and companies that sell phone cards at a cost per minute for both national and international service. The increase in the number of different technologies capable of carrying voice services has intensified the competitive environment in which TWC operates its Digital Phone service.

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

FILMED ENTERTAINMENT

The Company s Filmed Entertainment businesses produce and distribute theatrical motion pictures, television shows, animation and other programming and videogames, distribute home video product, and license rights to the Company s feature films, television programming and characters. All of the foregoing businesses are principally conducted by various subsidiaries and affiliates of Warner Bros. Entertainment Inc., known collectively as the Warner Bros. Entertainment Group (Warner Bros.), and New Line Cinema Corporation (New Line). To increase operational efficiencies and maximize performance within the Filmed Entertainment segment, the Company reorganized the New Line business in 2008 to be operated as a unit of Warner Bros.

Feature Films

Warner Bros.

Warner Bros. produces feature films both wholly on its own and under co-financing arrangements with others, and also distributes its films and completed films produced by others. Warner Bros. feature films are produced under both the Warner Bros. Pictures and Castle Rock banners. Warner Independent Pictures (WIP), a producer and acquirer of smaller budget and alternative films, ceased operations in October 2008. The terms of Warner Bros. agreements with independent producers and other entities are separately negotiated and vary depending upon the production, the amount and type of financing by Warner Bros., the media and territories covered, the distribution term and other factors.

Warner Bros. strategy focuses on offering a diverse slate of films with a mix of genres, talent and budgets that includes several event movies per year. In response to the high cost of producing theatrical films, Warner Bros. has entered into certain film co-financing arrangements with other companies, decreasing its financial risk while in most cases retaining substantially all worldwide distribution rights. During 2008, Warner Bros released 15 original motion pictures for worldwide theatrical exhibition, including *The Dark Knight*, *10,000 B.C.*, *Get Smart*, *Yes Man* and *Gran Torino*. Of the total 2008 releases, seven were wholly financed by Warner Bros. and eight were financed with or by others. WIP released two films in 2008, including *Snow Angels*.

Warner Bros. has co-financing arrangements with Village Roadshow Pictures and Legendary Pictures, LLC. Additionally, Warner Bros. has an exclusive distribution arrangement with Alcon Entertainment for distribution of all of Alcon s motion pictures in domestic and certain international territories. In 2006, Warner Bros. also entered into an exclusive multi-year distribution agreement with Dark Castle Holdings, LLC, under which Warner Bros. will distribute 15 Dark Castle feature films in the U.S. and, generally, in all international territories. Each of these feature films will be 100% financed by Dark Castle. Through 2008, Warner Bros. has distributed one film, *RocknRolla*, under this agreement.

Warner Bros. distributes feature films for theatrical exhibition to more than 125 international territories. In 2008, Warner Bros. released internationally 14 English-language motion pictures and 35 local-language films that it either produced or acquired.

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

New Line

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

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

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

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

Home Entertainment

Warner Home Video (WHV), a division of Warner Bros. Home Entertainment Inc. (WBHE), distributes for home video use DVDs containing filmed entertainment product produced or otherwise acquired by the Company s various content-producing subsidiaries and divisions, including Warner Bros. Pictures, Warner Bros. Television, New Line, Home Box Office and Turner Broadcasting System. Significant WHV releases during 2008 included *The Dark Knight*, *I Am Legend* and *Sex and the City: The Movie*. WHV produces and distributes DVDs from new content generated by the Company as well as from the Company s extensive filmed entertainment library of thousands of feature films, television titles and animated titles. WHV also distributes other companies product, including DVDs for BBC, National Geographic and national sports leagues in the U.S., and has similar distribution relationships with producers outside the U.S.

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

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

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

Television

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

WBTVG programming is primarily produced by Warner Bros. Television (WBTV), a division of WB Studio Enterprises Inc. that produces primetime dramatic and comedy programming for the major broadcast networks and for cable networks; Warner Horizon Television Inc. (Warner Horizon), which specializes in unscripted programming for broadcast networks as well as scripted and unscripted programming for cable networks; and Telepictures Productions Inc. (Telepictures), which specializes in reality-based and talk/variety series for the syndication and daytime markets. For the 2008-09 season, WBTV is producing, among others, *Smallville* and *Gossip Girl* for The CW Television Network (The CW) and *Two and a Half Men, Without a Trace, Cold Case*, *The Big Bang Theory*, *ER* and *The Mentalist* for other broadcast networks. WBTV also produces original series for cable networks, including *The Closer* and *Nip/Tuck*. Warner Horizon produces the primetime reality series *The Bachelor* and *America s Best Dance Crew.* Telepictures produces first-run syndication staples such as *Extra* and the talk shows *The Ellen DeGeneres Show* and *Tyra*, as well as *TMZ*, a series based on the top entertainment website *TMZ.com*.

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

Digital Media

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

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

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

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

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

Many of WBTVG s current on-air television series are available on demand via broadband and wireless streaming and downloading and cable VOD platforms under agreements entered into with the broadcast and cable networks exhibiting the series. Pursuant to those agreements, the networks have the right to offer each series episode on demand for a limited period of time after the episode airs and WBTVG retains the right to offer permanent downloads of current episodes during the same timeframe and, increasingly, WBTVG has the right to offer online streaming of current series episodes at the end of a broadcast year. WBTVG also distributes certain off-air, or library, television series online in the U.S. through *TheWB.com* and other destination sites, and through distribution agreements with third party video exhibition sites. Internationally, WBTVG has a number of Warner Bros. branded on-demand program services, which, as of December 31, 2008, included five services in the U.K., two in France, two in Japan and one in each of Italy, Germany, Austria and China. In addition, WBTVG operates a linear Warner Bros. branded general entertainment channel in Latin America.

Other Entertainment Assets

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

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

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

DC Comics, wholly owned by the Company, publishes a wide array of graphic novels and an average of over 90 comic book titles per month, featuring such popular characters as *Superman, Batman, Wonder Woman* and *The Sandman.* DC Comics also derives revenues from motion pictures, television, videogames and merchandise. The Company also owns E.C. Publications, Inc., the publisher of *MAD* magazine.

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

Competition

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

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

NETWORKS

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

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

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

Advertising revenues consist of consumer advertising, which is sold primarily on a national basis in the U.S. and on a pan-regional or local-language feed basis outside of the U.S. Advertising contracts generally have terms of one year or less. Outside of the U.S., advertising is generally sold on a per-spot basis. Advertising revenues are generated from a wide variety of categories, including financial and business services, pharmaceuticals and medical, food and beverage, automotive and movie studios. In the U.S., advertising revenues are a function of the size and demographics of the audience delivered, the CPM, which is the cost per thousand viewers delivered, and the number of units of time sold. Units sold and CPMs are influenced by the quantitative and qualitative characteristics of the audience of each network, the perceived quality of the network and of the particular programming, as well as overall advertiser demand in the marketplace.

Turner Networks

Domestic Networks

Turner s entertainment networks include two general entertainment networks, TBS, which reached approximately 98.9 million U.S. television households as reported by Nielsen Media Research (U.S. television households) as of December 2008; and TNT, which reached approximately 98.0 million U.S. television households as of December 2008; as well as Cartoon Network (including *Adult Swim*, its overnight block of contemporary animation aimed at young adults), which reached approximately 97.7 million U.S. television households as of December 2008; truTV (formerly Court TV), which reached approximately 91.1 million U.S. television households as of December 2008; Turner Classic Movies, a commercial-free network presenting classic films; and Boomerang, an animation network featuring classic cartoons. HD feeds of TBS, TNT and Cartoon Network are available. Programming for these entertainment networks is derived, in part, from the Company s film, made-for-television and animation libraries to which Turner or other divisions of the Company own the copyrights, sports programming and licensed programming, including network movie premieres and original and syndicated series.

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

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

International Networks

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

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

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

CNN International, an English language news network, is distributed in more than 190 countries and territories as of the end of 2008. CNN International is comprised of network feeds in five separate regions: Europe/Middle East/Africa, Asia Pacific, South Asia, Latin America and North America. HLN is distributed in Canada, the Caribbean, parts of Latin America and the Asia Pacific region; CNN en Español is a separate Spanish language news network distributed primarily in Latin America.

In a number of regions, Turner has launched local-language versions of its channels through joint ventures with local partners. These include CNN+, a Spanish language 24-hour news network distributed in Spain; CNN Turk, a Turkish language 24-hour news network available in Turkey and the Netherlands; CNN Chile, a Spanish language 24-hour news network distributed in Chile; CNNj, an English-with-Japanese-translation news service in Japan; Cartoon Network Korea, a local-language 24-hour channel for kids; and BOING, an Italian language 24-hour kids animation network. CNN content is distributed through CNN-IBN, a co-branded, 24-hour, English language general news and current affairs channel in India. Turner also has interests in a Mandarin language general entertainment service in China (CETV). In 2008, Turner, along with a local partner, launched Cartoon Network Turkey and TNT Turkey, both Turkish language channels distributed in Turkey. Also in 2008, Turner made an investment in and entered into a partnership with an Indian production company to develop and launch Real, a general entertainment Hindi language channel in India that is expected to launch in 2009. In addition, in 2009, Turner and Warner Bros. plan to launch an English language movie channel in India and Turner plans to launch a Spanish language version of truTV in Latin America.

Websites

In addition to its networks, Turner manages various websites that generate revenues from commercial advertising and, in some cases, consumer subscription fees. CNN has multiple websites, including *CNN.com* and several localized editions that operate in Turner s international markets. CNN also operates *CNNMoney.com* in collaboration with Time Inc. s *Money, Fortune* and *FSB*: *Fortune Small Business* magazines. Turner operates the NASCAR websites *NASCAR.com* and *NASCAR.com en Español* under an agreement with NASCAR through 2014, and the PGA s and PGA Tour s websites, *PGA.com* and *PGATour.com*, respectively, under agreements with the PGA and the PGA Tour through 2011. In addition, Turner operates *NBA.com* under an agreement with the NBA through 2016. Turner also operates *CartoonNetwork.com*, a popular advertiser-supported site in the U.S., as well as 38 international sites affiliated with the regional children s services feeds.

Home Box Office

HBO, operated by Home Box Office, is the nation s most widely distributed premium pay television service. Including HBO s sister service, Cinemax, the Home Box Office Services had approximately 40.9 million subscriptions as of December 31, 2008. Both HBO and Cinemax are made available in HD on a number of multiplex channels. Home Box Office also offers HBO On Demand and Cinemax On Demand, subscription products that enable digital cable and telephone company customers who subscribe to the HBO and Cinemax services to view programs at a time of their choice.

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

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

HBO also generates revenues from the exploitation of its original programming through multiple distribution outlets. HBO Home Entertainment markets a variety of HBO s original programming on DVD. HBO licenses its original series, such as *The Sopranos* and *Sex and the City,* to basic cable channels and has also licensed *Sex and the City* in syndication. The Home Box Office-produced show *Everybody Loves Raymond*, which aired for nine seasons on broadcast television, is currently in syndication as well. Home Box Office content is also distributed by Apple Inc. through its online iTunes stores in the U.S. and the U.K. as well as on various mobile telephone platforms. In addition, through various pay television joint ventures, HBO-branded services are distributed in more than 50 countries in Latin America, Asia and Central Europe. In the fourth quarter of 2007 and the first quarter of 2008, HBO acquired additional interests in HBO Asia and HBO South Asia, and in the fourth quarter of 2008, HBO acquired an additional interest in the HBO Latin America Group.

The CW

Launched at the beginning of the Fall 2006 broadcast season, The CW broadcast network is a 50-50 joint venture between Warner Bros. and CBS. The CW s schedule includes, among other things, a six night-13 hour primetime lineup with programming such as *Gossip Girl*, *90210*, *One Tree Hill*, *America s Next Top Model, Everybody Hates Chris, Smallville* and *Supernatural*, as well as a five-hour block of animated children s programming on Saturday mornings. As of December 31, 2008, The CW was carried nationally by affiliated television stations covering 94% of U.S. television households. Among the affiliates of The CW are 13 stations owned by Tribune Broadcasting and nine CBS-owned stations.

Competition

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

The Networks production divisions compete with other production companies for the services of producers, directors, writers, actors and others and for the acquisition of literary properties.

PUBLISHING

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

Publishing

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

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

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

Style and Entertainment

People is a weekly magazine that reports on celebrities and other newsworthy individuals. *People* magazine generated approximately 18% of Time Inc. s revenues in 2008. The *People* franchise also includes: *People en Espaňol,* a monthly Spanish-language magazine aimed primarily at U.S. Hispanic readers; *People Style Watch,* a monthly magazine aimed at U.S. style-conscious younger readers; *People.com*, a leading website for celebrity news, photos and entertainment coverage; and *PeopleEnEspaňol.com*, a bilingual website aimed primarily at the U.S. Hispanic audience.

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

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

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

News

Sports Illustrated is a weekly magazine that covers sports. *Sports Illustrated for Kids* is a monthly sports magazine intended primarily for pre-teenagers. *SI.com* is a leading sports news website that provides up-to-the-minute scores and sports news 24/7, as well as statistics and analysis of domestic and international professional sports and college and high school sports. *SI.com* operates *FanNation.com*, a social-media, community site for sports fans and fantasy sports enthusiasts. Time Inc. also publishes the sports magazine *Golf*, a leading monthly golf magazine, and *Golf.com*, a related website, which feature user-friendly content designed to help readers play their best golf and maximize their golfing experience.

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

Fortune is a bi-weekly magazine that reports on worldwide economic and business developments and compiles the annual Fortune 500 list of the largest U.S. corporations. Time Inc. also publishes the business and financial magazines

Money, a monthly magazine that reports primarily on personal finance, and *FSB: Fortune Small Business*, a monthly magazine covering small business that is published under an agreement with the American Express Publishing Corporation. All of these magazines combine their resources on the *CNNMoney.com* website, a leading financial news and personal finance website that is operated in partnership with CNN.

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Lifestyle

Real Simple, a monthly magazine, and *RealSimple.com*, a related website, focus on life, home, body and soul and provide practical solutions to make women s lives easier. After airing a television series for two seasons on PBS, *Real Simple* began airing a weekly television series on TLC in October 2008.

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

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

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

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

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

Other Publishing Operations

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

International

IPC, a leading U.K. consumer magazine publisher, publishes approximately 75 magazines as well as numerous special issues. IPC s magazines include *What s On TV* and *TV Times* in the television listings sector, *Chat, Woman* and *Woman s Own* in the women s lifestyle sector, *Now* in the celebrity sector, *Woman & Home* and *Homes & Gardens* in the home and garden sector, *Horse & Hound* and *Country Life* in the leisure sector, *NME* in the music sector and *Nuts* and *Loaded* in the men s lifestyle sector. In addition, IPC publishes four magazines through three unconsolidated joint ventures with Groupe Marie Claire. In 2008, IPC launched ShopStyle, a shopping portal on *instyle.co.uk*, and video channels on *nme.com, nuts.co.uk, trustedreviews.com* and *golfmonthly.co.uk* and also acquired *Mousebreaker.com,* a leading U.K. free-to-play game site.

GEE, a leading Mexican consumer magazine publisher, publishes 13 magazines in Mexico including *Expansión*, a business magazine; *Quién,* a celebrity and personality magazine; *Obras,* an architecture, construction and engineering magazine; *Life and Style*, a men s lifestyle magazine; *InStyle Mexico*, a fashion and lifestyle magazine for women; and *Balance*, a fitness, health and nutrition magazine for women. In addition, GEE publishes two magazines through an unconsolidated joint venture with Hachette Filipacchi Presse S.A., and in 2008 GEE launched *Travel & Leisure Mexico* pursuant to a license agreement with the American Express Publishing Corporation. GEE also operates *CNNExpansíon.com*, a leading business website in Mexico, and *MetrosCúbicos.com*, a leading website for classified real estate listings in Mexico. In 2008, GEE acquired a majority interest in *MedioTiempo.com*, a leading sports website in Mexico.

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

Advertising

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

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In 2008, Time Inc. s U.S. magazines accounted for 18.5% (compared to 18.6% in 2007) of the total U.S. advertising revenues in consumer magazines, excluding newspaper supplements, as measured by PIB. *People*, *Sports Illustrated* and *Time* were ranked 1, 3 and 5, respectively, in terms of PIB-measured advertising revenues in 2008, and Time Inc. had six of the top 25 leading magazines based on the same measure.

Circulation

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

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

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

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

Newsstand sales of magazines, which are reported as a component of Subscription revenues, are sold through traditional newsstands as well as other retail outlets such as Wal-Mart, supermarkets and convenience and drug stores, and may or may not result in repeat purchases. Time/Warner Retail Sales & Marketing Inc. distributes and markets copies of Time Inc. magazines and books and certain other publishers magazines and books through third-party wholesalers primarily in the U.S. and Canada. Wholesalers, in turn, sell Time Inc. magazines to retailers. A small number of wholesalers are responsible for a substantial portion of Time Inc. s newstand sales of magazines. IPC s Marketforce (UK) Ltd distributes and markets copies of all IPC magazines, some international editions of Time Inc. s U.S. magazines and certain other publishers magazines outside of the U.S. through third-party wholesalers to retail outlets.

Paper and Printing

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

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

Direct-Marketing, Direct-Selling and Books

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

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

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

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

Postal Rates

Postal costs represent a significant operating expense for the Company s magazine publishing and direct-marketing activities. In 2008, Time Inc. spent over $250 million for services provided by the U.S. Postal Service. The U.S. Postal Service implemented an approximately 3% postal rate increase effective May 12, 2008 for all classes of mail and will implement an additional increase in May 2009 which is expected to increase Time Inc. s postal rate by approximately 5%. These increased costs are not directly passed on to magazine subscribers. Time Inc. strives to minimize postal expense through the use of certain cost-saving activities with respect to address quality, mail preparation and delivery of products to postal facilities.

Competition

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

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

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

INTELLECTUAL PROPERTY

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

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trade secret laws and contract provisions. The duration of the protection afforded to the Company s intellectual property depends on the type of property in question and the laws and regulations of the relevant jurisdiction; in the case of licenses, it also depends on contractual and/or statutory provisions.

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

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

REGULATORY MATTERS

The Company s cable system, cable network, original programming and Internet businesses are subject, in part, to regulation by the FCC, and the cable system business is also subject to regulation by most local and some state governments where the Company has cable systems. In addition, the Company s cable business is subject to compliance with the terms of the Memorandum Opinion and Order issued by the FCC in July 2006 in connection with the regulatory clearance of the transactions related to TWC s 2006 acquisition of cable systems from Adelphia Communications Corporation (Adelphia) and Comcast (the Adelphia/Comcast Transactions Order). The Company s magazine and other direct marketing activities are also subject to regulation.

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

Cable System Regulation

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

Video Services

Subscriber Rates. The Communications Act and the FCC s rules regulate rates for basic cable service and equipment in communities that are not subject to effective competition, as defined by federal law. Where there has been no finding by the FCC of effective competition, federal law authorizes franchising authorities to regulate the monthly rates charged by the operator for the minimum level of video programming service, referred to as basic service tier or BST, which generally includes broadcast television signals, satellite-delivered broadcast networks and superstations, local origination channels, a few specialty networks and public access, educational and government channels. This regulation also applies to the installation, sale and lease of equipment used by

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subscribers to receive basic service, such as set-top boxes and remote control units. In many localities, TWC is no longer subject to rate regulation, either because the local franchising authority has not become certified by the FCC to regulate these rates or because the FCC has found that there is effective competition.

Carriage of Broadcast Television Stations and Other Programming Regulation. The Communications Act and the FCC s regulations contain broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry their stations, subject to some exceptions, commonly called must carry, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called retransmission consent. Broadcasters recently made their elections for the current carriage cycle, which began on January 1, 2009.

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

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

In September 2007, the FCC adopted rules that will require cable operators that offer at least some analog service (i.e., operators that are not operating all-digital systems) to provide subscribers down-converted analog versions of must-carry broadcast stations digital signals. In addition, must-carry stations broadcasting in HD format must be carried in HD on cable systems with greater than 552 MHz capacity; standard-definition signals may be carried only in analog format. Those rules will become effective after the broadcast television transition from analog to digital service for full power television stations, and are currently scheduled to terminate after three years, subject to FCC review. Congress recently extended the digital transition deadline from February 17, 2009 to June 12, 2009.

The Communications Act also permits franchising authorities to negotiate with cable operators for channels for public, educational and governmental access programming. It also requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties, which limits the amount of capacity TWC has available for other programming. The FCC regulates various aspects of such third-party commercial use of channel capacity on TWC s cable systems, including the rates and some terms and conditions of the commercial use. These rules are the subject of an ongoing FCC proceeding, and recent revisions to such rules are stayed pursuant to an appeal in the U.S. Court of Appeals for the Sixth Circuit. The FCC also has an open proceeding to examine its substantive and procedural rules for program carriage. The Company is unable to predict whether any such proceedings will lead to any material changes in existing regulations.

In November 2007, as part of the FCC s collection of information for its Video Competition Report, the FCC adopted a requirement that cable operators submit to the agency information concerning the number of homes that their systems pass and information concerning their subscribers in order to determine whether the FCC s so-called 70/70 test has been met. If the FCC were to determine that cable systems with 36 or more activated channels are available to 70% of households within the United States and that 70% of those households subscribe to such systems, it may have the authority to promulgate certain additional regulations covering cable operators.

Ownership Limitations. There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities, including local telephone companies and multichannel multipoint distribution service facilities. The Communications Act also requires the FCC to adopt reasonable limits on the number of subscribers a cable operator may reach through systems in which it holds an ownership interest. In December 2007, the FCC adopted an order establishing a 30% limit on the percentage of nationwide multichannel video subscribers that any single cable provider can serve. This rule is now under appellate review. The Communications Act also requires the

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FCC to adopt reasonable limits on the number of channels that cable operators may fill with programming services in which they hold an ownership interest. The matter remains pending before the FCC. It is uncertain when the FCC will rule on this issue or how any regulations it adopts might affect the Company.

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

Set-Top Box Regulation. Certain regulatory requirements are also applicable to set-top boxes and other equipment that can be used to receive digital video services. Currently, many cable subscribers rent from their cable operator a set-top box that performs both signal-reception functions and conditional-access security functions. The lease rates cable operators charge for this equipment are subject to rate regulation to the same extent as basic cable service. In 1996, Congress enacted a statute requiring the FCC to pass rules fostering the availability of set-top boxes. An implementing regulation, which became effective on July 1, 2007, requires cable operators to cease placing into service new set-top boxes that have integrated security. Direct broadcast operators are not subject to this requirement.

Switched Digital Video. The deployment of SDV allows TWC to save bandwidth by transmitting particular programming services only to groups of homes or nodes where subscribers are viewing the programming at a particular time, rather than broadcasting it to all subscriber homes. The Enforcement Bureau of the FCC has issued preliminary decisions and forfeiture orders finding that TWC s notice of its deployment of SDV technology violates FCC rules. These staff-level decisions do not constitute final agency action on the substantive legal issues, and are the subject of a pending appeal. However, if these decisions are upheld, they could impose significant costs upon TWC and/or impede its ability to make additional capacity available for new services through the use of SDV. TWC intends to seek further review by the FCC and, if necessary, the courts.

Multiple Dwelling Units and Inside Wiring. In November 2007, the FCC adopted an order declaring null and void all exclusive access arrangements between cable operators and multiple dwelling units and other centrally-managed real estate developments (MDUs). In connection with the order, the FCC also issued a Further Notice of Proposed Rulemaking regarding whether to expand the ban on exclusivity to other types of multi-channel video programming distributors (MVPDs) in addition to cable operators, including DBS providers, and whether to expand the scope of the rules to prohibit exclusive marketing and bulk billing agreements. The order has been appealed by the National Cable and Telecommunications Association (the NCTA), the cable industry s principal trade organization. The FCC also has adopted rules facilitating competitors access to the cable wiring inside MDUs. This order, which also has been appealed by the NCTA, could have an adverse impact on TWC s business because it would allow competitors to use wiring inside MDUs that the cable industry has already deployed.

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

Program Access and Adelphia/Comcast Transactions Order. In the Adelphia/Comcast Transactions Order, the FCC imposed conditions on TWC, which will expire in July 2012, related to regional sports networks (RSNs), as defined in the Adelphia/Comcast Transactions Order, and the resolution of disputes pursuant to the FCC s leased access regulations. In particular, the Adelphia/Comcast Transactions Order provides that (i) neither TWC nor its affiliates may offer an affiliated RSN on an exclusive basis to any MVPD; (ii) TWC may not unduly or improperly influence the decision of any affiliated RSN to sell programming to an unaffiliated MVPD or the prices, terms and conditions of sale of programming by an affiliated RSN to an unaffiliated MVPD; (iii) if an MVPD and an affiliated RSN cannot reach an agreement on the terms and conditions of carriage, the MVPD may elect commercial arbitration to resolve the dispute; (iv) if an unaffiliated RSN is denied carriage by TWC, it may elect commercial arbitration to resolve the dispute in accordance with the FCC s program carriage rules; and (v) with respect to leased access, if an unaffiliated programmer is unable to reach an agreement with TWC, that programmer may elect commercial arbitration to resolve the dispute, with the arbitrator being required to resolve the dispute using the FCC s existing rate formula relating to pricing terms. The FCC has suspended this baseball style arbitration procedure as it relates to TWC s carriage of unaffiliated RSNs, although it allowed the arbitration of a claim brought by the Mid-Atlantic Sports Network because the claim was brought prior to the suspension. In that case, in October 2008, the FCC s Media Bureau upheld the arbitrator s ruling in favor of the Mid-Atlantic Sports Network, and TWC has petitioned for review by the full FCC. In addition, Herring Broadcasting, Inc., which does business as WealthTV, filed a program carriage complaint against TWC and other cable operators alleging discrimination against WealthTV s programming in favor of similarly situated video programming vendors in violation of the FCC s rules. These proceedings remain pending.

Other Federal Regulatory Requirements. The Communications Act also includes provisions regulating customer service, subscriber privacy, marketing practices, equal employment opportunity, technical standards and equipment compatibility, antenna structure notification, marking, lighting, emergency alert system requirements and the collection from cable operators of annual regulatory fees, which are calculated based on the number of subscribers served and the types of FCC licenses held. The FCC also actively regulates other aspects of TWC s video services, including the mandatory blackout of syndicated, network and sports programming; customer service standards; political advertising; indecent or obscene programming; Emergency Alert System requirements for analog and digital services; closed captioning requirements for the hearing impaired; commercial restrictions on children s programming; equal employment opportunity; recordkeeping and public file access requirements; and technical rules relating to operation of the cable network.

Franchising. Cable operators generally operate their systems under non-exclusive franchises. Franchises are awarded, and cable operators are regulated, by state franchising authorities, local franchising authorities, or both. Franchise agreements typically require payment of franchise fees and contain regulatory provisions addressing, among other things, upgrades, service quality, cable service to schools and other public institutions, insurance and indemnity bonds. The terms and conditions of cable franchises vary from jurisdiction to jurisdiction. The Communications Act provides protections against many unreasonable terms. In particular, the Communications Act imposes a ceiling on franchise fees of five percent of revenues derived from cable service. TWC generally passes the franchise fee on to its subscribers, listing it as a separate item on the bill.

Franchise agreements usually have a term of ten to 15 years from the date of grant, although some renewals may be for shorter terms. Franchises usually are terminable only if the cable operator fails to comply with material provisions. TWC has not had a franchise terminated due to breach. After a franchise agreement expires, a local franchising authority may seek to impose new and more onerous requirements, including requirements to upgrade facilities, to increase channel capacity and to provide various new services. Federal law, however, provides significant substantive and procedural protections for cable operators seeking renewal of their franchises. In addition, although TWC occasionally reaches the expiration date of a franchise agreement without having a written renewal or extension, it generally has the right to continue to operate, either by agreement with the local franchising

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authority or by law, while continuing to negotiate a renewal. In the past, substantially all of the material franchises relating to TWC s systems have been renewed by the relevant local franchising authority, though sometimes only after significant time and effort.

In June 2008, the U.S. Court of Appeals for the Sixth Circuit upheld regulations adopted by the FCC in December 2006 intended to limit the ability of local franchising authorities to delay or refuse the grant of competitive franchises (by, for example, imposing deadlines on franchise negotiations). The FCC has applied most of these rules to incumbent cable operators which, although immediately effective, in some cases may not alter existing franchises prior to renewal.

At the state level, several states, including California, Kansas, New Jersey, North Carolina, Ohio, South Carolina, Texas and Wisconsin have enacted statutes intended to streamline entry by additional video competitors, some of which provide more favorable treatment to new entrants than to existing providers. Similar bills are pending or may be enacted in additional states. Despite TWC s efforts and the protections of federal law, it is possible that some of TWC s franchises may not be renewed, and TWC may be required to make significant additional investments in its cable systems in response to requirements imposed in the course of the franchise renewal process.

High-Speed Data Internet Access Services

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

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

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

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

Voice Services

TWC currently offers residential Digital Phone and Business Class Phone voice services using interconnected Voice over Internet Protocol (VoIP) technology. Traditional providers of circuit-switched telephone services

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generally are subject to significant regulation. It is unclear whether and to what extent regulators will subject interconnected VoIP services such as TWC s residential Digital Phone and Business Class Phone services to the same regulations that apply to these traditional services provided by incumbent telephone companies. In February 2004, the FCC opened a broad-based rulemaking proceeding to consider these and other issues. That rulemaking remains pending. The FCC has, however, extended a number of traditional telephone carrier regulations to interconnected VoIP providers, including requiring interconnected VoIP providers to provide E911 capabilities as a standard feature to their subscribers; to comply with the requirements of CALEA to assist law enforcement investigations in providing, after a lawful request, call content and call identification information; to contribute to the federal universal service fund; to pay regulatory fees; to comply with subscriber privacy rules; to provide access to their services to persons with disabilities; and to comply with local number portability (LNP) rules when subscribers change telephone providers. With respect to LNP requirements, the FCC clarified that local exchange carriers and commercial mobile radio service providers have an obligation to port numbers to interconnected VoIP providers.

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

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

Network Regulation

Under the Communications Act and its implementing regulations, vertically integrated cable programmers like the Turner Networks and the Home Box Office Services are generally prohibited from offering different prices, terms, or conditions to competing unaffiliated MVPDs unless the differential is justified by certain permissible factors set forth in the FCC s program access regulations. The rules also place restrictions on the ability of vertically integrated programmers to enter into exclusive distribution arrangements with cable operators. Upon completion of the Separation, the Turner Networks and the Home Box Office Services will no longer be vertically integrated cable programmers and, as a result, these regulatory obligations will cease to apply.

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

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

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

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

Marketing Regulation

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

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

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

Background

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

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

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

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

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

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

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Management and Operation of TWC

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

Common Stock of TWC. A subsidiary of Time Warner owns 746,000,000 shares of TWC Class A Common Stock, which has one vote per share, and 75,000,000 shares of TWC Class B Common Stock, which has ten votes per share, which together represent 90.6% of the voting power of TWC stock and approximately 84% of the equity of TWC. TWC s existing amended and restated certificate of incorporation (the TWC Certificate of Incorporation) does not provide a mechanism for the conversion of TWC Class B Common Stock into TWC Class A Common Stock. The TWC Class A Common Stock and the TWC Class B Common Stock vote together as a single class on all matters, except with respect to the election of directors and certain matters described below. In connection with the Separation, prior to the Distribution, TWC will file the Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware. Effective upon the filing, each outstanding share of TWC Class A Common Stock and TWC Class B Common Stock will be automatically converted into one fully paid and non-assessable share of TWC Common Stock, par value $0.01 per share (the TWC Common Stock). Holders of TWC Common Stock will have identical rights and one vote per share on all matters submitted to a vote of stockholders.

Board of Directors of TWC. Under the terms of the TWC Certificate of Incorporation and TWC s existing by-laws (the &#1